

Table of Contents

About the Authors	ii
About Victory Briefs	vi
The Victory Briefs Network	vii
Topics in Foreign Affairs	1
United State Foreign Policy	1
United Nations.....	14
Africa.....	23
Russia	44
The European Union	53
China	71
India & Pakistan.....	85
Central Asia.....	94
The Balkans.....	106
Japan.....	118
Eastern Europe	132
Iran and Iraq	140
Topics in Domestic Affairs	154
United States Government and Politics.....	154
Education.....	167
Social Security.....	196
Healthcare.....	209
Environment.....	220
United States and Science	232
Immigration.....	238
Military and Defense Policy.....	248
United States Intelligence and Security	263
Topics in Economics	270
Introduction: A Foundation as Important as Any.....	270
Modern Macroeconomics.....	288
The American Economy.....	292
Supply and Demand	306
Savings and Investment.....	316
Employment and Inflation.....	325
Competition.....	337
Growth and Recession.....	344
Economic Inequality	357
International Trade.....	367
International Economic Organizations.....	377
Problems of Developing Nations	390
The 2008-2009 Financial Crisis and Recession	401

About the Authors

Jessica Bailey competed in LD debate and extemp speaking at Apple Valley High School in Minnesota. Her national successes include NFL runner-up in LD debate in 1998, and NFL Champion in Foreign Extemp Champion in 1999. Jess got her BA's in Political Science and Philosophy from University of Minnesota, and an MA in Philosophy from the University of North Carolina. She now scrapes together a living in the nonprofit sector. Jess also coaches LD debate and occasionally drives the bus at Hopkins High School in Minnesota. Jess participated in the 2009 update of this book.

Josh Bone, while at Milton Academy, a high school just south of Boston, competed in extemp for four years. He twice finaled NFL Nationals in international extemp, finishing 2nd his junior year and 3rd his senior year, and finaled CFL Nationals his senior year, finishing 3rd. He also won the MBA Round Robin his senior year and its exhibition round both his junior and senior years, the Yale Tournament both his junior and senior years, and the Glenbrooks Tournament his senior year. He was a member of the Class of 2008 at Yale University, where he studied political science and economics.

David Buckley now attended the University of Virginia as a member of the Jefferson Scholars program. During his extemp career at Loyola Blakefield High School in Maryland, Dave won the 1999 Villiger tournament and was an invitee to the MBA Round Robin.

Robin Cook attended the world renowned School of Journalism at the University of Missouri-Columbia. While attending Roosevelt High School in Lubbock, Texas, Robin achieved a record of competitive excellence in extemp speaking matched by few. A two-time NFL national finalist, he also placed in the top ten at St. Mark's, the University of Texas, Greenhill, and the TFA State Championship. A four time qualifier for both the TFA and UIL State Championship tournaments, Robin also competed in Lincoln-Douglas debate and Original Oratory.

Jay Cox, attended Yale University. He finished his extemp career by winning the 1999 NFL final round in US Extemp. As a competitor at Milton Academy, Jay also won the first ever National Extemp Round Robin at Montgomery Bell Academy. He is a two time Massachusetts State Champion, the Princeton University Extemp champion, and a finalist at the NCFL National Tournament and the Harvard National Invitational. After graduating, he coached several NFL outround competitors at the University of Texas National Institute of Forensics.

Michael Dorsi was team captain of the Arroyo Grande High School Speech and Debate Team, where he won seven central California regional extemp titles at tournaments during his junior and senior year, including two state qualifiers. He also qualified to NFL Nationals in 2002, and was a staff member at the Victory Briefs Institute at UCLA in the summer of 2002. He attended the University of California, Berkeley where he is studying the Political Economy of Industrial Societies.

Jimmy Ficaro competed for the forensics squad of Lewisville High School in Lewisville TX. Jimmy was an NFL FX semi-finalist in 1999, an FX finalist at St. Marks, a semi-finalist at Harvard and the winner of numerous local titles in Texas. He graduated University of Texas at Austin where studied finance. He competed in extemp collegiately, where he is the captain of the 2-time National Champion Speech Team at UT-Austin. In addition he coaches extemp at the University of Texas National Institute in Forensics (UTNIF) and at the Florida Forensic Institute (FFI) during the summers.

Brian Fletcher achieved a rare level of excellence in both Lincoln-Douglas debate and extemp while competing at Valley High School in Des Moines, Iowa. He was the runner-up at the 1997 Tournament of Champions in LD, and qualified for the NFL national tournament for four straight years. As student at Yale University, Brian continued his success in competitive public speaking, winning the 1999 Harvard University parliamentary debate tournament and finishing as one of the top speakers in the American Parliamentary Debate Association.

Joe Gallagher, attended Williams College. He won the 1998 Yale University extemp tournament to kick off a stellar senior year. Competing for Iona Preparatory School in New York, he finished in the top fifteen at every tournament he entered, making the finals of Harvard for the second straight year and also advancing to the finals of Villiger and Emory.

Derek Green participated successfully in both Lincoln-Douglas Debate and Extemporaneous Speaking while attending Lakeville Senior High School in Lakeville, MN. As an extemporaneous speaker, Derek was champion of the inaugural Center for Public Speaking Extemp Round Robin in Apple Valley, MN (speaking on foreign issues) and a Quarterfinalist and Octofinalist in Domestic Extemporaneous Speaking at the 2003 and 2004 NFL Nationals. In addition, Derek appeared in the final rounds of 15 local invitationals over the course of his career and took 5th place at the Minnesota State High School League Speech Tournament in 2004. He is now pursuing degrees in the humanities and Political Science at Rice University in Houston, TX.

Grant Hagstrom competed for Fargo Shanley High school in Lincoln-Douglas Debate, Student Congress, and various speech events. He reached late elimination rounds in many events and finished his forensics career with over 1,500 NFL points, earning a degree of Outstanding Distinction. Grant graduated from the University of Minnesota with a degree in Political Science, and remains an active judge in the Minnesota forensics community. Grant participated in the 2009 update of this book.

David Hardy competed in Foreign Extemp his junior and senior years under coach Tommy Clancy, competing in 20 tournaments including Harvard, and qualifying for the extemp TOC as a senior. He won UIL district in Informative Speaking, while in Current Events, his team won region and competed at state. The next year his team won state, and David placed 5th individually. He has a passion for all things Italy, and attends the University of Texas at San Antonio.

Amanda Knight attended Friendswood High School in Friendswood, Texas where she competed for four years. Doing something that no one in the history of Texas forensics has ever done, Amanda won the prestigious Texas Forensics Association State tournament three times in United States Extemporaneous Speaking. In addition to winning TFA, Amanda won the University Interscholastic League State Tournament twice in Informative Speaking, and competed twice at the Montgomery Bell Academy Round Robin in Nashville, Tennessee. Amanda qualified for the National Forensics League National Tournament four years in a row, and finished 2nd in United States Extemp in 2002. Amanda attended the University of Texas at Austin where she studied government and international relations.

Liz Kraut attended St. Olaf College in Northfield, Minnesota where she majored in political science and history. During her career as a high school extemper, she competed for Mounds Park Academy in Minnesota, and found success on both a local and a national level. Liz was a 2 time Minnesota state champion in extemp, and a 3 time state finalist. She was also a two time NFL national semifinalist, finishing 12th her junior year, and 7th her senior year. Her junior and senior years, she also attended the extemp TOC held at Northwestern University, and was a finalist both times. In her senior year, she attending the Montgomery Bell Extemp Round Robin and finished 4th place overall as well as 4th place in the exhibition round. On a local level, she was in more than 20 final rounds at Minnesota local tournaments during her 4 year extemp career. In 2004, she was also named an NFL All-American with 1977 NFL points.

Amy Moffett, who attended Harding University, finished second at the NFL national tournament in US Extemp in 2000 after finishing eighth the previous year. As a senior, she won the St. Mark's tournament in domestic extemp and placed third in foreign extemp, having already placed there second in domestic in 1999. Amy is a two-time invitee to the MBA Round Robin and the first woman to participate in the tournament's exhibition round.

Peyman Momeni advanced to the final round of the NFL national tournament in US Extemp in 1999, finishing fifth. That year, he anchored one of the best extemp squads in the country at Hastings High School in Alief,

Texas, also competing in the finals at Harvard. Peyman recently taught extemp at the Stanford University summer institute. He was a student at the Honors Program when he attended University of Texas at Austin.

John Mondragon debated for Fargo South High school in Lincoln Douglas, where he earned the highest level of NFL distinction possible through debate points alone in only two years. To the chagrin of his girlfriends since then, it taught him how to argue well and for that he is eternally grateful. He graduated from the University of Minnesota, Twin Cities with degrees in Mathematics and Economics. He is currently pursuing his PhD in economics at the University of California, Berkeley. He thinks that everyone should study economics. John participated in the 2009 update of this book.

Jesse Nathan competed for the Moundridge High School debate and forensics team for four years, in Moundridge, Kansas. He won three state extemp championships, was the runner-up at the 2000 NFL National tournament in foreign extemp and was the 2001 NFL National foreign extemp champion. In addition, he won a combined six state championships in Original Oratory and Policy Debate. Jesse taught at the 2002 Victory Briefs Institute held at UCLA. He also lectures and teaches at area Kansas High Schools and his alma mater, Moundridge High. Currently, he is studying psychology, religion, conflict resolution and history at Bethel College in Kansas.

Joseph Poore captained the Bob Jones Academy Speech and Debate team in Greenville, South Carolina. He competed in and won numerous regional tournaments, amassing a nearly perfect record of 1st place finishes his junior and senior year. In 2003 he was the National Champion in Extemp Commentary becoming the first South Carolinian in decades to win a national championship. He was a member of the VBI Institute staff in 2003. He now attends Bob Jones University where is studying accounting and history, and serves as a United States Marine.

Mark Royce, while attending TL Hanna High School in South Carolina, won both Wake Forest extemp and got 3rd at NFL Nationals in Foreign Extemp in 2001. Mark was runner-up at the 2002 NFL National Tournament also in Foreign Extemp. Finally, he was the South Carolina State Champion in extemp two years in a row. Mark attended Vanderbilt University.

Yoni Schneller competed for Blacksburg High School in Virginia, advancing to the final round of the Villiger tournament and participating in outrounds at NFL Nationals, CFL Nationals, Harvard, and other national tournaments. He attended Princeton University.

Paul Storm competed in Speech, Debate and Student Congress during all four years of high school. He qualified for the National Tournament twice in Lincoln Douglas debate, placing 5th and 11th and also qualified in Foreign Extemp, finishing in the top sixty speakers. At the end of his forensics career, he was ranked 2nd nationally in overall points and 11th on the NFL's All-Time list of top point earners. He was also a National Forensic League Academic All-American. Paul was a multi-event competitor at every State Speech Tournament, earning numerous awards including the Foreign Extemp Title. He also won his state's Varsity Lincoln Douglas Title. Paul earned a BA in Political Science at St. John's University in Minnesota and competed in Mock Trial there, earning numerous Top Attorney awards and an honorable mention at Regionals. He was also a two-time delegate to the Harvard Model United Nations for St. John's. Currently, Paul is in his first year of law school at William Mitchell College of Law in St. Paul, MN. He remains active in forensics, judging Lincoln-Douglas at local tournaments. Paul participated in the 2009 update of this book.

Andrew Swan spent his senior year as the nation's highest ranked extemper. In addition to competing in the final round at NFL Nationals, Andrew won several dozen tournaments including California States, St. Marks, Stanford, and the University of Texas. In college, Andrew competed in elimination rounds at Nationals three times in extemp and impromptu and was a highly successful parliamentary debater having won the IDEA/NPDA International Championship in Estonia. Through his work at the Victory Briefs Institute, the Stanford National Forensics Institute, the Sacred Heart National Speech and Debate Institute, and private coaching at various high schools, Andrew has coached numerous national and state champions in extemp, public

forum, congress, and LD. He is participating in a joint doctoral degree program in law and international relations.

Adam Torson is the current Director of Debate at Hopkins High School in Minnesota. He competed for Fargo South High School in Lincoln-Douglas Debate for five years, and also participated in some extemp and student congress. He qualified to NFL Nationals with an undefeated record at the qualifying tournament for three consecutive years, and placed 11th at Nationals in 2003. That same year Adam won the North Dakota individual State Championship and led Fargo South to its second consecutive team title. While coaching a competitive national circuit debate squad at Hopkins, Adam earned a BA in Political Science with minors in Philosophy and History from the University of Minnesota. He is currently a JD candidate at Hamline University School of Law. Adam participated in the 2009 update of this book.

Lily Wang attended Plano East Senior High School, where she became the Texas Forensics Association FX champion and placed 4th at the Montgomery Bell Academy Round Robin in 2002. She recently instructed at the University of Texas National Institute in Forensics. Lily attended Columbia University, where she will study political science and economics.

Jay Ward, attended Northwestern University. He is a graduate of Coral Springs High School in Coral Springs, Florida. During his High School career Jay was the National Forensic League National Champion in United States Extemp in 2001 and again in 2002.

Jason Warren attended Northwestern University where he studied Communication, Political Science, and Economics. During his high school forensics career, Jason placed 4th at the NFL National Tournament in Foreign Extemp and 9th in United States Extemp. Jason was a runner-up at the MBA Round Robin, St. Marks Heart of Texas Invitational, and TFA State in Foreign Extemp. His career successes include winning the Glenbrooks Invitational, Emory, TFA State in US Extemp, and UIL State in Informative Extemp. Jason works every summer at the University of Texas at Austin National Institute in Forensics and the Seton Hall Metropolitan Forensics Institute.

Phong Wu attended the University of California at San Diego. He debated for Alhambra High School in California. Beginning in his sophomore year, he competed in Foreign Extemp at major state tournaments, qualifying for the State Championships both years and the NFL National Tournament his senior year.

Rana Yared attended Nova High School in Florida where she competed in Foreign Extemp. She was the first female in the history of Emory Barkley Forum to win Extemporaneous Speaking. Rana was also a two-time National Finalist in Foreign Extemp. She was an instructor at the Victory Briefs Extemp institute in the summer of 2002 at UCLA and also at the Florida Forensics Institute. She studied economics at the Wharton School at the University of Pennsylvania.

About Victory Briefs

Victory Briefs was founded in 1991 as a company that provided topic-specific brief books to Lincoln-Douglas debaters. Since that time, Victory Briefs has built a large following of loyal coaches, teachers and students who use our products as both competitive and classroom resources. Over time, book offerings have expanded into policy debate, extemp, and guides to philosophy and winning strategies in forensic events. Victory Briefs now also publishes educational videos and maintains a network of websites dedicated to high school debate.

Today Victory Briefs is easily one of the most recognized names in high school forensics. With the growth of its debate camps, topic briefs, websites, the Victory Briefs Tournament, and forensics educational tools, Victory Briefs has grown from a dorm-room operation at Stanford University to a network of nearly 100 educators working to provide students with superior educational and competitive resources.

Despite its growth, Victory Briefs remains committed to providing access and opportunity to all students, coaches and parents. The emergence of the internet as a viable media has given Victory Briefs the ability not only to grow the Victory Briefs Institute into the largest debate institute in history, but also to run a network of websites which provide many free resources to students, parents, teachers and coaches. Over the course of its history, Victory Briefs has provided hundreds of thousands of dollars in scholarships to our summer institutes.

The Victory Briefs Network

Victory Briefs Daily

Victory Briefs Daily is the central repository for news, announcements, commentary, and tournament results in the high school debate community. VBD is required reading for debaters, coaches and parents, and has become the go-to place for the community's most important information.

www.victorybriefsdaily.com

Victory Briefs Institute

The Victory Briefs Institute offers an unparalleled summer debate camp experience for high school students. By bringing together some of the top instructors in the nation and coaching a universal style, VBI has helped students achieve success on local circuits across the country and at the elite levels of the national circuit. VBI offers two sessions per summer. Session I is the flagship institute and is held at Loyola-Marymount University. Session II provides a solid core curriculum, and helps students get a significant head start by spending a week of intensive preparation on the NFL's September/October resolution.

www.victorybriefsinstitute.com

Victory Briefs Publishing

Victory Briefs publishing is among the most respected and widely read publisher of forensics related products in the high school community. Our Lincoln-Douglas and Policy topic briefs provide topic analysis and evidence from some of the top coaches in the nation. Our educational videos provide excellent curricular aids to forensics teachers and coaches, and serve as an excellent way of conveying institutional knowledge from one generation of debaters to the next. Our educational handbooks, including speaking aids, the Philosophers Guide, and our current events topic briefs have helped coaches and competitors alike in building strong programs that are successful both educationally and competitively.

The Victory Briefs Tournament

In the short time since its inception, the VBT has quickly become one of the premier tournaments not only in Southern California but in the Nation. It is known for being extremely well run, offering excellent hospitality, and drawing some of the top tier judges and competitors from across the country.

<http://victorybriefs.com/tournament/>

For general information about Victory Briefs, please visit www.victorybriefs.com

Topics in Foreign Affairs

United State Foreign Policy

Joseph Gallagher, Rana Yared, Andrew Swan, and Paul Storm

Introduction

It's no hyperbole to say that US Foreign Policy is the most important element of global politics. Literally every nation on the planet pays attention to what the United States says and does; no one can afford not to. This chapter is, therefore, incredibly important. Understanding our foreign policy, however, requires knowledge of the more general world of International Relations (IR). We begin this chapter, therefore, with the analysis of the theories which dominate IR. But we must include a caveat; these theories were developed before the events of 9/11. The post-9/11 world is still adjusting to the powerful argument those terrorist attacks made about these theories. So in your readings, expect to see adjustments/argument-sidestepping/and general coming-to-terms-with-ness.

Three Theories of International Relations

Jack Snyder¹ wondered if "September 11 signal[ed] a failure of theory on par with the failures of intelligence and policy?" He notes that "[f]amiliar theories about how the world works still dominate academic debate" and that "[i]nstead of radical change, academia has adjusted existing theories to meet new realities." These realities leave us with new questions: has this approach succeeded? Does international relations theory still have something to tell policymakers? In our exploration of IR theory, we will attempt to address these questions using 9/11 as our primary lens of focus. The majority of this section is a synopsis/summary/condensed version of Jack Snyder's publication "One world, rival theories" included in the Nov-Dec 2004 issue of *Foreign Policy*. We urge you to track down and read Snyder's piece; it is critical reading for anyone trying to make sense of the new international order.

Stephen Walt² contends there are three dominant approaches to IR: realism, liberalism, and an contemporary form of idealism called "constructivism" These theories shape the way we talk and think about policy in the public forum. Realism focuses on the shifting distribution of power among states. Liberalism highlights the rising number of democracies and the turbulence of democratic transitions. Idealism refers to the changing norms of sovereignty, human rights, and international justice, as well as the increased potency of religious ideas in politics.

Policymakers and public commentators invoke elements of all these theories when articulating solutions to global security dilemmas. Consider the Bush Administration's promise to fight terror by spreading liberal democracy to the Middle East and claim that skeptics "who call themselves 'realists'.... have lost contact with a fundamental reality" that "America is always more secure when freedom is on the march." Condoleezza Rice, among other things a former Stanford University political science professor, explained the Bush doctrine as a blend of pragmatic realism and liberal theory (Ok, so what does that mean?!).

Indeed, when realism, liberalism, and idealism enter the policymaking arena and public debate, they can sometimes become intellectual window dressing for simplistic worldviews. Properly understood, however, their policy implications are subtle and multifaceted. Realism instills a pragmatic appreciation of the role of power but also warns that states will suffer if they overreach. Liberalism highlights the

¹ Professor of International Relations in the political science department and the Saltzman Institute of War and Peace Studies at Columbia University.

² Professor of International Relations at Harvard University's Kennedy School of Government.

cooperative potential of mature democracies, especially when working together through effective institutions, but it also notes democracies' tendency to crusade against tyrannies and the propensity of emerging democracies to collapse into violent ethnic turmoil. Idealism stresses that a consensus on values must underpin any stable political order, yet it also recognizes that forging such a consensus often requires an ideological struggle with the potential for conflict.

Each theory offers a filter for looking at a complicated picture. As such, they help explain the assumptions behind political rhetoric about foreign policy. Even more important, the theories act as a powerful check on each other. Deployed effectively, they reveal the weaknesses in arguments that can lead to misguided policies.

Realism

Is Realism Even Realistic Anymore?

At realism's core is the belief that IR is a struggle for power among self-interested states. This is the club wielding world of Hobbes and Otto von Bismarck. It is not necessarily a pessimistic theory, however; clear-sighted states can neutralize the causes of war by finding ways to reduce the danger states pose to one another. Its advocates emphasize that uncompromising pragmatism with regards to power can actually create a more peaceful world. Realism claims to be a response to the naive belief that international institutions and law alone can preserve peace.³

Many foreign policy designers rely on the realist approach. For example, China's current foreign policy is grounded in realist ideas that date back millennia. As China has modernized its economy and settled into institutions such as the World Trade Organization, it has behaved in ways that realism may well predict: developing its military gradually as its economic power grows, and avoiding a confrontation with superior U.S. forces.

Realism in the Post-9/11 World

Realism gets some things very right about the post-9/11 world: the continued centrality of military strength, the persistence of conflict, and the struggle for power among nation-states. The theory's most obvious success is its ability to explain the United States' forceful military response to the 9/11 terrorist attacks. When a state grows vastly more powerful than any opponent, realists expect that it will eventually use that power to expand its sphere of domination, whether for security, wealth, or other motives. In the words of Thucydides (who many argue is the first IR realist), "The strong do what they will and the weak suffer what they must."

The wrench in Realism's system comes in explaining why the world's only superpower announced a war against al Qaeda, a NONSTATE terrorist organization. Realist theory simply does not leave room for the importance of powerful and violent groups such as al Qaeda in a world of dominated by nation-states. Realists' solution to this new problem is to point out that the central battles in the "war on terror" have been fought against two states (Afghanistan and Iraq), and that states, not the United Nations or Human Rights Watch, have led the fight against terrorism.

Some schools of realism acknowledge the importance of non-state actors as a challenge to their assumptions, but argue that the theory still has important things to say about the behavior and motivations of these groups. The argument has been made, for example, that suicide terrorism can be a rational, realistic strategy for the leadership of national liberation movements seeking to expel democratic powers that occupy their homelands.

³ Some scholars believe this misconception paved the way to both World Wars.

The Balance of Power

Realism predicts that weaker states will ally to protect themselves from stronger ones and thereby reform the world's balance of power. So, when Germany became Europe's leading military and industrial power in the late 19th century, Russia and France (and later, Britain) aligned to counter its power. In the world of 2001, no combination of states or other powers could challenge the United States militarily, and no balancing coalition seemed imminent. Realists scrambled to find a way to fill this hole in the center of their theory. The years following 9/11 have seen substantial losses of credibility for the US as it struggles to win a war against an adversary that does not play by traditional rules of war. The continued rise of China, Russia, and India has shifted the power balance, though the US is still unquestionably the lone super-power. The US National Intelligence Council's 2025 Global Trend Final Report concludes that the US will remain the dominant power, but the distance between America and these other nations will diminish significantly over the coming decades. Realists point to all of this as proof of their theory's validity while they simultaneously wipe their brows with the classic "That was a close one" expression.

Liberalism

Come on Realists, Really?

The liberal school of IR, whose most famous proponents were German philosopher Immanuel Kant and U.S. President Woodrow Wilson, contends that realism has a stunted vision that cannot account for progress in relations between nations. Liberals foresee a slow but inevitable journey away from the anarchic world of stick wielding realists, as trade and finance forge ties between nations, and democratic norms spread.

Because elected leaders are accountable to the people, liberals expect that democracies will not attack each other and will regard each other's regimes as legitimate and nonthreatening. An alternative explanation is that nations achieving a certain level of democratic freedom and free market capitalism will not go to war with one another because doing so would risk losing what they've gained. In his book *The Lexus and the Olive Tree*, Thomas Friedman rephrased this theory as the Golden Arches Theory, based on the oft-cited factoid that nations in which McDonald's does business seem to rarely if ever go to war with one another. Many liberals also believe that the rule of law and transparency of democratic processes make it easier to sustain international cooperation, especially when these practices are enshrined in multilateral institutions.

Liberalism has such a powerful presence that the entire U.S. political spectrum, from neoconservatives to human rights advocates, assumes it as largely self-evident. America's founding documents enshrine liberal principles like the rights of life, liberty and the pursuit of happiness. The liberal view that only elected governments are legitimate and politically reliable has taken hold in many regions of the world. So it is no surprise that liberal themes are constantly invoked as a response to today's security dilemmas.

Bush and Beyond

The last several years have produced a fierce tug-of-war between different strains of liberal thought. Supporters and critics of the Bush administration emphasized very different elements of the liberal canon. These same voices now consider President Barak Obama's foreign policy and what changes may be necessary.

The Bush administration highlighted democracy promotion while largely turning its back on the international institutions that most liberal theorists champion. The U.S. National Security Strategy of September 2002, famous for its support of preventive war, also dwelt on the need to promote democracy as a means of fighting terrorism and promoting peace. The Millennium Challenge program allocates part of U.S. foreign aid according to how well countries improve their performance on several measures of

democratization and the rule of law. The White House's steadfast support (Under Bush as well as Obama) for promoting democracy in the Middle East--even with turmoil in Iraq and rising anti-Americanism in the Arab world--demonstrates liberalism's emotional and rhetorical appeal.

In many respects, liberalism's claim to be a wise policy guide has plenty of hard data behind it. During the last two decades, the proposition that democratic institutions and values help states cooperate with each other is among the most intensively studied in all of international relations, and it has held up reasonably well. The belief that democracies rarely fight wars against each other is the closest thing we have to an iron law in social science.⁴

While aggressively advocating the virtues of democracy, the Bush administration has shown little patience for the complexities of liberal thought or for liberalism's emphasis on the importance of international institutions. Far from trying to assure other powers that the United States would adhere to a constitutional order, President Bush "unsigned" the International Criminal Court statute,⁵ rejected the Kyoto environmental agreement, dictated take-it-or-leave-it arms control changes to Russia, and invaded Iraq despite opposition at the United Nations and among close allies.

These actions leave the Obama administration in a strained position. Political scientist G. John Ikenberry studied attempts to establish international order by the victors of hegemonic struggles in 1815, 1919, 1945, and 1989. He found that even the most powerful victor needed to gain the willing cooperation of weaker states by offering a mutually attractive bargain, codified in an international constitutional order. Democratic victors, he found, have the best chance of creating a working constitutional order, such as the Bretton Woods system after World War II, because their transparency and legalism make their promises credible. If the international system is to remain in line with US interests, liberalism demands that President Obama follow a line consistent with Ikenberry's findings.

Who wants a country? You? Ok!

Contemporary liberal theory also posits that the rising democratic tide creates the presumption that all nations ought to enjoy the benefits of self-determination.⁶ Violent campaigns to secure democratic rights have been employed throughout history. Notable recent examples include Algeria, Chechnya, Palestine, and the Tamil region of Sri Lanka. Democratic regimes make attractive targets for terrorist violence by national liberation movements precisely because they are accountable to a cost-conscious electorate.

Countries transitioning to democracy put particular strain on liberal theory. They are more likely than other states to become involved in international and civil wars. In the last 15 years, wars or large-scale civil violence followed experiments with mass electoral democracy in Armenia, Burundi, Ethiopia, Indonesia, Russia, the former Yugoslavia and others. In part, this violence is caused by ethnic groups' competing demands for national self-determination. Emerging democracies' political institutions tend to be young and lack the experience or credibility to effectively enforce compromises among rival groups. In this setting, democratic accountability works imperfectly, and nationalist politicians can hijack public debate.

Constructivism (Idealism)

⁴ Anytime something looks like a rule we can predict off of, social scientists break out the potables...at least until people get wise to the rule and decide not to play by it.

⁵ While the detention facility at Guantanamo is the most blatant rejection of the ICC, the Military Commissions Act of 2005, the Patriot Act, the use of secret detention facilities in Eastern Europe and elsewhere, and the use of "aggressive interrogation methods" are all related phenomena and should be researched thoroughly.

⁶ Here nation does not mean the same thing as a state's territory. A nation is a group of people united under some ideal or common cause.

Hopeless Naiveté?

Idealism holds that foreign policy is and should be guided by ethical and legal standards. It stresses that a consensus on values must underpin any stable political order, yet it also recognizes that forging such a consensus often requires an ideological struggle with the potential for conflict. Any agreement made must be conscious of and responsive to the changing norms of sovereignty, human rights, and international justice, as well as the increased potency of religious ideas in politics.

Before World War II forced the United States to acknowledge reality, Secretary of State Henry Stimson said of espionage that "gentlemen do not read each other's mail." During the Cold War, such naive idealism acquired a bad name, particularly to individuals like Henry Kissinger and hardheaded academics.

The Contemporary Relevance of Constructivism

Recently, a new version of idealism- called constructivism- returned to debates on IR theory, as realism and liberalism struggle to provide a compelling account of the post-9/11 world. Constructivism holds that social reality is created through debates about values. To them, debates are the fundamental building blocks of international life. Individuals and groups become powerful if they can convince others to adopt their ideas. People's understanding of their own interests depends on, among other things, the values and ideologies which shape all social life. In direct contradiction to realists, constructivists find the idea of some identifiable and immutable "national interest" absurd.

There is some overlap between constructivist and liberal approaches, but constructivists contend that their theory is deeper than realism or liberalism because it explains the origins of the forces that drive those competing theories. For example, constructivists argue that the realists' view of the international system as competitive and anarchic is not the only way to interpret the world. Instead, we might see other nations as potential partners, or perhaps not even divide the world into nations at all. All such conceptions, constructivists argue, are social constructions. That does not make them false, but it means that viewing the world in a certain way can become a self-fulfilling prophesy. There is no fundamental reason, constructivists contend, that nation-states can't interact just like Kansas and Nebraska interact.

Stumped by Change: A Classic Achilles' Heel

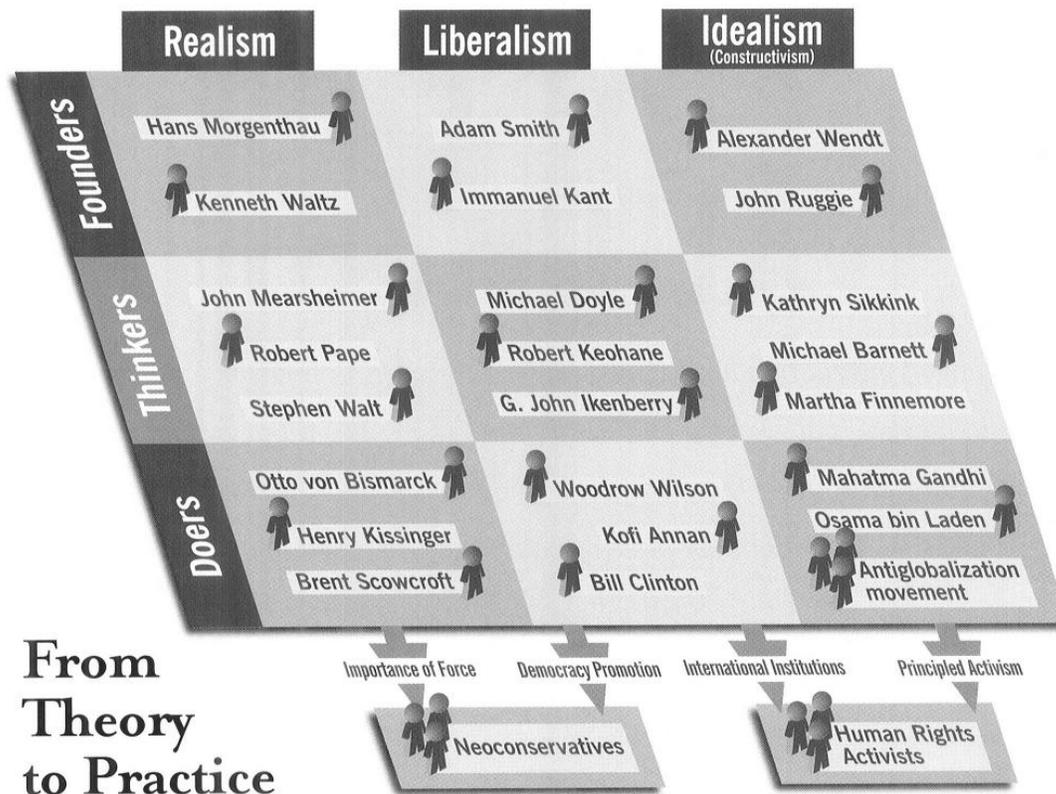
None of the three theoretical traditions has a strong ability to explain change- a significant weakness in such turbulent times. Realists failed to predict the end of the Cold War, for example. Even after it happened, they tended to assume that the new system would become multi-polar. The National Intelligence Council's *Global Trends 2025* lends credibility to this belief, but after much more delay than any of the three theories' proponents expected. Likewise, the liberal theory of democratic peace is better at predicting what happens after states become democratic than in predicting the timing of democratic transitions, let alone prescribing how to make transitions happen peacefully. Constructivists are good at describing changes in norms and ideas, but they are weak on the material and institutional circumstances necessary to support the emergence of consensus about new values and ideas.

With such uncertain guidance from the theoretical realm, it is no wonder that policymakers, activists, and public commentators fall prey to simplistic or wishful thinking about how to effect change. Thus some policymakers have advocated a combination of the three theories; use the insights of each as a check on the irrational exuberance of the others. This game of rock-paper-scissors cannot predict the future, but does provide the vocabulary and conceptual framework to ask hard questions of those who think that changing the world is easy.

Want to Know More?

- Jack Snyder, "One world, rival theories" (FOREIGN POLICY, Winter 2004)

- Stephen M. Walt, "International Relations: One World, Many Theories" (FOREIGN POLICY, Spring 1998)
- Robert Jervis, "Theories of War in an Era of Leading Power Peace" (American Political Science Review, March 2002)
- Thomas Friedman, The World is Flat



President Obama's Foreign Policy Agenda

"The vast diplomatic agenda that the Obama administration has adopted will test its ability to harmonize national priorities such as relations with Iran and North Korea with global and multilateral concerns. President Obama has come into office at a moment of unique opportunity. The economic crisis absorbs the energies of all the major powers; whatever their differences, all need a respite from international confrontation. Overriding challenges such as energy, the environment and proliferation concern them to a considerable degree and in an increasingly parallel way. The possibility of comprehensive solutions is unprecedented."-- Henry Kissinger 22 April 2009

America's Foreign Policy always seems to be at a crossroads. While there are precedents, customs, and old agreements that must be honored, there is also much work to be done. New developments across the world demand attention and sometimes revision of old policies. These demands leave President Obama and subsequent presidents with a difficult tight-rope walk. Appeasing an increasingly polarized America adds further challenges to President Obama's foreign policy.

Is US Foreign Policy Consistent?

The short answer is no. No nation's foreign policy is consistent. The reasons why compose a spectrum too large to enumerate, but all of them bear directly on presidential legacy. Each administration is aware of its legacy. Presidents want to be remembered as the leader who solved X, prevented Y, ended Z's civil war, etc. Some, such as the Bush Administration, must react to problems such as the attacks of 9/11. Others inherit problems from previous administrations. Claims have also been made that administrations "go looking for trouble" to solve.

International pressure comes in many forms. Issues like climate change have both brought many nations together to push for international solutions and driven unilateral policies. The Israeli-Palestinian peace process divides the world into sympathizers, neutrals, and disapprovers. Allies will sometimes request favors such as Pakistan's request for more aid and military support from the US. China has floated the possibility of changing the currencies used by the international community for reserves. All of these systems apply pressures that serve different interests; the good of the whole, punishment to an adversary, strengthening of an alliance, etc. Depending on who's pushing and what they're threatening/offering, the US responds, refuses, finds some ground that allows the appearance of support while the action slows under the weight of bureaucracy, etc.

Domestic pressure can be an incredible tool for changing foreign policy. A president seeking reelection cannot resist the public's demands and expect a landslide victory. A politician challenging an incumbent can make good on campaign promises, increasing his/her political capital with the public, and further distancing him/herself from the outgoing administration.

President Obama's Promises

During his campaign, President Obama made a number of promises which offer some insight into the future of his foreign policy. He has pledged to implement several specific policies:⁷

Secure loose nuclear materials from terrorists

- AND -

Negotiate a verifiable global ban on the production of new nuclear weapons material to curb the spread of nuclear weapons.

Al Qaeda and Pakistan will be Obama's center of focus for these issues. A hard line policy will be favored by many Americans, but a no-concessions approach is unlikely to deliver the results America wants. North Korea and Iran may fall under this umbrella as well, though they are likely to be treated as sovereign nations, not terrorist agencies (whether they harbor terrorists or not). These nations' histories of resistance toward the US and President Bush's condemnation of both leave President Obama with an uphill battle.

Mohamed ElBaradei,⁸ the outgoing director general of the International Atomic Energy Agency (IAEA),⁹ believes the number of nuclear armed states will double in the coming years if radical changes are not implemented by President Obama. According to ElBaradei "We still live in a world where if you have nuclear weapons, you are buying power, you are buying insurance against attack. That is not lost on those

⁷ http://www.barackobama.com/issues/foreign_policy/index_campaign.php provides a list of the campaign promises of President Obama.

⁸ He and his staff won the Nobel Peace Prize for their opposition to the Bush and Blair governments' claims of weapons of mass destruction in Iraq.

⁹ The IAEA was built around the 1970 nuclear non-proliferation treaty (NPT) with the goal of restricting membership of the nuclear club to five postwar powers. It has been under strain in the last four decades, with Israel, India, Pakistan and North Korea developing weapons outside the NPT.

who do not have nuclear weapons, particularly in [conflict] regions." This reality leads ElBaradei to believe that the next wave of proliferation will involve "virtual nuclear weapons states" (VNWS) VNWS produce plutonium or highly enriched uranium and possess the knowhow to make warheads, but do not assemble a complete weapon. They would therefore remain technically compliant with the NPT while being within a couple of months of deploying and using a nuclear weapon. Iran is currently closest to VNWS status, though the entire Middle East region concerns the IAEA.

According to ElBaradei, the only way back from the nuclear abyss is for established nuclear powers to fulfill their NPT obligations and disarm as rapidly as possible. The NPT comes up for review April 2010, making President Obama's actions on the NPT particularly important. Ninety-five percent of known nuclear warheads are in Russia and the US. If some concrete action is taken before the NPT conference, the major powers will have the moral authority to attempt substantive talks with nations pursuing nuclear programs.

The Obama administration and the Brown government in the United Kingdom have embraced banning nuclear weapons. Obama has started talks with Moscow on mutual cuts in arsenals.

Pursue tough, direct diplomacy without preconditions to end the threats from Iran and North Korea.

Nuclear weapons aside, the administration's task with regard to North Korea and Iran will be to keep negotiations heading toward an agreed goal. In the process, President Obama and other foreign policy officials like Secretary of State Hillary Clinton must combat public sentiment that negotiating with societies that do not share our values and general outlook is appeasement.

If North Korea and Iran succeed in establishing nuclear arsenals in the face of the stated opposition of all the major powers in the U.N. Security Council and outside of it, international order will be severely damaged if not dismantled. If the United States, China, Japan, South Korea and Russia cannot stop North Korea and Iran (countries with little impact on international trade and few natural resources) the phrase "world community" will become empty. In a world of multiplying nuclear weapons states, it is unreasonable to expect nuclear arms will never be used or never fall into the hands of terrorist organizations.

North Korea recently voided all the concessions it made in multilateral negotiations. America is likely to demand that North Korea honor these concessions (stop developing plutonium reactors and allow international inspections before proceeding with talks).

Iran is a complex country with an enormous direct impact on its region. The diplomatic process with Iran is just beginning and its outcome will depend on establishing a balance of security in the region without any country dominating. Any negotiations with Iran will be heavily influenced by whether progress toward stability in Iraq continues or whether an emerging vacuum tempts Iranian adventurism.

Ending the Iraq War.

On February 27th, 2009, President Obama announced his plan to end our combat mission in Iraq by August 31st, 2010. Iraqi Security Forces will have full responsibility for major combat missions while American forces will have three tasks:

1. Train, equip, and advise the Iraqi Security Forces
2. Conduct targeted counterterrorism operations
3. Provide force protection for military and civilian personnel.

President Obama intends to keep our commitment under the Status of Forces Agreement to remove all of our troops from Iraq by the end of 2011. Future talks will likely include how Iraq can best spend their oil

revenues on their own reconstruction, developing a compact on the stability of Iraq, and implementing a plan that addresses Iraq's refugee crisis.

Significant Events and US Positions

One of the most important things about US foreign policy, and the creation of foreign policy in general, is that it generally looks to established precedent to see what works best in any given situation. For this reason, it is important to know some of the defining moments in the history of foreign policy.

The Treaty of Westphalia

Signed in 1648, this treaty ended the Thirty Years War. The main reason that this is important is because it marks the last time (until the modern era) that Europe was united, and entrenched the nation-state as the dominant unit of European politics. This treaty could be mentioned on any topic about world governments or sovereignty issues,.

The Monroe Doctrine

Issued by President James Monroe, this policy was the first time that the United States took a firm leadership role in the western hemisphere. Effectively telling Europe that Latin America was off limits to colonial influence or domination, it marked the emergence of the United States as an important player in the international arena.

World War I

Besides the obvious importance of World War I in American history, it also marked the beginning of the ascendance of the United States over Great Britain as the pre-eminent world power. 1914 was also the first real "Great Power" war of the era.

World War II

After refusing to enter the League of Nations (the Treaty of Versailles, ending World War I, was killed in the Senate), the United States saw itself sucked into another conflict in the Europe. The aftermath of the war, however, was possibly more important than the war itself. 1945 saw the military defeat of major totalitarian states and the creation of the United Nations. For really the first time there was an international governing body that sovereign nations would, at least in theory, defer to. The United States and the Soviet Union emerge as global superpowers at the center of international political, economic, and military affairs.

The Nuremberg Trials

After World War II, many surviving Nazi war criminals were put on trial for crimes against peace, war crimes, and crimes against humanity by an international tribunal. Without the precedents set in this trial and the development of the Geneva Accords, which detailed the proper treatment of prisoners of war, modern day tribunals such as the Rwandan and Bosnian War Crimes Tribunals may not have been possible.

The Fall of the Soviet Union

The fall of the Soviet Empire in 1989 saw the world reduced to one major and dominant superpower, the United States. Many are still at odds as to what this means for America, and how we should conduct ourselves. In the context of forensics, this is important for many reasons. First, it allows the speaker to concentrate mainly on history created after this point, since the diplomatic world changed drastically after the fall. Second, it helps explain the dominant role the US has taken since the end of the Cold War, since there are no competing superpowers to look to for economic or military aid (like Greece and Turkey did in the early days). Third, it provides a very clear example of how NOT to run a country, which can be applied to prescribing US Foreign Policy initiatives.

The War on Terror

Obviously, no analysis of US Foreign Policy can ignore the War on Terror initiated by President Bush in 2001. The terrorist attacks of 9/11 helped to redefine the goals of American foreign policy and reshape reorient the challenges of international relations away from competition among nation-states. It also generated significant military interventions, notably in Iraq and Afghanistan.

The Bush Doctrine

The term has meant various things, but most often is associated with the right of preemptive strike President Bush reserved the right to use on behalf of the United States after the 9/11 attacks on the United States. What's shocking about the doctrine is that it justifies attacking nations on the perception of a threat, regardless of whether or not they actually do or intend to attack.

These are just a few of the important milestones in the history of US foreign policy. I highly encourage everyone reading this book to also do outside reading to acquire a greater knowledge of world history.

Human Rights

The United States has a complicated history with regards to human rights. In 1948, the Universal Declaration of Human Rights- a document the US was a key player in drafting- was ratified by the United Nations. It is *not* a binding document. Nations who decide not to abide by it cannot be prosecuted, but it *is* a powerful statement that most signatory countries strive to live by. The US often invokes it when nations are in clear violation of basic rights. Since "life, liberty and the pursuit of happiness" are what we as Americans claim to hold dearest, they should translate into how we portray ourselves on the world's stage. Sometimes we have successfully championed human rights, as when repelling violent invasions of small nations. Other times our record has been less than stellar, as was the case, for example, with prisoner treatment at Abu Ghraib.

It's a good political move to back human rights. When in conflict with economic or political goals, however, human rights often receive secondary consideration. History reveals a startling trend. After World War II, the United States supported governments, especially in Latin America, with horrific human rights records as long as they were anti-Communist. Under the aegis of the War on Terror, the United States has supported thoroughly undemocratic regimes such as those in Pakistan and Russia.

There is also some disagreement over what rights are worthy of the international human rights canon. Many nations charge that western powers overemphasize civil and political rights at the expense of social, cultural, or economic rights. This tension has influenced and at times undermined international human rights regimes and other enforcement efforts.

Nuclear Weapons

Without question, Weapons of Mass Destruction are the most important military development of the past century. J. Robert Oppenheimer, the head of the Manhattan Project that developed the first atomic weapons, remarked, "the atomic bomb ... made the prospect of future war unendurable. It has led us up those last few steps to the mountain pass; and beyond there is a different country." US leaders came to a similar conclusion shortly after the bombs were dropped on Hiroshima and Nagasaki and adopted a "no-first-use" policy, which means that America will not begin a nuclear conflict. This remains a fundamental tenet of US Foreign Policy.

America retains for itself the option of Second Strike. This is the ability/right to retaliate unconditionally from a nuclear attack. America thus maintains nuclear weapons in silos, nuclear submarines in the sea, and nuclear-weapon armed bombers. Second Strike is the basis of Mutually Assured Destruction (MAD); a constant of preparedness that acts as a nuclear deterrent. With all of the environmental damage that comes from the use of these weapons, even countries that would not even remotely be involved in the

conflict have a vested interest in seeing that the world never sees a nuclear war. Deterrence is a simple concept: Make sure that your enemy knows it will be completely eradicated if it attacks with nuclear force. That way, the theory goes, it is highly unlikely anyone would start a nuclear conflict in the first place.

Comprehensive Test Ban Treaty and Non-Proliferation Treaty

The Comprehensive Test Ban Treaty bans any and all nuclear explosions for military or civilian purposes. Two clauses of the CTBT are important to include here:

Each State Party undertakes not to carry out any nuclear weapon test explosion or any other nuclear explosion, and to prohibit and prevent any such nuclear explosion at any place under its jurisdiction or control.

Each State Party undertakes, furthermore, to refrain from causing, encouraging, or in any way participating in the carrying out of any nuclear weapon test explosion or any other nuclear explosion.

The United Nations General Assembly adopted the CTBT on September 10th, 1996. The US, however, rejected it in late 1999. On September 24th, 1996, 71 countries, including five of the eight nuclear-armed countries as of this writing, ratified the treaty. 148 states have ratified the CTBT, 32 more nations have signed but not yet ratified, and the US continues to reject it. The treaty will enter into force when the “Annex 2” nations of the treaty have ratified it.¹⁰ As of this writing, Annex 2 states yet to ratify the treaty include: China, Egypt, India, Indonesia, Iran, Israel, North Korea, Pakistan and the United States.

The important lesson to take from this reality is that while a main goal of US Foreign Policy is reducing and containing the total number of nuclear weapons in the world, America is unlikely to participate in disarming until it believes the world has already done so. Conversely, the world is unlikely to disarm until the US takes first steps towards reducing its own nuclear arsenal.

In 1968, America signed the Non-Proliferation Treaty (NPT), which froze the distribution of nuclear weapons. It stated that we will work to disarm existing nuclear weapons,¹¹ and try to ensure that no new countries get nuclear weapons. Unfortunately, as recently as a few years ago, India and Pakistan joined the “nuclear club” against the will of most of the world. Iran and North Korea both seemed poised to force their way into the club as well.

Given the reality of nuclear proliferation and our own resistance to disarming, the US has sought to develop a Missile Defense Shield which many nations oppose. MDS would intercept nuclear warheads before they reach US soil, giving us an advantage that makes many nations leery of our Second Strike capability. Some argue that it will be converted into a first strike system.

Our history includes precedents which indicate a willingness to risk nuclear war to maintain credible deterrence. Brinkmanship is the willingness to go to the edge of war and make deterrence credible. The Cuban Missile Crisis was resolved because neither side, Kennedy or Khrushchev, wanted a nuclear confrontation or to be the first to back down.

Rogue States

¹⁰ “Annex 2 states” possessed nuclear power and participated in the CTBT’s negotiations between the years of 1994 and 1996.

¹¹ “Work” to disarm is not the same thing as actually disarming.

Even with our enemies, foreign policy is not overly complicated. They make us angry, we usually issue some sort of punitive action against them, whether it be in the form of an embargo (like in Cuba), diplomacy followed by combat (like in Bosnia), or just hold a decades-spanning Cold War (The Soviet Union). Rogue states, however, do not play by traditional rules/logic. These enemies effectively taunt us into submission by their refusal to play by “the rules of the game.” In the case of North Korea, we have paid aid to them to NOT build nuclear reactors capable of making weapons-grade plutonium.

When dealing with rogue states, standard policy is to find ways to minimize the threat. When questions come to the US policymakers like “What should the U.S. policy be towards North Korea?” they weigh the obvious domestic turmoil in that country against what can actually be done. Yes, stopping famine is good, but will Kim Jong-Il take aid and spend it on his own desires (which he has a habit of doing? America wants nuclear threats minimized, but not in a way that amounts to bribery. The most important thing to remember about rogue states is that policymakers emphasize putting them (the rogue states) in a position that requires they play by “rules of the game” that the rest of the world has decided upon.

International Bodies

One common thought is that the United States plays the dominant role in all of the international organizations to which it belongs. While it might sometimes seem that way, IR’s balance of power prevents total domination. The three theories of IR we covered at the beginning of this chapter come into play here.

Realism: most international organizations mandate some form of transparency, or openness as to capabilities. This is very bad in the mind of a realist, because it removes the “deterrence through mystery” aspect of opacity. If the enemy does not know your capabilities, they are less likely to attack than if they know they are stronger. They also create the illusion of security, which leaves powerful states open to attack by rogue revisionist states.

Liberalism: international organizations are the best way to enforce certain universally accepted norms (like Human Rights), and also help out the “little guy.” Bodies like the UN General Assembly give voices to countries that might not otherwise be heard, and that is always good PR. They are good for acting in concert with other countries, and conferring a sense of legitimacy on actions. For example, during the Kosovo crisis, one of the reasons the Russians didn’t join on at first was that it was not a UN-sponsored action, but was undertaken by the American-led NATO.

Final Thoughts: Globalism and the Future

Technological advances and economic interdependence through trade make the world an ever-shrinking place. The United States must learn to cope with this, all the while trying to maintain its position in the world. The direction of US Foreign Policy must be pragmatic and dynamic; looking at each situation that arises as an interrelated part of a larger tapestry, not as independent elements. America is facing many more challenges from many more sources and in many more ways than ever before, and will be doing everything in its power to maintain its current position.

The only way to generate informed analysis about all of the intricacies of globalism is to read as much about it as possible. Fareed Zarkaria’s book [The Post American World](#) is a good start, as is Thomas Friedman’s book [The World is Flat](#). I also recommend reading [Global Trends 2025](#), put out by the National Intelligence Council.

Bibliography and Influences

A few places to start when learning about US Foreign Policy:

- Jervis, Robert. [Psychology and Deterrence](#). Johns Hopkins University Press, 1985.
- Kennedy, Paul. [The Rise and Fall of the Great Powers](#). Random House, 1988.

- Keohane, Robert, Ed. Neorealism and its Critics. Columbia University Press, 1986.
- Keohane, Robert and Joseph Nye. Power and Interdependence. Addison-Wesley Publishing, 1989.
- Waltz, Kenneth. Man, The State, and War: A Theoretical Analysis. Columbia University Press, 1959.
- Waltz, Kenneth. Theory of International Politics. McGraw-Hill College Division, 1979.

United Nations

Edward J. Murphy, Joseph Poore, and Jessica Bailey

Introduction

With a prolific membership including every recognized country in the world except Vatican City, the United Nations is arguably the world's most significant international governmental organization. Its approval can lend legitimacy to a war, and its condemnation can isolate and outcast a nation. Through its various organs and councils, it is involved in peacekeeping and humanitarian missions, and has been the instrument through which some of the most important concepts in international relations, such as human rights, were codified.

In its slightly more than a half century of existence, the UN has tried to fulfill goals that are of unprecedented breadth for an international organization with some great successes and some awful failures. Regardless, the United Nations has been at the center of the major issues of recent history, from wars in Korea, Vietnam and the Persian Gulf, to the collapse of communism in Eastern Europe, to the birth of Israel, to the end of colonialism. Today, the UN remains at the fore of the debate on some of the most contentious and important issues facing the world.

Origins & Structure of the UN

The UN was established in 1945 and reflects the desire of the victorious Allied Powers to create an international body with the authority and legitimacy to prevent the kind of conflict and atrocities at the heart of the WWII from ever reoccurring. The 51 founding nations took great pains to structure the UN in such a way to prevent one nation or region from dominating others, and formalized a balance of power that continues to characterize the world order to this day.

The UN has six primary organs, of which the General Assembly and the Security Council are the most well known. They also reflect the efforts of the founding members to achieve a balance between the more powerful First World nations and the more numerous Third World nations.¹²

Structure of the UN

The United Nations is divided into 6 different organs:

- General Assembly
- Security Council
- Economic and Social Council
- Secretariat
- Trusteeship Council
- International Court of Justice

¹² The term *First World* refers to the developed industrialized countries, such as the United States and most European nations. In contrast, *Third World* nations are those in the developing world. When the concepts of the First and Third World emerged following WWII, they also included the concept of a *Second World*, which referred to the newly emerging communist states and their satellite powers. For whatever reason, international relations theorists seldom spoke of nations in terms of the Second World, and it fell out of common usage. Although the terms First World and Third World continue to be familiar, most theorists now prefer the terms *Global North* and *Global South*, which refer to roughly the same countries (with the Global North corresponding to the First World, etc). These terms came out of the observation that most of the democratic nations in the developed world happened to be geographically located in the Northern Hemisphere, and the poorer, developing nations were in the Southern Hemisphere. There is an interesting discussion to be had about Colonialism and the Global South, but unfortunately this is not the place for it.

Of these, the Security Council is clearly the most important and influential. The General Assembly and Secretariat also come up somewhat frequently. The Economic and Social Council and the International Court of Justice make news on rare occasions, and the Trusteeship Council is trivial. There are also many other agencies related to the UN.

General Assembly

Every member nation is a member of the General Assembly, represented by an equal vote. The jurisdiction of the GA is very wide. While the Security Council has ultimate authority on the most important issues at the UN, the General Assembly still has a major symbolic importance as it is the only global body with such an extensive membership. Its jurisdiction includes economic, social and political issues, even though other organs and committees may have a more specialized role in a given area.

Votes regarding peace and security, admission of new UN members and the budget require a two-thirds majority; other issues require only a simple majority. Most work in the GA is done in its 7 subsidiary committees, and most of the time, votes are already decided before they come before the entire assembly.

As the only body of the UN in which every member nation has a voice, the General Assembly is crucial to the smaller and less powerful nations that are not part of the more powerful Security Council. Through the General Assembly, less powerful nations are able to form coalitions to advance their own concerns and resist domination by the powerful nations on the Security Council.

Security Council

The Security Council is comprised of five permanent members and ten member nations elected to a term, and has the weighty responsibility of maintaining international peace and security. It is the body of the UN that gives approval for and thus lends legitimacy to a call to war, or condemns a nation for acts of aggression through Security Council resolutions. For example, when the US went before the UN to make the case for war in Iraq, it was appealing to the Security Council for its approval. Similarly, when North Korean leader Kim Jong-Il does something crazy, it is through a Security Council Resolution that the UN condemns his actions. Interestingly, the Security Council's function is deemed so important that a representative from each member state must be present on UN premises at all times, in order to respond to an international crisis at a moments' notice.

The Security Council (SC) deals with conflict around the globe, hoping to prevent violence and restore peace in troubled areas. The original five member nations of the Security Council are also its permanent members, the victorious Allied Powers of WWII and the then-emerging power China.

Permanent Members:

- United States
- United Kingdom
- France
- China
- Russia

All 5 permanent members hold veto power. That means that if any of the permanent five votes no on a Security Council resolution, the resolution fails, even if the other fourteen members are enthusiastically in favor of it. This power naturally fosters resentment from smaller and less powerful countries who do not want the will of the P-5, as they are sometimes called, to be imposed on the rest of the world. In practice, the veto is rarely invoked, though the possibility of veto means certain issues are also rarely broached. The other 10 members of the Council are elected to 2 year terms and must be selected by the General Assembly so that the Council has what Article 23 of the UN Charter calls an "equitable geographic distribution."

In recent years, proposals to reconfigure the Security Council have surfaced from time to time. Some ideas include eradicating the veto power, adding more permanent members (Germany, Japan, India and Brazil are the most likely candidates), and increasing the number of members on the Council. However, any proposal that threatens the position of power currently enjoyed by the P-5 is unlikely to meet with success. The Security Council can meet at any time, day or night, when international security is threatened. The council has authority over candidates for Secretary-General and new UN members, which must be confirmed by the General Assembly. It takes nine yes votes for a resolution to pass (originally, the Security Council had 11 members, and required 7 votes to pass a resolution).

The work of the United Nations reaches every corner of the globe. Although best known for peacekeeping, peace-building, conflict prevention and humanitarian assistance, there are many other ways the United Nations and its System (specialized agencies, funds and programs) affect our lives and make the world a better place. The Organization works on a broad range of fundamental issues, from sustainable development, environment and refugees protection, disaster relief, counter-terrorism, disarmament and non-proliferation, to promoting democracy, human rights, governance, economic and social development and international health, clearing landmines, expanding food production, and more, in order to achieve its goals and coordinate efforts for a safer world for this and future generations.

Economic and Social Council

The Economic and Social Council (ECOSOC), is a 54-member panel that customarily always includes the permanent 5 Security Council members. As the name suggests, it deals more with economic and social issues, such as health, illegal drugs, women's rights, and development. Most of the work in ECOSOC is handled by subsidiary committees that deal with specific issues and regions.

Secretariat

The Secretariat is the administrative organ of the UN. It is comprised of the Secretary-General and any other staff members the SG deems necessary, though in practice, the Secretariat today employs thousands of people. The one who receives the lion's share of the attention is, of course, the Secretary-General. Historically, there has been a debate over whether the SG should be more secretary or more general. That is to say, people have disagreed about whether the Secretary-General should stick to administrative tasks and let the other organs set the UN agenda, or actively advocate for specific political causes. The danger in being activist is that the Secretary-General may anger some member governments. Despite that danger, past SGs have made use of Article 99 of the UN charter on certain occasions, which allows them the power to convene the Security Council to consider specific issues.

Trusteeship Council

The Trusteeship Council originally existed for the purpose of administering 7 specific colonial territories until they all gained independence or became otherwise self-governing. By 1994, all 7 had become states or joined neighboring countries, so the Trusteeship Council now only consists of the P-5 and only meets when necessary. Amaze your friends with your obscure knowledge of the UN by talking about the Trusteeship Council at parties.

International Court of Justice

The sixth organ is the International Court of Justice (ICJ), also known as the World Court. The World Court is comprised of 15 judges who must be from 15 different countries. Based in The Hague, Netherlands, the ICJ is the only one of the UN organs NOT located in New York. It considers disputes involving international law, usually when two countries disagree over the meaning of a treaty or other multilateral agreement.

Despite this rather broad mandate, it only makes rulings about twice per year, because in cases before the ICJ, **both** countries must commit to adhere to the ruling before it is made.

Other Agencies and Organizations

In addition to these 6 organs, there are numerous specialized agencies and other organizations that have some sort of ties to the UN. The International Monetary Fund (IMF), International Atomic Energy Agency (IAEA), and World Health Organization (WHO) are among these organizations that are included in what is sometimes referred to as “the United Nations system.”

Activities of the UN

As you probably can tell from the organ descriptions, the United Nations activities are extremely wide-ranging (some may say too wide-ranging, but we’ll get to that later). Article 1 of the UN Charter lists four objectives:

- To maintain international peace and security
- To develop friendly relations among nations
- To achieve international co-operation in solving international problems of an economic, social, cultural, or humanitarian character, and in encouraging respect for human rights
- To be a centre for harmonizing the actions of nations

The first two objectives clearly are rooted in the experience of World War II and the desire to avoid another major global conflict. The fourth is simply a pragmatic goal. The third is the objective most closely related to most UN activities. It has led to a huge number of UN initiatives across the world to promote development.

Listing everything the UN does would take a very long time. In broad terms, activities can be divided between security and development.

Security issues are the basis of UN activity. They include the actions of the Security Council to prevent conflict, such as peacekeeping, disarmament and sanctions. Security may also be interpreted to include legal issues, such as the law of the sea and tribunals for past atrocities, that the UN involves itself with in order to keep wars from starting.

Development issues are the things mentioned in the third part of Article 1, and include the many UN efforts to raise living standards by promoting economic growth, human rights, health, education, and almost everything else of that nature you can possibly imagine. Programs like the WHO, World Food Program and High Commission for Refugees are generally classified as development.

History of the UN

League of Nations

Any history of the United Nations must begin many years before the organization actually began meeting. The founding of the United Nations can best be understood in the context of the failure of diplomatic efforts to prevent a second World War. As you may have learned in history class, US President Woodrow Wilson had promoted what he called the Fourteen Points at the end of World War I. The Fourteen Points were intended to create a more harmonious international system that would prevent the death and destruction that Wilson and others had recently seen. One of the Fourteen Points called for the creation of a League of Nations, an organization designed to protect global security by bringing together representatives from all countries. Following negotiations with the European allies, Wilson succeeded in having the League of Nations inserted into the Treaty of Versailles at the end of the war. Despite his success in that negotiating process, Wilson failed to convince the isolationist US Senate to give the

League the 2/3 majority approval for a treaty mandated by the Constitution. Many people blame Wilson's refusal to compromise for the treaty's failure. In fact, a modified version of the treaty, which included the reservations of Republican Foreign Relations Committee Chairman Henry Cabot Lodge, failed because Wilson ordered the Democrats to accept nothing short of the original version.

Without the United States, the League of Nations, which officially began meeting in 1919, struggled to assert itself as a major player in world affairs. Not only was the US absent, but several other powers were not members for significant periods of the league's history. For example, the Soviet Union only joined in 1934 when it felt threatened by Hitler. **Consequently, the League of Nations came to be seen more as a European rather than world organization.**

The troubles of the League were increased by its structure, which made decisive action extremely difficult. Most notably, the League only made decisions on the basis of consensus, so every member had what amounted to veto power.

The League's procedural paralysis and incomplete membership made it almost powerless to prevent attacks that were obviously unacceptable. Japan invaded Manchuria in 1931, Italy took over Abyssinia (now called Ethiopia) in 1936, and many countries became involved in Spain's civil war in the late 1930s, to name three well-known transgressions that happened under the League's watch.

Formation of the UN

Even before the US entered World War II following the attack on Pearl Harbor, President Franklin Roosevelt had begun discussing with British Prime Minister Winston Churchill ideas concerning a new international system to be put in place after the war. A series of meetings eventually led to the establishment of the United Nations system. Bretton Woods, New Hampshire, was the site of the meeting that set up the financial system that has governed the world ever since. The most notable accomplishments of the representatives there in 1944 were to establish the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT), which was the forerunner of today's World Trade Organization (WTO). Dumbarton Oaks, the name of a home in Washington, DC, saw a meeting in 1944 between officials from the US, Britain, China and the USSR to discuss their initial ideas about what eventually became the UN. More of the details were decided at the early 1945 Yalta conference between Roosevelt, Churchill, and Soviet leader Joseph Stalin. The UN Charter was formally drafted and adopted by several committees at a conference in San Francisco that summer, taking place a few weeks after Roosevelt's death. The UN had 51 original members, whose representatives convened for the first time in London during October, 1945. The League of Nations met for the final time in 1946 in order to make a formal transfer of its authority to the UN.

The Early UN: Cold War

Almost immediately, the Cold War came to dominate diplomacy at the United Nations. The Cold War, a huge subject in and of itself, was the rivalry between the United States and Soviet Union that dominated world politics from World War II until the fall of communism in the early '90s. At the UN's very first meeting in 1946, the main issue at hand was Soviet involvement in Iran's internal affairs (the Soviets and British had occupied Iran during World War II). Also in the late 1940s, the Greek civil war and suspected Soviet support of communist insurgents demanded much of the UN's attention. Eventually, the USSR decided to stop attending Security Council meetings to protest the fact that the Republic of China, more commonly known today as Taiwan (then called Formosa), was recognized, instead of the People's Republic of China, as the Chinese representative. With the Soviets absent, the pro-Western Security Council authorized a UN military operations during the Korean War (1950-53). The PRC was admitted to the UN in 1971 and the ROC was simultaneously expelled.

The Secretary-General during these early years was Trygve Lie of Norway. Among the largely Latin American and European membership of the early UN, the Scandinavian countries were considered to be the ones least likely to have an alliance with either the US or USSR. For that reason, after Lie completed his second five-year term in 1956, Dag Hammarskjöld of Sweden was named his successor. Despite the effort to put in place non-partisan SGs, the Soviet Union was not satisfied with either Scandinavian. Its Security Council boycott during the Korean War and Soviet leader Nikhita Khrushchev's notorious incident where he slammed his shoe on a table in the GA to show his frustration with Hammarskjöld, made the USSR's discontent clear to the rest of the world. Khrushchev even went as far as to propose that the Secretary-General be replaced by a "troika" to consist of three chief executives for the UN, one representative each for the Western, communist and non-aligned countries. The idea was never seriously considered.

Americans were not at all pleased with the early UN either, despite the fact that the UN had been founded as an organization that the US was expected to dominate.

McCarthyism, a 1950s movement in US politics named for Senator Joseph McCarthy that sought out Americans with pro-communist sympathies, extended to the UN as well. Politicians criticized the UN for allowing representatives of communist nations to espouse their ideas and policies on US soil. The especially paranoid feared that the UN actually had a hidden agenda to serve communist ends and eventually create a communist world government. Though much of this was hysteria, it is important also to point out that during the '50s, Alger Hiss, a high State Department official who had played an instrumental role at Dumbarton Oaks, Yalta and San Francisco, was jailed on charges of spying for the Soviets, following Congressional hearings that were spearheaded by an aggressive young Congressman named Richard Nixon. The early years of the Cold War were a time of great fear in the US and USSR, and the UN was a convenient scapegoat.

In spite of their mutual disappointment with the UN, both the United States and Soviet Union recognized that the United Nations was an important arena in their global struggle, and they used it as such. On issue after issue, UN policy was distorted by the Cold War. Making the right decision for a particular region or a particular issue became secondary in the process to whether or not possible policies favored the US or USSR over one another.

In short, the UN's mission was subordinated to the Cold War for the first several decades of its existence.

The Impact of the Third-World

Another major trend in the first fifty years of the United Nations was the growing influence of the so-called Third-World, a term used to refer to the less developed countries located in Asia, Africa and Latin America. The UN had 51 original members (50 signed the charter at San Francisco, and Poland joined before the first meeting of the UN, making it a charter member— another piece of trivia for you). How has this number grown to the present 188 members? The answer is that the new entrants are largely African and Asian countries that used to be colonies. Historians point to the Suez Crisis of the late 1950s, in which the UN was involved, as a watershed event marking the end of colonialism. Many countries gained their independence from colonial powers in the 1960s and 1970s, giving the United Nations a much different composition from the largely European membership with which it had begun.

This change in membership has had a considerable effect on UN policy. The new member countries mostly were unaligned in the Cold War, and they were not afraid to disregard the wishes of the Western powers. In one notorious incident, a coalition of developing countries passed a resolution in the 1970s (and later repealed) declaring that "Zionism is a form of racism," over the strenuous objection of Israel and the United States. (The creation of Israel is another major issue in UN history, not described here, that you may want to research.)

The Third World majority in the General Assembly has also caused tension over UN **budgeting issues**. The United States has in the past advocated a change in the voting structure for the budget that gives a country's vote equal weight to its financial contribution to the UN, though no such system is in place today. Some critics cite developing countries' unwillingness to cut social spending programs as a reason for the failure of UN reform.

The 1990s

At the dawn of the 1990s, a new sense of optimism arrived at the United Nations with the fall of the Soviet Union and its Eastern European bloc. Observers welcomed the so-called "New World Order," which they assumed would mean that, absent the Cold War rivalry, the UN would finally be able to function as originally intended. American idealists hoped that the United States, as the only remaining superpower, would be able to foster capitalism, democracy and peace across the world. This optimism fueled the UN's desire to tackle more problems than ever before and greatly expand its role. From 1987 to 1992, the UN authorized as many peacekeeping missions as in its first 40 years.

After a few years, the optimism waned, as the UN's unsuccessful attempts to calm conflict in places like Yugoslavia and Somalia led people instead to term the dawning era the "New World Disorder." These failures were part of a period of intense criticism of the United Nations. Many outsiders assailed the UN as an incompetent, wasteful bureaucracy, and called for sweeping reforms. The United Nations ended the 1990s uncertain of its proper role in today's world. That uncertainty was largely a result of the pressure from the UN's most influential member – the United States.

The Isolationist US

As you may know from US history, the United States has pursued an isolationist foreign policy for much of its history. In his farewell address, George Washington cautioned that the country not become part of any "entangling alliances," and that sentiment dominated US policy for more than the next century. Woodrow Wilson wanted the US to take on a larger role in the world, but, as already described, his efforts to bring the country into the League of Nations failed. Only after World War II, with the United States undeniably one of the foremost powers in the world, did Americans take on a role in the community of nations. Even then, the United States remained highly skeptical of the United Nations and foreign ties in general.

Naturally, isolationism, an international relations ideology that is the antithesis of the ideas upon which the United Nations was founded, creates tension in US-UN relations. Whether or not the tension between the United Nations, a body with a unique role in the world, and the United States, the UN's biggest contributor and most influential member, can be resolved or not will have enormous consequences for the future of the world.

Republican Revolution

At the same time that peacekeeping missions were failing and calls for UN reform were growing louder, a Republican majority was elected to the US Congress in 1994. Some members were very strongly against the United Nations, voicing irrational fears of world government and the end of American sovereignty. To fulfill their budget-cutting pledges, Republicans found it easy to reduce funding for foreign aid programs and many activities that are part of the UN system. Politically, it was easy to tell constituents that we shouldn't be sending money abroad while there are still problems at home. Because they weren't directly affected by the cuts, constituents didn't complain.

This US-UN conflict gained the most attention with regard to the American **failure to pay its dues** to the organization. Dating from the Reagan administration, the United States was behind in its contributions to the UN budget. By the mid-'90s, the UN estimated that the US owed approximately \$1.5 billion. The US government, naturally, had a lower figure, and Congress said it wouldn't pay up until the United Nations

adequately reformed itself and cut costs. The argument made by the Republican leaders in Congress was that funding the UN in its current manifestation was a waste of taxpayers' money. They also demanded that the mandatory annual US contribution to the UN budget be cut from 25% to 20%. With so much of its funding withheld, the UN had no choice but to reform itself in the hope of pleasing Congress. Secretary-General Kofi Annan, who succeeded Boutros Boutros-Ghali in 1996, worked on streamlining the administrative side of the United Nations, cutting a large number of staff, among other things. Annan voiced his frustration that whatever he did never seemed to be enough for members of Congress.

Aside from the UN reform issue, abortion also became part of the reason funds were withheld. Republicans in Congress began making their payment conditioned on no US funds going toward international family planning organizations that offer abortions. Finally, in the fall of 1999, the Clinton administration cut a deal with Congressional Republicans that accepted the family planning restriction in order to release a portion of the delayed funds. However, liberal groups attacked the compromise, saying that Clinton should not have given in to Republican demands. Administration officials pleaded that the deal was the best they could get, and if the money had been withheld much longer, the US would have suffered the embarrassment of being stripped of its vote in the General Assembly.

The entire back dues saga is indicative of the low regard for the United Nations in the United States today, and particularly in Congress.

Many countries resent the United States for using such forceful tactics to get its way, and they see the dues issue as part of a larger pattern of American behavior. For example, the United States has gone ahead with military actions in recent years even though the Security Council did not authorize the attacks. The United States did not receive support for military actions in Iraq and Kosovo, among others, although in theory it is supposed to have such support before launching military strikes. Many European leaders accuse the US of taking advantage of its powerful position and disregarding world opinion. Some argue that this has contributed to growing anti-American sentiment.

The Security/Development Divide

As the last section showed, there is great disagreement over what the role of the United Nations should be. People from different countries and political backgrounds have vastly different ideas about what the UN is meant to do. One chief fault line is between people who believe the UN should focus solely on top security issues and others who support a broader mandate, including a host of development and social programs.

Generally, the **isolationists** overlap with the people holding the more limited conception of the UN role. They disagree with the way the United Nations' activities have expanded in recent years. They also do not see good reason for extensive UN involvement in other countries, especially ones at war. Often critics denounce the idea of their citizens dying in conflicts in which the United States has no direct interest.

In contrast, others believe the **development work** of the UN is vital and that the organization needs to be involved in a wide variety of fields. They give a much broader interpretation to the objectives outlined in the UN Charter.

United Nations Educational, Scientific and Cultural Organization

A major historical example of the security/development divide came in the early to mid-1980s when the United Nations Educational, Scientific and Cultural Organization (UNESCO), came under fire. UNESCO was founded in 1946 with the hope that better mutual understanding between countries would help prevent war. However, by the 1980s, UNESCO had many critics charging that its activities were useless. The United States also leveled charges that the organization had an anti-Western political agenda and made the controversial decision to withdraw in 1984. The United Kingdom followed suit in 1985, amid a

rancorous debate about what kind of United Nations was best. The US and UK considered the social activities of UNESCO inferior to their security concerns, while others emphasized the idea that true security is built upon a foundation of harmonious social conditions. The same theoretical debate exists today in relation to various other issues.

Proposals for Reform

In an attempt to rein in development and social spending, the US has proposed the **weighted voting system** on GA funding votes in past years, as previously explained. The efforts have failed, and the North-South rift at the UN (another name for disagreement between the rich countries and the Third-World on policies) has widened. With neither side willing to compromise, they have only become more polarized, leading to more significant disagreements over the United Nations power structure.

One manifestation of this conflict has been the debate over the structure of the Security Council, also referenced earlier. The developing world has demanded that the permanent members give up some of their powers so that the Council can more accurately reflect today's geopolitical reality. **The differing proposals have included expanding the number of permanent members, expanding the membership on the Council itself, and even abolishing the veto power.** However, with the sides already at loggerheads, the P-5 are stubbornly clinging to their powers. A sensible change for the future might be to create a permanent seat for the entire European Union, though at present, with the EU far from having a common foreign policy and with the UK and France clinging to veto power, we are far from seeing that happen.

Failed UN Peacekeeping Missions

The early '90s failure of UN peacekeeping missions is another sore spot between polarized camps. Secretary-General Ban Ki-Moon has in recent times been advocating a more aggressive UN peacekeeping agenda. At the same time, recent UN reports on failures to prevent massacres in Rwanda and in the Bosnian town of Srebrenica have focused additional criticism on Kofi Annan, the UN's head of peacekeeping in the first part of the decade.

The arguments in favor of intervention are rather obvious: moral obligation and strategic interests like the possibilities of economic fallout or war. The arguments against include the idea that absent any compelling strategic interest, we should not spend money, imperil our citizens' lives, and violate other nation's sovereignty. Different conceptions of the nature and extent of national sovereignty – the right of a country to decide its business for itself, without influence from the UN or anyone else – are the driving force behind most major fights at the UN.

The issue of whether UN intervention in internal conflicts like Kosovo and East Timor is a violation of those countries' national sovereignty is one of the most hotly contested questions in foreign policy. Countries disagree passionately on the answer, and this state of affairs has put the future of peacekeeping missions in doubt. The disagreement here is not just North-South, but between permanent Security Council members, making it all the more difficult to resolve.

On a broader level, sovereignty plays a role in questions ranging from whether the United States has the right to withhold UN debt payments to whether Iraq was justified in flouting UN sanctions. In reality, all the debating is in the abstract, because in practice, when a country feels that it is not bound to do as the UN demands, it doesn't.

The United Nations has no enforcement mechanism to use to compel violators to behave, so the UN is to a certain degree powerless on its own. Cooperation of member countries is imperative for its success, and at present, such cooperation does not exist.

Africa

Gilbert Lee, Joshua Bone, and Jessica Bailey

There is a temptation among even the most sensitive scholars and analysts to refer to Africa as a single place with a single population, and to speak of the issues and problems facing African nations as problems for the continent as a whole. In fact, it is often impossible to avoid doing so, particularly since the nations of Africa have political borders that are, by and large, arbitrary and do not follow natural geographic borders or ethnic groups. The continent is home to 53 countries, most of which have the same borders as those drawn by their colonial powers more than a hundred years ago. These borders were often intentionally drawn to divide ethnic or religious groups and exacerbate regional tensions by enclosing parts of different and often warring groups within the same political territory.

Because of this, it is virtually impossible not to speak of Africa the continent in broad terms. That being said, students should be thoughtful when speaking of issues and problems facing the continent not to paint them with too broad of a brush – although general analysis is often appropriate, it will be necessary to be more specific in your analysis whenever possible (it will also distinguish you from your competition). For example, although the emergence of Islamic Fundamentalism and the increasing concern with terrorism are widespread issues, it would be a mistake to assume that every African government is facing the rise of terrorism.

Humanitarian crises, struggling democracies, despotic regimes, civil wars, and economic collapses have, more often than not, defined the past fifty years of African history. Africa's problems are interrelated. A lack of economic development has created a climate in which various ethnic groups feel economically disenfranchised, fueling civil war. These civil wars have weakened African regimes, leaving most countries unable to address disease and famine adequately. These humanitarian crises keep the economies from experiencing true improvement. All of these crises are compounded by the reluctance of Western powers to intervene in the continent.

To enrich our understanding of the issues and trends experienced by Africa, this chapter will first briefly examine the pre-colonial history of the continent. Next we will explore the rise of colonialism, with particular attention to how the decisions and actions of the past colonial powers continue to impact regional conflicts and events. Finally we will turn our attention to specific countries and issues, exploring in depth the current hotspots and major concerns. The history provided in this article is purely contextualized for speech and debate. In other words, what is contained herein is by no means a complete history of Africa, only the history that helps to answer the question: "Why is Africa today the way it is?"

A (very) Brief History of Africa

Because so many of Africa's current problems and conflicts have their origins in the continent's colonial past, any complete analysis of the region requires a significant understanding of the legacy of colonialism. African history did not begin with colonialism, however, and solely focusing on African history after westerners came into contact with it would be both inaccurate and Eurocentric.

Pre-colonial Africa

Prior to the influx of Western colonial powers, Africa was shaped primarily by two forces: first by the introduction of Christianity during the Roman Empire, and later by the introduction and expansion of Islam during the Ottoman Empire.

The decline of the ancient Egyptian kingdom coincided with the rise of the Roman Empire and its expansion of Christianity into its territories. Having lost her final stand against the increasingly powerful

Roman forces, Egypt's famed ruler Cleopatra took her life to avoid falling captive to the Romans, setting the stage for Christianity's influx into the continent. During the rise of the Roman Empire, most of Northern Africa, including what is modern day Egypt, fell under the control of Christianity. Christianity would remain the dominant influence in African culture and politics until the waning days of the Roman Empire, when Islam began to take roots in the region.

After the legacy of colonialism, the introduction and rapid spread of Islam in Africa is the second greatest factor in shaping the history of the continent. Islam in Africa is nearly as old as the religion itself. Less than a decade after the death of the Prophet Muhammad (632 AD), Egypt fell to invading Arabs, and Islam spread quickly throughout the region.

By 710, northern Africa's kingdoms were completely under the control of the Muslims. As is often the case when one religion vies for influence and supremacy with another, the transition from Islam to Christianity was fraught with strife, and even today, the conflict between Christianity and Islam is a major challenge for Africa. Unfortunately, the benefits of diversity in the continent have also paved the way for the ethnic strife that is seen today. Interestingly, the European & American slave trade which so devastated Africa was preceded by a slave trade introduced by Arabs in the region (which was itself preceded by episodes of slavery in Egypt and elsewhere in ancient African civilizations).

Rise of Colonialism and Struggles for Independence

I challenge the reader to identify a conflict, issue or problem facing Africa today that does not bear the legacy of colonialism. Western powers seeking to acquire new resources for the Industrial Revolution found a goldmine in Africa (literally and figuratively). During the 1400s, Portugal began to probe Africa's western coastline, a region that became known as the Gold Coast, in an attempt to circumnavigate the continent in search of a shorter route to India. Interestingly, the trade route discovered in the colonial period – from the Mediterranean Sea, along the coast of Egypt, through the Suez Canal, and out into the Red Sea is the same vital trade route threatened by pirates of the coast of Somalia in 2009.

The conversion of Africans to Christianity was also another consideration of the colonial powers. However, the most important benefit Africa offered, at least for European colonizers, was economic. Gold, diamonds, natural resources and, most importantly, the slave trade prompted European explorers to probe the African continent further.

The height of this exploration occurred during the 1700s, when the slave trade also gathered steam. Although slave trading between Europe and Africa occurred before the Age of Exploration, the growing need for labor prompted by colonization of other continents meant a drastic increase in the slave trade. An estimated ten million slaves traveled from Africa to the future United States, for example, by 1800.

Exploration of Africa became actual colonization in the late 1800s. Major European nations began to fight over how exactly to divvy up Africa. The most prominent nations that colonized Africa were France, Britain, Belgium, Germany, Italy, Spain and Portugal. By 1920, colonial rule of Africa was largely established. Rule in Africa was largely created through peaceful adherence to treaties. However, a small handful of African rulers chafed under the yoke of European rule, unsurprisingly. With this rule came detrimental consequences. European nations maintained economic dominance over Africa, causing it to be dependent on Europe. Artificial boundaries, carved for the sake of convenience by European nations, placed disparate groups within the same borders, accentuating already salient tribal differences. Colonization also attempted to Westernize Africa, leading to some cultural diaspora and the erosion of African identity. Finally, European governments fostered within Africa a long-lasting inability to govern internal affairs. Africa's isolation from the Western world became even more pronounced, prompting observers to label Africa as the "dark continent." The notion that outsiders have been unable to

understand the dark continent is a direct cause of the traditional second-class citizen status that Africa has endured.

Eventually, the African continent rebelled against European colonialism. In the early twentieth century, independence movements throughout Africa sprung up periodically. However, not until the end of World War II did independence movements throughout Africa gain credence. Both peaceful means and violent revolution were used to secure the independence of Africa. By the 1960s, the vast majority of African colonies became independent, with the last two, Angola and Mozambique, gaining independence in 1975.

While the wave of independence dramatically changed who was to lead African nations, the problems that these African nations faced remained largely the same. For one, the problem of the formation of new African governments meant that African nations with little experience in self-governance and democracy were now left to fend off problems on their own. The Curse of the Strongman began to afflict Africa during this period; military dictatorships often sprung up in the wake of independence. Although some of these autocratic rulers no longer maintain power, the ill effects of their rule can still be felt in Africa today.

Individual Histories & Current Hot Spots

Africa's history as a continent has served as a backdrop for the numerous conflicts that afflict the entire land. With the creation of the modern nation-state in Africa, nations have themselves become the focal points of both misery and international attention. The travail-laden histories of a handful of key African nations, however, serve to define some of the main issues that confront the continent today. More importantly, the histories of these same countries serve to shape the direction of the continent as a whole.

Rwanda

Rwanda presents one of the two most glaring examples of the international community's neglect of Africa (the other being famine in Somalia during the early 1990s). In the 1990s, Rwanda was unfortunately cast onto Africa's center stage. The international community was forced to take note of Rwanda's genocide. Starting in April 1994, ethnic Hutu militia groups, known as the Interhamwe, began what many believe was a premeditated plan to slaughter and massacre ethnic Tutsis. In roughly one hundred days, an estimated 500,000 people were killed. To this day, UNICEF estimates that 700,000 children, eighteen percent of Rwanda's 4.2 million children, have been rendered orphaned or abandoned by the genocide.

Rwanda is generally regarded as one of the prime examples where international neglect made possible the conditions under which genocide occurred. People, including the UN's commanding general in Rwanda at the time, human rights groups, and a panel of the Carnegie Commission on Preventing Deadly Conflict, have all made the claim that five thousand troops deployed at the beginning of the conflict could have prevented the genocide. Although this assertion is highly debatable, the point remains clear: Rwanda has forced nations to reevaluate whether or not they have neglected to intervene when they should.

International policymakers have reflected upon the genocide in Rwanda and, in retrospect, are still trying to come to terms with it. We have been forced to reexamine the question of when international intervention is justified. Many feel that the United States' failure to respond to the Rwandan genocide was a major reason for the subsequent speed of response to the Kosovo genocide.

Of course, while policymakers continue to scratch their heads and deconstruct the large-scale killings of Rwanda, the question must be posed: How did Rwanda become this way? The highly simplified answer is that ethnic divisions within Rwanda precipitated the conflict. The Rwandan experience is emblematic of the way the intentionally arbitrary political borders drawn by Belgium, the colonizing power, doomed the viability of the state – rather than draw Rwanda's borders following ethnic lines, Rwanda's borders slice through Hutu and Tutsi inhabited regions, forcing these two antagonistic peoples into the same political

territory. Like most colonial powers, Belgium had no real interest in nation building. Rather their primary concern was preserving the subordination of the local population so Rwanda's rich resources could be exploited. In order to prevent the population from rising up against its colonial occupiers, Belgium gave control of the government to the Tutsis, the ethnic minority, fanning the flames of conflict between the Hutu and Tutsi. Traditionally, the Tutsis, who once dominated Rwandan politics despite their minority status, comprised seventeen percent of the population. The remainder was Hutu.

One of the dominant viewpoints regarding the ethnic conflict in Rwanda is that long-standing hatreds were the principal cause. The August 27, 1988 Economist states that the conflict centered between "the small, thick-set, deep-brown Hutu farmers" and the Tutsis who were "the tall, slim, very dark cattle farmers whose forefathers conquered the Hutu some four centuries ago."

Throughout the first decade of independence, former Tutsi exiles repeatedly tried to invade Rwanda and seize power. In every attempt they failed, prompting the PARMEHUTU (Parti du mouvement et de l'émancipation des Bahutu) to slaughter Tutsis within Rwandan borders. In 1973, the Northwestern Hutu came into power as a result of a coup spearheaded by Juvénal Habyarimana. For the next roughly fifteen years, uneasy stability reigned over Rwanda. The Northwestern Hutus controlled every facet of the government, much to the dismay of majority Hutus and, of course, truly marginalized Tutsis. Nonetheless, Hutu-Tutsi violence ceased for the time being.

This period came to an end in October 1990, when the Rwandan Patriotic Army (RPA), composed of a group of exiled Rwandan Tutsis, invaded the country from Uganda. The ensuing civil war raged intermittently until 1994, when peace accords established the basis for a power-sharing government. At that time, peace seemed to be within grasp, but President Habyarimana's plane was shot down while returning from the accords - no one knows by whom - setting into motion the process of genocide with horrific rapidity. The killing finally ended with a rebel military victory and a French-led intervention.

An estimated 800,000 people, in a population of 7 million, were wiped out in the 1994 genocide in Rwanda. It was one of the worst slaughters in human history. Encouraged by (Hutu) Rwanda government officials, the goal was genocide - to eliminate all Tutsis from the country.

During this time, the Clinton administration chose not to intervene in the conflict (nor did European governments). This highly controversial decision stemmed from the brutal killing of American soldiers Somalia's capitol Mogadishu less than a year earlier in 1993, detailed later in this chapter.

The Rwandan Patriotic Front, the political party formed by the invading rebel Tutsi army that triumphed in the civil war of 1994, has controlled the country for the last nine years. General Paul Kagame, of the Rwandan Patriotic Army, led the invasion in 1994 and now serves as president of the country. In August 2003, amid charges of human rights abuses and harassment of political opponents, Kagame received 95 percent of the votes in Rwanda's first presidential election since the genocide. He will be up for reelection in August 2010.

The Rwandan saga, however, does not end at this point. Hutus fled the newly formed government of the Tutsi militias. As a result, violence spread to nearby Burundi and present-day Democratic Republic of Congo. When the Congo's government fell and was subsequently seized by Laurent Kabila's Congo Armed Forces (FAC), Rwandan Vice President and de facto leader of Rwanda Paul Kagame was one of several figures on the ground floor of the multinational war that rages in the Congo to this day.

The Rwandan government has attempted to overcome this legacy of genocide, even changing the red background of its flag in 2001 for fear that the flag too closely resembled blood. Efforts to deal with the aftermath of ethnic difference have been surprisingly successful in Rwanda. In the autumn of 2003, Kagame won another election overwhelmingly, receiving large numbers of votes from every ethnic

group. He has attempted to include as many Hutus as possible in his government, and the United Nations Tribunal in Rwanda has already brought many of the perpetrators of the genocide to justice. Although effective Rwandan courts need to be established before the country can try many of the worst criminals itself, the UN has so far been accepted and trusted as a non-biased mediator by the Kagame administration and the people of Rwanda. Even more impressively, in 2002, Rwanda pulled its troops out of the Congo and encouraged ethnic exiles to return without fear of repercussion. Today, Rwanda presents a clear example of the failures of the international community, but also has the potential to become an example of successful post-conflict revitalization.

Democratic Republic of Congo

It has been tempting to put quote marks around the first word of this country's name.; the past several decades of the Congo's history have seen little beyond the characteristic authoritarianism of the African strongman.

When this chapter was last revised in 2005, the Democratic Republic of Congo, along with six outside states and an estimated thirty-five thousand troops, were engrossed in what observers have dubbed Africa's first world war. Four years later, little has changed. The war itself stretches the bounds of comprehension. 2008 brought coup attempts and sporadic violence in the eastern part of the country. Rwandan Hutu militias clashed with government forces in April, displacing thousands of civilians.

Conflict in the Congo began almost at the outset of the Congo's independence. More than three decades ago, brutal dictator Mobutu Sese Seko seized power in the nation, then known as Zaire. Feeding off the riches and diamonds within Zaire, Mobutu maintained a stranglehold. Cold War geopolitics also played a significant role in cementing Mobutu's power base; the United States enlisted Mobutu as an ally during the Cold War.

In 1997, however, Mobutu's power came to a sudden end. A rebellion organized by future president Laurent Kabila proved successful. Mobutu's untimely death also served to expedite the transfer of power and the renaming of Zaire as the Democratic Republic of Congo. Kabila's reign, however, was pockmarked by dramatic shifts in loyalty and the crumbling of power.

Originally, Kabila was intended to be the region's replacement for the threatening Mobutu; Rwanda and Uganda both enlisted Kabila as the primary figure to rebel against Mobutu's government. However, Kabila then decided to sever ties with ethnic Tutsis within the Congo, rendering him unpopular with Rwanda. Subsequently, Rwanda organized another rebellion, this time against Kabila's government; Laurent Kabila maintained power only through allying with other regional power brokers. Kabila's own support domestically crumbled; he was known as a leader every bit as repressive as the man whom he replaced. Kabila's attempts to rejuvenate the Congolese economy and purge the government only led to economic ruination.

Joseph Kabila became Congo's president when his father Laurent was assassinated in 2001. He gained a mandate through the ballot box to rule the vast country as its elected leader in an election in 2006. The historic presidential election was intended to bring a new era of stability after years of war, dictatorship and chaos. The vote was generally praised by international monitors.

This Congolese civil war was severely complicated by the presence of outside actors. The security concerns described previously led to the initial effort of the Rwandans and Ugandans to remove Mobutu from power. In addition, Tutsi-led Rwanda wanted a friendlier Kabila-led government to secure eastern Congo, a region housing the Hutu militias that caused the 1994 genocide. Obviously, Kabila's subsequent severing of ties from the Tutsis led to the alliance of Rwandans and Ugandans against Kabila's government and with rebel elements within the Congo. Ugandans wanted to support Rwanda and, at the same time, stem the influence of its own rebels who based themselves in the Congo.

The Kabila regime allied itself with other countries. Enter Zimbabwe, Angola and Namibia. Zimbabwe's Robert Mugabe has allied his government with Kabila if for no other reason that Uganda's Yoweri Museveni was allied against Kabila; Mugabe's desire to become the region's principal power broker led him to challenge his rival, Museveni. Angola's motives were based on its own civil war. UNITA, a major rebel group in Angola, also had forces in the Congo. Meanwhile, Namibia, which has accused UNITA of trying to incite a rebellion against the Namibian government, has allied itself with both Kabila and Angola's government.

The younger Kabila was ultimately successful in making progress towards peace. He convinced Rwanda to pull out of the Congo in 2002, and in December of 2002 he succeeded in brokering a peace deal between all warring parties establishing a government of national unity led by Kabila, formally ending the fighting. Kabila has enjoyed the support of western powers including the US and France, and regional allies such as South Africa and Angola.

Long-standing ethnic hatreds add yet another measure of complication to the conflict. The Hutu-Tutsi angle and its accompanying regional actors, described above, is the commonly described ethnic conflict that forms the backbone of the region's power struggle. Within the Congo, however, another tribal fight between two highly similar groups, the Hema and the Lendu, has flared up. The disintegration of authority within the nation has allowed this conflict within a larger war to mushroom. Uganda, meanwhile, has been accused of supporting the Hema and acting as paid hit men against the Lendu. Clearly the underlying ethnic tensions serve only to intensify this entanglement.

The United Nations has attempted to remedy the current crisis in the Congo through peacekeeping initiatives. However, the United States has kept Secretary General Kofi Annan from sending the 13,100 additional troops he feels are necessary to keep the peace in the Congo. Many in the United States are claiming that the problems facing the Congo are not the result of a lack of peacekeepers, but rather are the result of a lack of resolve on the part of Kabila and the rebels to truly push for peace. Kabila has responded to this claim by touring the troubled Eastern portion of his country in order to show his dedication to reestablishing order. Meanwhile, government troops have begun yet another offensive against rebel-held towns in Eastern Congo.

In an attempt to bring the situation under control, in January 2009 the government invited in troops from Rwanda to help mount a joint operation against the Rwandan rebel Hutu militias active in eastern DR Congo. Rwanda also moved to arrest the Hutu militias' main rival, General Laurent Nkunda, a Congolese Tutsi previously seen as its main ally in the area. Establishing lasting peace and stability is no small task, as the conflict in the Congo continues to be largely ignored by countries outside of Africa.

Liberia

Liberia is a unique state in Africa for one reason: its first colonists were freed American slaves. First settled in 1822 and incorporated as Monrovia in 1824, Liberia has since been plagued by internal instability. A nation that once offered so many a new hope today offers its citizens only a history of bloodshed and catastrophic human rights violations.

During the administrations of William V.S. Tubman, who ruled from 1944-1971, and his successor, William L. Tolbert, the economic and political gap between the ruling elites, supported by the United States, and the lower classes grew extremely large. Tensions finally boiled over in 1980, when a group of military officers, led by Samuel K. Doe, invaded the Presidential Palace and assassinated Tubman.

Although Doe had initial support from many Liberians, his administration became increasingly corrupt. He disbanded the free press, outlawed opposition political parties, and declared victory in a 1985

presidential election that every observer believed he clearly lost. He also abused the Gio and Man ethnic groups that live in the northern part of the country.

Some of these indigenous northerners escaped into the Ivory Coast, where they were organized and trained by Charles Taylor. In 1989, Taylor's forces invaded Liberia, and were quickly joined by many other northern Liberians. Fighting between the rebels and the government military forces escalated when, in 1990, Doe was captured and assassinated by rebels tied to Taylor. For the next five years the fighting became increasingly bloody: both Taylor's forces and the national military utilized child soldiers and committed tremendous human rights violations against civilians in villages throughout Liberia.

In 1995, international mediators finally convinced Taylor to disarm his troops and agree to a cease-fire. An interim government gave way to elections in 1997, when the people of Liberia elected Taylor president. However, years of civil war had left Liberia with little economic infrastructure and thousands of displaced refugees. Taylor, meanwhile, profited personally from illegal diamond trading, and secretly supported guerilla forces in neighboring Sierra Leone.

From 1999 to 2003, the rebel group Liberians United for Reconciliation and Democracy had been fighting the Taylor government in northern Liberia. However, in 2003 the Movement for Democracy in Liberia began fighting Taylor in the south. By mid-summer, rebels had the capital surrounded, and, under intense international pressure, Taylor resigned, escaping into Nigeria, from where he tried unsuccessfully to rig Liberia's 2005 elections. Instead, voters elected reformer Ellen Johnson-Sirleaf, Africa's first female head of state since antiquity. In 2006, Taylor was captured and delivered to a UN backed court in Sierra Leone (his trial has since been moved to the Hague). Liberia's future remains murky. Although the international community has pledged \$500 million to relief efforts in Liberia, the nation is still deeply divided along ethnic lines, and still lacks even the most basic economic infrastructure. Johnson-Sirleaf's government seems to be doing well, but only time will tell whether Liberia can overcome the legacy left by Taylor.

Nigeria

Nigeria is currently attempting to travel the path from dictatorial control to democracy, and the road has proved to be rocky. In 1984, Nigeria fell under the spell of a military regime led by General Ibrahim Babangida. His regime attempted to create the thin veneer of democracy by staging an election in 1993. Chief Moshood K. Abiola won, only to have the results of the election negated by Babangida. The failure of this attempt to democratize led in part to international and internal pressure against Babangida's government. Shortly thereafter, General Babangida departed from office, leaving a civilian board in control.

Within weeks, however, another military regime, this time headed by Sani Abacha, the nation's defense minister, took control. Abacha's dictatorship would prove even more corrupt and deadly than Babangida's. As if Babangida's own half-hearted attempt to democratize Nigeria was not feckless enough, Abacha proceeded to pervert even Babangida's own approach. Abacha staged an election in which the military-government handpicked five parties to participate, while simultaneously denying participation to legitimate independent groups. The legitimacy of Abacha's government was further corroded when he began to sanction the jailing and killing of prominent political dissidents; Moshood K. Abiola was arrested in 1994, only to die later under mysterious circumstances. Environmental activist Ken Saro-Wiwa was sentenced to death in 1995 after being convicted on trumped up murder charges.

In 1998 Abacha's rule came to an abrupt end; General Abacha reportedly died of a heart attack in June. General Abdusalami Abubakar was subsequently chosen by the military to head Nigeria. Following the pattern of leaders before him, Abubakar pledged to institute democracy in Nigeria. Fortunately, though, for Nigerians, Abubakar actually kept his promise; he created independent political institutions and pushed for a new constitution. The transformation of Nigeria into a possible viable democracy culminated

in elections, which although flawed and probably tainted by marginal vote rigging, were legitimate enough to be accepted by international observers. Olesegun Obasanjo won with sixty-three percent of the vote. In the 1998 election, Obasanjo's People's Democratic Party (PDP) won every single region of Nigeria, save for the west, dominated by Yorubas. Obasanjo, then, is the first president in Nigerian history without the support of his own ethnic group. Yorubas were reluctant to support Obasanjo, claiming that he was conceding too much to northern Hausa-Fulanis.

The problems plaguing Nigeria's first democratic election in 1999 continue to cripple its quest for democracy. In 2007, after his attempts to be elected to a third term as president were blocked by parliament, the outgoing Obasanjo chose Umaru Yar'Adua as his successor. Yar'Adua won the presidency through elections that were again criticized by the international community for corruption and ballot-rigging. Although both the 2003 and 2007 presidential elections were tainted by significant irregularities, violence and corruption, Nigeria is currently experiencing its longest period of civilian rule since independence. The general elections of April 2007 marked the first civilian-to-civilian transfer of power in the country's history.

One element that has complicated the transition towards democracy is the existence of ethnic groups each competing for influence. Three distinct regionally based major ethnic groups (over 250 smaller minority groups exist nationwide) populate Nigeria. The Igbos, who are predominantly Christian, are located in southern Nigeria, Muslim Hausa-Fulanis control the north. Christians misplaced in the North find themselves at odds with Muslims. This status is exacerbated by the controversy in the northern states over whether or not to introduce shariah (Islamic law) into the already existing system of laws. At one point, five separate states passed laws favoring the institution of shariah. One more state, Zamfara, had actually passed the code into law. However, the federal government of Nigeria ordered the suspension of the code as part of criminal cases; the constitution, which acknowledges a basis of Islamic law in civil cases, still remains intact, though.

While Nigeria has managed to maintain a fragile peace, since the mid 1990s there have been frequent and ongoing violent uprisings in the Niger Delta region with a renewed call for regional self-determination and local control of oil. These conflicts, often attended by kidnapping of foreign oil workers for ransom, have taken on frightening dimensions over the years. In addition, there has been continuous tension between the various ethno-regional groups in the country (and also between local actors) over access to oil wealth through control of political power. All of this strife and insecurity takes place against the backdrop of devastating poverty. The economy of Nigeria is heavily dependent on oil, its number one export. The competition for limited economic spoils in the country has led to a status where Nigeria is described as having one of the most sluggish and corrupt state-managed economies on the continent. Corruption costs the oil industry and the entire Nigerian economy billions of dollars a year in lost revenue. If wealth begets wealth, then the dearth of money only serves to propagate debt. Although Nigeria has pledged to increase oil production over the next few years, the larger question of whether or not Nigeria can surmount its corruption problems will determine whether or not the crumbling economy of Nigeria can thrive.

Sierra Leone

From 1991 to 2002, Sierra Leone was trapped in the throes of a civil war. Funded by blood diamonds, The Revolutionary United Front (RUF) led by Foday Sankoh terrorized Sierra Leone, using atrocious means including raping, killing, and the hacking off of limbs to defeat the government. The government, meanwhile, maintained martial law control of the capital, and basically ruled by controlling the various gangs of thugs that populated the capital city. In 2002, a cease fire was finally signed, and free elections introduced to Sierra Leone its first legitimately and democratically elected president.

The events which immediately precipitated the conflict began in 1996, when Ahmad Tejan Kabbah was elected in what observers saw as a flawed poll. Shortly thereafter, Sankoh's RUF managed to depose Kabbah and intensify the already present conflict. This conflict set into motion an international movement to try and reinstate Kabbah as the leader of Sierra Leone. Kabbah, incidentally, had not necessarily been helped by this movement; most Sierra Leoneans regarded Kabbah as a weak leader whose only actual source of power was the international community.

The first major force that attempted to secure peace in Sierra Leone was the West African Economic Monitoring Group (Ecomog), spearheaded by then-Nigerian president Abdusalami Abubakar. The newly elected government of Olesegun Obasanjo, however, took the cue of the people that Nigeria was no longer willing to foot the bill of the monetary and human toll that peacekeeping in Sierra Leone imposed.

Within months of Ecomog's pullout, the Sierra Leonean government acceded to the Lomé Accord of 1999. The main feature of the Lomé Accord was that it, like the Bicesse Accord (1991) and Lusaka Protocol (1994) for Angola and the Lusaka Treaty (1998) for Congo, sought to distribute power amongst several government and revolutionary factions. More specifically, Foday Sankoh would be granted membership within the government and immunity for any deeds committed prior to the signing of the Lomé Accord if he decided to end the civil war.

Unfortunately, this solution proved ineffective. Neither the rebels nor the government fully accepted the treaty, the rebels because of their economic advantage over the government and the government because of its unwillingness to share governmental control. The RUF continued active military actions against the government. Ghana also helped to end hope for peace by encroaching upon Sierra Leone in an attempt to bring to justice members of the RUF who were aiding dissidents in Ghana.

In May of 2001, the government and RUF again negotiated a disarmament settlement. This agreement, though, has proven somewhat effective, mostly because the rebels, seeing little chance for success in the conflict, cooperated with its tenets and actually disarmed. Kabbah immediately took control over some rebel-held territory. In the process of disarming the guerillas and increasing his control over the countryside, Kabbah also retook control over the means of production: the diamond mines. The government's new economic control proved the last nail in the RUF's coffin.

In May of 2002, Kabbah and his party won landslide victories in elections, establishing him as the first legitimately democratically elected ruler in Sierra Leone. In response, the international community began to pull out all its troops from Sierra Leone, leaving only enough to train the Sierra Leonean military to take over civilian peacekeeping operations. Kabbah responded by declaring the civil war to be over.

So far, Sierra Leone has been a success story: its peace agreement, while fragile, seems to have been successful in establishing some hope for permanent peace. Civil rights have been respected, and the nation is home to a fledgling but influential free press. While Kabbah has been standoffish when testifying before the Truth and Reconciliation Commission in Sierra Leone, perhaps because he knows that the details of his own involvement in the civil conflict would likely sink his political career, both the existence of such a commission and the possibility of Kabbah being held politically accountable by it are positive developments.

On the flipside, now that war is over, Sierra Leone needs reform. Child mortality rates in Sierra Leone are the highest in the world. Health services are all but nonexistent. The country still needs to establish basic economic infrastructure, such as transportation networks, before the government can establish permanent control over the countryside. While the future appears much brighter by the day for this mineral-rich but

troubled country, without these reforms another civil war could be in the offing. Independent elections were held in August 2007, but the country continues to struggle with poverty and corruption.

South Africa

Since 1994, with the end of apartheid and the election of African National Congress (ANC) head Nelson Mandela as president, South Africa has become both Africa's most economically developed country and most stable democracy.

Before Mandela came to power, South Africa could still have been considered one of Africa's most developed countries, although the benefits of that development were only reaped by the tiny white minority. The native population of South Africa was predominantly comprised of black Africans. This composition began to change around 1900 when diamonds were discovered in present-day South Africa. The diamond discovery prompted the English and the Dutch to vie for control of the country. The Dutch, known as Afrikaners, won out. The Afrikaners organized themselves into the Afrikaner National Party.

When the National Party took control in 1948, they instituted apartheid as a means of marginalizing the black majority. Apartheid is a term from the Afrikaans language (derived from Dutch and spoken in regions throughout southern Africa) that means *separateness*, and was a system of legalized, institutionalized racial segregation of the black majority. Apartheid permeated every aspect of South African society; blacks were economically marginalized through the creation of white-only job positions. In 1951 the Bantu Authorities Act established African homelands, which, for black South Africans are similar to Native American reservations in the United States. Black political participation in national politics was nonexistent; their lives were restricted to the homelands. Finally anyone who protested was jailed, the most notable victim being Nelson Mandela.

In the midst of South Africa's institution of apartheid, the United Nations, the United States, and European countries each imposed extensive economic sanctions and an arms blockade on South Africa. Because black South Africans had already been marginalized from society, the imposition of economic sanctions was felt most acutely by the whites, and is one of the few examples of successful multilateral economic sanctions in the post-WWII era.

These economic sanctions coupled with mounting instability brought on by the growing resistance movement eventually led to the end of apartheid. In 1994, South Africa held its first free elections, which were unsurprisingly swept by the African National Congress and Nelson Mandela.

For South Africa truly to progress, the nation must surmount the deeply etched legacy of apartheid. Agencies like the South African Human Rights Commission and Archbishop Desmond Tutu's Truth and Reconciliation Commission work towards this distant goal.

In 1999 South Africa had its second democratic election, further helping to cement South Africa as a legitimate republic. Thabo Mbeki, once Nelson Mandela's second in command, was elected as president. Meanwhile the ANC further established its electoral popularity in South Africa; the ANC won sixty-six percent of the vote. This was just one vote short of attaining a two-thirds majority in the South African parliament. Had the ANC won two-thirds of seats in parliament, it would have been able to amend the constitution without allying with any other party in the government.

The South African constitution stresses the new direction the nation is attempting to travel. The desire to deviate away from the harsh past of apartheid is reflected in the constitutional provisions against discrimination. Race, ethnicity, sex, sexual preference and disability are among the many demographics that are not to be discriminated against. These constitutional guarantees, along with the nation's Truth and Reconciliation Commission, have begun to move the country away from its deeply divisive past and into

a bright, free, democratic future. By and large the South African electorate has received the new changes that the Mbeki's government has implemented positively.

Despite the profound changes that have occurred in South Africa, the nation is still beset with long-standing problems. Although South Africa is more developed than the rest of Africa at large, it still faces economic problems; growing rates of unemployment and poverty have exacerbated existing social conditions. Racial divisions, while constitutionally outlawed, persist, especially in the economy, leading to what some observers refer to as economic Apartheid. The average wage of black workers remains decidedly lower than the average wage of white workers in South Africa. 80% of the nation's farmland is still owned by whites. This racial division continues to exacerbate underlying tensions in the country, encouraging crime and civil discord. Furthermore, the multitudinous races of South Africa must still be coalesced, for societal racism still looms large. Political parties are still single-race entities; the ANC is black, the Inkatha Freedom Party is largely Zulu, and the New National Party and Democratic Party are both white and mixed race. Some former progressives are beginning to long for the days of tight governmental social control.

Another factor that continues to destabilize South Africa is HIV. Rates in South Africa have dramatically increased over the past ten years, mostly because the Mbeki's government hasn't directly confronted the problem. Only recently has Mbeki even admitted publicly that HIV causes AIDS. In the past two years, Mbeki has begun directly confronting the HIV crisis, encouraging the development of local clinics to deal with the problem. Yet these clinics are frequently underfunded, lacking sufficient beds and medicine. He has also not mandated education in the poorer regions of South Africa. Many people there do not know how to avoid HIV or how to take the complicated drug cocktail that is currently the best treatment for infection. South Africa must also confront the huge crisis of HIV: without an adequate solution to this problem, the workforce life expectancy will be so low that economic growth will be practically impossible. Whether it will be successful in accomplishing all this remains to be seen.

In the spring of 2009, South Africa held free general elections for the fourth time since the end of Apartheid. The ANC continues to be the primary political force, having won more than 65% of the vote.

Current Issues and Hotspots

The nations that will be discussed here are especially noteworthy for their current conflicts; however, the countries covered here are by no means that only ones that are worthy of attention (the Congo, for instance, could easily be listed here instead of above), just those that have come into relative prominence recently.

Zimbabwe

Zimbabwe is one of the most prominent cases of the perennial Curse of the Strongman that has afflicted certain African nations. Robert Mugabe, the autocratic ruler of Zimbabwe, has led for twenty years. He and his party, the Zimbabwe African National Union-Patriotic Front (ZANU-PF), have enjoyed almost limitless control of Zimbabwean political and social affairs.

This decade has witnessed the end of any semblance of stability in Zimbabwe. Mugabe has essentially outlawed the once strong opposition of Morgan Tsvangirai. In elections held in 2002 that were supposed to legitimize the Mugabe administration, opposition candidates were not allowed to campaign, and some were arrested on trumped up charges. Until parliamentary elections in 2008, Mugabe held practically unfettered control over his country, resulting in one-party rule that seems at the same time permanent and tyrannical. A power-sharing deal has raised hopes that Mr Mugabe might be prepared to relinquish some of his power, but in the meantime he presides over a nation whose economy is in tatters, where poverty and unemployment are endemic and political strife and repression commonplace. Today, Zimbabwe is in ruins. The country lacks any central health system, despite an AIDS epidemic that kills 3000 people every

week. Inflation runs at 600% annually. Unemployment is at 70%. People are economically disenfranchised, politically disenfranchised, and often utterly helpless.

The government's main solution to Zimbabwe's economic problems has been to try and resettle white-owned land. The highly disproportionate ownership of land in Zimbabwe divided along racial lines has given the government a scapegoat of sorts; only 4,500 white commercial farmers owned prime real estate, while over seventy percent of black Zimbabweans were located in barren wastelands. The Zimbabwean government tacitly consented to letting sixty thousand veterans violently harass white farmers. Zimbabwe's Parliament, meanwhile, passed a bill allowing the government power to compulsorily acquire land without meaningful compensation.

This land resettlement has proven completely unsuccessful in solving Zimbabwe's problems. But the forced seizure of almost all white-owned commercial farms led to sharp falls in production and precipitated the collapse of the agriculture-based economy. For the most part, the new land-owners did not have the resources necessary to farm productively. The supply of food in Zimbabwe dropped dramatically, causing a major famine.

While the international community has attempted to stop Mugabe by freezing his vast international assets, condemning his regime, and attempting to force him to repay his international debts, so far international mediation has been unsuccessful. One reason for this is Mugabe's continued regional influence. At one time, Mugabe was an internationally-supported, moderate leader in a very unstable region of Africa. Today, he retains strong support from the black farmers who owe their land ownership to his regime, from the governments of the Congo and Angola that owe their continued power to his strong support, and from the African Union, which knows that without Mugabe's support all of Zimbabwe's allies will condemn the already weak organization. The problems in Zimbabwe appear, therefore, unfortunately unstoppable. Only the death of the stongman dictator can change the political realities in this country.

Ivory Coast (Côte d'Ivoire)

The Ivory Coast, also known by its French name, Côte d'Ivoire, gained independence from the French in 1960. Since then, the Ivory Coast has become known as both one of the most stable and one of the most prosperous African nations. This history, however, changed dramatically on December 23, 1999, when President Henri Konan Bédié was deposed in a military coup.

The coup itself was quite a surprise; some signs existed, however, that indicated that Bédié's rule was coming to an end. Bédié began to irk the French, the same people who had supported Bédié with the IMF, EU, and World Bank. The major source of this irritation came when Bédié was determined to threaten the potential election chances of his most prominent rival, Alassane Dramane Ouattara, the former Ivoirian Prime Minister and former number two man at the IMF. Among the measures that Bédié was willing to take were a public campaign of slander against Ouattara and even going so far as to argue that Ouattara had no rightful claim to Ivoirian citizenship.

The actual details of the coup itself, however, are far murkier. The degree to which French officials were involved is still not fully known. The ultimate outcome of the coup d'état, however, was that French-trained Brigadier General Robert Guëi took power. Interestingly, military juntas had kidnapped Guëi's wife. Robert Guëi had gone back to the Ivory Coast from France to try and recover his wife, only to find himself as the new leader of the country! At least, this is the story that Guëi is offering.

In 2000, Guei held a blatantly rigged election that established him as ruler of the Ivory Coast. However, popular protest quickly forced him to abandon power in favor of Laureng Gbagbo. Gbagbo lacked a popular mandate, and failed to establish any semblance of a unity government. Instead, he saw the Ivory Coast fall back into civil war, with rebels supporting Guei taking control over the northern portion of the country. In December, 2002, French peacekeepers arrived in the Ivory Coast to try to quell escalating

tensions. Although initially engaging in military exchanges with rebels, the French eventually did quell the worst of the tensions, creating an uneasy stalemate.

In 2003, the Linas-Marcoussis Peace Accord ostensibly created a ceasefire and instituted a power-sharing agreement in the Ivory Coast. Initially, both sides followed its tenants, providing some hope that peace could finally be established in the Ivory Coast. However, the central government was never able to truly take control over the northern portion of the country, resulting in the maintenance of a politically fragmented regime-state. Civil war flared again after forces loyal to Gbagbo bombed the rebel-held north in 2004. Political leaders signed a peace deal in 2005, but Mathias Doué, a renegade general, stirred up enough turmoil in the country to undermine any meaningful peace. Another peace deal, struck in March 2007, offers the best chance yet for ending the conflict, though by July further violence threatened the plan.

Furthermore, the nation still faces a staggering foreign debt. Currently, the Côte d'Ivoire owes to several lenders, the most prominent of which are the World Bank, the European Union and the International Monetary Fund. This debt, which is estimated to be nearly \$20 billion according to the most recent figures was largely built up during the administration of Henri Konan Bédié. Falling prices for the Ivory Coast's main exports, coffee and cocoa, have also contributed to the problem. Today, the Ivory Coast remains in an uneasy stalemate. It is easy to see how the country, at a moment's notice, could again devolve into civil war and armed conflict. It's also easy to see how the country could finally put its differences to rest and begin to reform and revitalize its government and economy. The 2009 elections in November are emblematic of the problems the Ivory Coast faces – charges of corruption and fraud threaten to undermine the legitimacy of the elections, apathy is rampant, and the high cost of registering as a candidate discourages would-be presidential candidates from getting involved. No matter the outcome, any leader of the Ivory Coast will instantly face a tremendous challenge in reforming the troubled nation's economy in the face of such instability.

Sudan

Since gaining independence in 1956, Sudan has been led by a series of Islamic military regimes. And, for all but 10 years of its history (1972-1982), Sudan has fought a civil war between the economically and politically advantaged northern Sudanese Muslims and the economically and politically disenfranchised southern Sudanese, who are primarily not Muslim.

Three factors were principally responsible for beginning the civil war. First, President Jaafar Mohammed al-Numeiry declared that Islamic Law would become the basis for the national law code. Although some non-Islamic citizens were exempt from the new laws, many non-Islamic groups in Sudan condemned the decision, believing that it was essentially a governmental endorsement of one religion. Second, years of neglect had left the schools, hospitals, and infrastructure grids woefully insufficient, especially in the southern portion of the country. Electricity outages and the government-mandated dissolution of the largest doctor's union prompted huge strikes throughout the country, bringing business to a standstill. Finally, over 2 million refugees from neighboring African states poured into Sudan over a three year period, causing a huge amount of social unrest and disrupting the nation's delicate ethnic balance.

In 1985, fearing the gathering strength of the Christian Sudan People's Liberation Army (SPLA), Gen. Abdul Rahman Swaredahab led a coup that overthrew the al-Numeiry regime. Between 1986 and 1989, a quasi-democratic government, led by Sadiq al-Mahdi, ruled Sudan. In 1989, Lt. Gen. Omar Ahmed al-Bashir overthrew the al-Mahdi government, strengthened Islamic law, and establishing another military dictatorship. He diverted all international food aid from the famine-stricken south to the north, in an attempt to starve out the rebels.

The battling between the Bashir government and the SPLA continued until 2002-2003, when peace talks finally resulted in a cease-fire. The two sides agreed to a power-sharing agreement, in which the government would pull out of the south and the rebels would pull out of the north. Initially, the plan did seem to quell tensions.

However, in February, 2003, a new uprising, which is ongoing, began in the Darfur region of West Sudan. The rebels in Darfur are primarily non-Arabic speaking farmers, connected to extreme elements of the SPLA. In response to this uprising, the Sudanese government has let loose the janjaweed militia forces, which are essentially gangs of Muslim thugs. These thugs have been brutally attacking non-Arabic Sudanese, making no distinctions between rebels and civilians. The janjaweed were given unofficial military support by the government. The Sudanese air force was commissioned to run raids on non-Arabic areas of the country, and government helicopters have defended the gangs while they brutally massacre non-Arabic Sudanese.

The Sudanese crisis, officially deemed a genocide by Secretary of State Colin Powell in September, 2004, brings to mind images of the Rwandan humanitarian crisis.

The UN took over command of the Darfur peacekeeping operation from the African Union in late 2007, and as of this writing in 2009 have been struggling to stabilize the situation, which has spilled over into neighboring Chad and the Central African Republic. If the international community successfully pulls the militias out of Darfur, the process of redeveloping the region could cost billions of dollars. Humanitarian aid must come from all sides directly into Darfur, for the Sudanese government has shown itself to be completely untrustworthy when it comes to handing out humanitarian aid. Furthermore, the international community will doubtless need to keep peacekeepers on the ground in Darfur long after the active fighting dies down, for government and the non-Arabic Sudanese distrust each other so much at this point that, without effective international mediation, even a cease-fire seems a futile attempt to stop further fighting.

Somalia

Located on the northern edge of Africa's Indian Ocean coastline in a region called the Horn, Somalia is at present one of Africa's greatest challenges. Somalia has in effect been in the throws of anarchy since the central government was overthrown in 1991.

Created in 1960, Somalia is made up of two Italian and British former territories. Less than a decade later, a military coup toppled the government and then-President Abdirashid Ali Shermarke was assassinated. The coup was led by General Said Barre, who took over as president.

Throughout the next few decades, the revolutionary army established social programs and public works projects. But against this backdrop of progress, the military dictatorship was firming its grip on power. In 1976 the Somali military created the Somali Revolutionary Socialist Party, which ruled Somalia until the government was again violently overthrown in 1991 by Ethiopian-backed clan forces in the southern part of the country.

Later that year, clan elders in the northern, formerly British, portion of the country met and declared independence as Somaliland, which has been relatively stable since. The southern half of the country has not been so lucky. In 1991 fighting spread from Mogadishu throughout the country, killing or wounding more than 20,000 civilians and decimating the country's agricultural industry. The collapse of the farm system led to severe food shortages and mass starvation in large parts of the country. Food and aid shipments sent by the international community were hijacked by local clan leaders, who in turn sold it to other countries in exchange for weapons. In 1992, the UN sent observers to monitor the distribution of food. The following year, in an attempt to build on the progress made under the UN observers, the UN

would shift its mission from relieving starvation to restoring the failed state. In 1993, at the Conference on National Reconciliation in Somalia, the warring parties agreed to a peace deal. Less than two months later, the deal was broken by General Mohammed Farrah Aidid, who's faction would not abide by the accords.

In the following months, the UN's attempts to disarm the clan militias led to escalating violence. In the summer, a US led attack was launched on what western forces thought was a safe house harboring gunmen from Aidid's clan, the Habar Gidir. In reality, the house was the meeting place of the clan's elders, 73 of whom died in the attack. Four journalists arriving on the scene to cover the incident were also killed by angry Somali mobs associating the westerners with the attacking US forces. The US's blunder had the unfortunate consequence of uniting Somalis against the US, with tragic consequences.

That same year, Ranger Task Force comprised of troops from various elements of the US armed forces attempted to capture Aidid's foreign minister and his top political advisor. The mission went awry, and the ensuing urban battle, which lasted a little over a day, would fundamentally change the attitudes of Western leaders, cementing the belief that Somalia was a failed state run by thugs and terrorists.

The Battle of Mogadishu, as it came to be known, was the basis for the book and later the movie *Black Hawk Down*. Brutal and intense urban warfare took place in the capitol for hours, during which 19 US soldiers and anywhere from 200 to 4,000 Somalis were killed. The fighting culminated with the dramatic rescue of most of the surviving US forces and in a wounded US helicopter pilot being taken hostage. Following the rescue, the bodies of several US soldiers were dragged by angry Somali mobs through the capitol's streets. The brutality of the incident horrified US citizens and officials alike, and is generally credited as the primary factor in former President Clinton's decision not to intervene in the Rwandan genocide.

Violence in the south has been compounded in recent years by the rising influence of Islamic extremism and terror networks in the region, and by disaffected, impoverished young men turning to piracy. In 2009, an American cargo vessel was attacked by Somali pirates, who took the ship's captain hostage. The captain was freed a few days later in a dramatic rescue operation that killed three of the four pirates holding the captain (the fourth had earlier surrendered). In the ensuing months, measures taken by some European governments to protect their merchants' ships have lessened the pirate attacks.

Such western intervention does nothing, however, to address the underlying cause of both piracy and terrorism in Somalia: poverty. Vast numbers of Somalia's relatively young population face crippling poverty and few opportunities for escape. Angry, poor, and accustomed to violence, young Somali men are turning to the only avenues for prosperity they see available to them. In addition to the temptation of piracy, terrorist leaders entice young Somali men whose animosity towards the US hasn't abated since the Battle of Mogadishu.

Issues

Terrorism in Africa

Over the past few years, Africa has become a hotbed for international terrorism. Several different factors have led to this, but most involve the internationalization of Africa's domestic crises. Economic despair leads many young Africans, regardless of religion, to embrace terrorist networks such as Al Qaeda. These networks offer tangible ways for people to lash out against the wealthy west. The rise of Islamic fundamentalism in Northern Africa, fueled in part by conflicts like the one in Sudan, has also made Africa a natural place for networks like Al Qaeda to recruit members and engage in attacks.

Africa first burst onto the international radar screen as a terrorist haven in 1998, when the American embassies in Kenya and Tanzania were bombed by Al Qaeda operatives. 258 people died in the attacks. In response to these attacks, President Clinton ordered the American military to bomb a chemical plant in Sudan and a terrorist training camp in Afghanistan. Neither attack actually accomplished much. Critics argued that Clinton acted mostly to quiet those who claimed that his administration was ignoring the risks posed by terrorists.

More recently, several clubs and hotels have been bombed in Morocco and Kenya. These bombings have primarily targeted Israeli tourists, and were organized by terrorist cells connected to Al Qaeda. Interestingly, many of those arrested in the attacks are non-Africans, lending credibility to President Bush's claim that terrorism in Africa can best be combated through heightened border security. In response to the attacks, the Israeli government has focused on African terror cells as major targets in its covert war against terrorism.

Several African rebel groups have known ties to Al Qaeda. After September 11, evidence came to light that suggests that Al Qaeda has been laundering money through the diamond industry in Africa. This revelation confirmed that some of the African rebel groups that control the diamond mines are helping Al Qaeda, perhaps in exchange for military support. Rebel organizations in Sierra Leone and the Ivory Coast have supported Al Qaeda for practical and not political reasons, while pro-government Sudanese forces and rebels in Somalia have offered support to Al Qaeda for political reasons.

The Libyan government gave the international community some good news in late 2003 when it unilaterally disbanded its weapons of mass destruction program. The United States had accused Libyan dictator Col. Muammar Qaddafi of harboring terrorists and supporting Al Qaeda, imposing a decade-long program of sanctions against mineral-rich Libya. Libya's abandonment of its WMD program, coupled with its decision to hand over the alleged bombers of Pan Am Flight 109, caused the international community to roll back the sanctions. Some critics of the War on Terrorism claim that Qaddafi simply wanted access to American and European markets. They continue to point out that Qaddafi is a dishonest and ruthless dictator. Regardless, for the time being Libya no longer looks like an aspirant to the Axis of Evil, and no longer poses as serious a threat to efforts to stop terrorism in North Africa.

Rather, it is the failed state of Somalia that is currently at the center of concerns over growing terrorist networks in Africa. There are several alleged terror cells, but the most prominent is the Union of Islamic Courts (UIC, also called the Islamic Courts Union), which took over basic security functions of the government following its collapse in 1991. In 2000, the UIC formed a union and developed a militia, and in 2006 it began challenging the Transitional Federal Government (TFG) and secular militias for control of Somalia. Although a US-backed Ethiopian invasion in 2007 restored the TFG to power, most US officials continue to believe that the UIC harbors Al Qaeda operatives.

The best ways to combat terrorism in Africa are to focus on the underlying problems facing the continent. If people have food to eat, they are unlikely to join terrorist cells. If the governments control the economic infrastructure in the countries, Al Qaeda cannot use diamond mines for monetary gain. If military conflicts cease, military organizations will not look to Al Qaeda for support. In the meantime, terrorism in Africa will continue to fester.

HIV & AIDS

Compounding these economic problems is HIV, a virus that has infected more people in Africa than anywhere else in the world. By the end of 2003, the last year for which reliable statistics are available, 26.6 million people in sub-Saharan Africa were infected with HIV. Even more disastrously, 90% of children born with HIV live in sub-Saharan Africa. Problems with disease in Africa become even more

severe when one considers that epidemics of malaria and tuberculosis are also raging in the continent. Although the second Bush administration proposed spending \$500 million to target HIV in Africa, many in the United States and elsewhere feel that his insistence on abstinence-only education has compounded the problem. Meanwhile, the American government has yet to force American drug companies to lower prices or relinquish patents on the so-called “AIDS Cocktail” drugs, a series of drugs that have been shown to slow the pace of HIV infection. As a result, these drugs have yet to find their ways into the hands of most African AIDS sufferers, while in the United States people diagnosed with HIV in the 80’s continue to live healthy, productive lives.

Poverty

Adding to Africa’s struggles to effective reform is poverty. According to the United Nations Economic Commission for Africa, over the past ten years poverty rates rose 43% on the continent, with women making up 80% of people living on less than a dollar a day. A lack of educational opportunities in Africa significantly hinders the chances for upward economic mobility. Only 57% of school-aged children in Sub-Saharan Africa attend school.

Ethnic Conflict

Another prominent problem that Africa faces is the proliferation of ethnic-based civil war. The number of ethnic groups within Africa totals eight hundred, with an even larger number of tribes, identified as smaller subsets within ethnic groups. Throughout Africa, incidental conflicts and full-fledged warring amongst groups ranges from an ongoing Hutu-Tutsi struggle to the battles amongst Nigeria’s many different religious and ethnic groups. For the most part, these conflicts are the result of a uniquely African governmental problem: the proliferation of regime states. Regime states are governments that control only the major urban areas. Thus, while these regimes have official control over the governments and the militaries, they do not have control over vast portions of their countries. Instead, rebel groups, often controlled by rival ethnic groups, control the means of production in the countryside, causing most people outside of the major cities to be economically beholden to the rebel groups rather than the government. In some well-reported cases, the means of production is the mining of illegal diamonds.

Companies such as De Beers have been known to trade with rebel groups in nations such as Sierra Leone. The lucrative nature of the illicit diamond trade explains the failure of boycott efforts against these companies to catch on. Funding from diamonds helps to insulate these rebel groups from outside international pressure in the form of economic sanctions. Recently, the international community has taken a series of steps designed to lessen the sale of illegal diamonds. The Kimberly Process, a system which mandates that all diamonds be accompanied to auction by a piece of paper that states their mine of origin, has recently been surprisingly successful in combating the illegal diamond trade. Thus, rebel groups that used to rely on diamonds have been increasingly looking for outside assistance (from other African states, or even, in some cases, from Al Qaeda) to help fund their civil wars.

The Curse of the Strongman

Finally, Africa suffers from a condition that has been termed The Curse of the Strongman. Quite frankly, the status of democracy in Africa is appalling: as an example, longtime dictator Muammar Qaddafi of Libya served a term on the African Union’s Human Rights and Democracy Commission. Africa today has a mix of old-time strongmen who have been in power since the end of colonialism (Robert Mugabe of Zimbabwe comes to mind) and more modern dictators who are no less autocratic (Joseph Kabila of the Democratic Republic of the Congo, for one). Yet, as some of the old guard, such as Daniel Arap Moi of Kenya, finally fall, observers are beginning to have hope for Africa’s political future.

Africa and the International Community

While Africa has been traditionally left on the backburner of international concern, the continent has recently begun to gain prominence, in large part due to its role in the US's war on terror. President Clinton, in 1999, visited Africa for twelve days, an unprecedented step. On behalf of the United States, Clinton promised new initiatives regarding debt and treatment of the AIDS epidemic. However, these efforts have proven insufficient. While President Bush promised in his 2002 State of the Union Address that he would also focus on African problems, the War on Terrorism and the War in Iraq subsequently sapped up much of the funding earmarked for Africa. However, many non-governmental organizations have made Africa a priority, and have attempted to raise worldwide awareness of African problems.

Recently, peacekeeping has become the international community's primary focus in Africa. French troops have attempted to enforce the ceasefire agreements in Sierra Leone and the Ivory Coast, while an international coalition has been given the difficult task of establishing peace in the Democratic Republic of the Congo and stopping the violence in Darfur. For the most part, peacekeeping initiatives have been met with some internal opposition, and their effectiveness is open to debate. United Nations peacekeepers have been accused of violating human rights in several African states. Even successful peacekeeping initiatives present only stopgap solutions to African problems: in the long run, self-sufficiency needs to be established in Africa, and nations that are protected by international peacekeepers are hardly self-sufficient.

Even more important than these measures are the economic steps that the United States and other nations have been trying to implement on Africa's behalf. Both the United States and the European Union want to increase trade relations with Africa. So, why has the international community taken such a sudden interest in Africa? After all, Africa has traditionally been neglected by nations like the United States. Perhaps the answer lies in the need to atone for this neglect and the legacy of colonialism, especially considering that Africa's problems are now so serious. Rich in natural resources like oil, and seen by many in the west as a training ground for terrorism, Africa's problems are truly the world's problems. European nations' obligations are especially significant considering that they had once colonized these African nations. Some critics observe, however, that the United States and the international community have a virtual double standard as far as Africa is concerned. They not only do not understand Africa, but are actually far less willing to give to Africa the aid that they promise.

Thus, Africa's myriad problems can be explained and contextualized by historical events and trends. Today, the question of whether Africa can surmount its difficulties is complicated by the degree to which the international community will actually help Africa with these problems and also if this help is actually beneficial in the long term. Without a doubt, Africa's problems are here to stay for the foreseeable future.

Bibliography

- "A snub from Kabila." *The Economist*. 19 August 2000: 39.
- "Africa: Poverty Rates Rose 43% in Last Decade." U.N. Office for the Coordination of Humanitarian Affairs. 21 May 2004. 10 October 2004. <<http://www.irinnews.org/report.asp?ReportID=41196>>.
- Alon, Inbal and Brian Garfield. "Breaking the Silence." *Victory Briefs*. 18 July 2000. 21 July 2000 <<http://www.victorybriefs.net/weekly-7-18.htm>>.
- "Annan Gets Half the Peacekeepers He Needs for Congo." *Johannesburg Business Day*. October 4, 2004. October 10, 2004. <<http://allafrica.com/stories/200410040835.html>>.
- Ayittey, George B. N. "Sierra Leone Solution: Make it a U.N. Colony." *Wall Street Journal Online*. 31 May 2000. 31 May 2000 <<http://interactive.wsj.com/articles/SB959730779889202996.htm>>.
- Bowden, Mark. "African Atrocities and .The Rest of the World." *Policy Review* June/July 2000: 51-64.

- “Children of Rwanda’s Genocide.” New York Times Online. 6 July 2000 <<http://www.nytimes.com/library/world/africa/index-rwanda-children.html>>.
- Chokshi, et al. “The History of Apartheid in South Africa.” 27 August 2000 <<http://www-csstudents.stanford.edu/~cale/cs201/apartheid.hist.html>>.
- Collins, Robert O., ed. *Problems in African History: The Precolonial Centuries*. Princeton: Markus Wiener Publishing, Inc., 1968.
- Crossette, Barbara. “Misery Index of U.N. Panel Finds Africa is Worst Off.” New York Times Online. 5 July 2000. 6 July 2000 <<http://www.nytimes.com/library/world/global/070500un-africa.html>>.
- Crossette, Barbara. “Sierra Leone Rebel Leader Reportedly Smuggled Gems.” New York Times Online. 14 May 2000. 14 May 2000 <<http://www.nytimes.com/library/world/africa/051400sierra-leone-diamonds.html>>.
- Crossette, Barbara. “Way Clear for U.S. to Deliver Rwanda War Crimes Suspect.” New York Times Online. 25 January 2000. 25 January 2000 <<http://www.nytimes.com/library/world/global/012500us-rwanda-tribunal.html>>.
- Doyle, Mark. “Coup D’État!” BBC Focus on Africa. May 2000: 10-13.
- Dudley, William, ed. *Africa: Opposing Viewpoints*. San Diego: Greenhaven Press, Inc., 2000.
- Fisher, et al. “Armies Ravage a Rich Land, Creating Africa’s First World War.” New York Times Online. 6 February 2000. 6 July 2000 <<http://www.nytimes.com/library/world/Africa/020600africa-congo.html>>.
- Fisher, Ian. “Congo’s War Overshadows Tribal Fight.” New York Times Online. 13 February 2000. 14 February 2000 <<http://www.nytimes.com/library/world/africa/021300congo-war.html>>.
- Fofana, Lansana. “Peacekeeping Blues.” BBC Focus on Africa. May 2000: 24-25. Ibelama, Minabere. “Nigeria: The Politics of Marginalization.” *Current History*. May 2000: 211-214.
- “Inside the enemy’s decision circle.” *The Economist*. 10 June 2000: 51.
- Itano, Nicole. “Terror Threat Raises US Interest In Africa.” *The Christian Science Monitor*. 11 July 2003. 10 October 2004. <<http://www.csmonitor.com/2003/0711/p08s01-woaf.html>>.
- “Ivory Coast Says It’s Suspending Payments on Debt.” New York Times Online. 6 January 2000. 8 January 2000 <<http://www.nytimes.com/yr/mo/day/news/world/ivorycoastdebts.html>>.
- Kuperman, Alan J. “Rwanda in Retrospect.” *Foreign Affairs* January/February 2000: 94- 118.
- Lemarchand, René. “The Fire in the Great Lakes.” *Current History* May 1999: 195-201. “Lender of Last Resort.” *Wall Street Journal* Online. 18 April 2000. 18 April 2000 <<http://interactive.wsj.com/articles/SB95601868791706132.htm>>.
- Lewis, Peter. “Nigeria: From Despair to Expectation.” *Current History* May 1999: 223-227.
- Lynch, Colum. “US Drafts Resolution on Sudan Sanctions.” *Washington Post*. 9 September 2004. 10 October 2004. <<http://www.washingtonpost.com/wp-dyn/articles/A6642-2004Sep8.html>>.
- Manning, Carrie. “The Collapse of Peace in Angola.” *Current History* May 1999: 208- 212.
- McKinley, Jr., James C. “Analysis: Puzzling Conflict is Rooted in Ethnic Ties.” New York Times Online. 12 June 1998. 12 June 1998 <<http://www.nytimes.com/library/world/africa/061298ethiopia-eritrea.html>>.
- Menkhaus, Ken and John Prendergast. “Conflict and Crisis in the Greater Horn of Africa.” *Current History* May 1999: 213-217.
- Minter, William. “America and Africa: Beyond the Double Standard.” *Current History* May 2000: 200-211.
- Mseka, Chikondi. “Council on Foreign Relations.” July 6, 2000 <<http://www.foreignpolicy2000.org/library/issuebriefs/IBAfrica.html>>.
- O’Flaherty, J. Daniel and Constance J. Freeman. “Stability in South Africa: Will it Hold?” *The Washington Quarterly* Autumn 1999: 151-158.
- Ottaway, Marina. “Africa: Think Again” *Foreign Policy* Spring 1999: 13-25.

- Reckhow, Sara. "Nigeria's Next Chance: Optimism for Peace." *Harvard International Review* Winter/Spring 2000: 7-8.
- "Seal of approval." *The Economist* 26 August 2000: 35. "Shares on the Zimbabwe Stock Exchange in Free-fall." *Africa News Online*. 26 May 2000. 29 May 2000 <<http://www.africanews.org/south/zimbabwe/stories/20000526/20000526.featt22.html>>.
- "Strange Justice." *The New Republic* 20 December 1999: 11. Swarns, Rachel L. "South Africa Codifies Ban on Bias in Constitution." *New York Times Online*. 29 January 2000. 5 February 2000 <<http://www.nytimes.com/library/world/africa/012900safrica-bias.html>>.
- "The Lone Star: The Story of Liberia." PBS Global Connections. 2004. October 10 2004. <<http://www.pbs.org/wgbh/globalconnections/liberia/essays/history>>.
- "The Politics of Justice At The ICTR." *Africa News Online*. 1 March 2000. 19 March 2000 <<http://www.africanews.org/east/rwanda/stories/20000301/20000301.featt1.html>>.
- "The UN Targets African Poverty." *The BBC*. 16 September 2002. 10 October 2004. <<http://news.bbc.co.uk/1/hi/business/2261072.stm>>.
- Thondlana, Barnabas. "Zimbabwe's new land bill." *African Business* May 2000: 11.
- Turner, Mark. "Rwanda turns to past for justice." *Financial Times Online*. 7 April 2000. 9 April 2000 <<http://www.ft.com/c?pagename-View&ie-Article&fir-T^3RYZ15S6C&live-true&tagid-ZZZOMS5VAOC&subheading>>.
- Wallis, William. "Oil In the Works." *BBC Focus on Africa* May 2000: 30-31. "Worldwide HIV and AIDS Epidemic Statistics." *AVERT: The International AIDS Charity*. July 2004. 10 October 2004. <http://www.avert.org/worlstatinfo.htm>

Index: Countries of Africa

- | | |
|--|---------------------------|
| 1. Algeria | 27. Libya |
| 2. Angola | 28. Madagascar |
| 3. Benin | 29. Malawi |
| 4. Botswana | 30. Mali |
| 5. Burkina Faso | 31. Mauritania |
| 6. Burundi | 32. Mauritius |
| 7. Cameroon | 33. Morocco |
| 8. Cape Verde | 34. Mozambique |
| 9. Central African Rep | 35. Namibia |
| 10. Chad | 36. Niger |
| 11. Congo | 37. Nigeria |
| 12. Democratic Republic of the Congo (Zaire) | 38. Reunion |
| 13. Djibouti | 39. Rwanda |
| 14. Egypt | 40. São Tomé and Príncipe |
| 15. Equatorial Guinea | 41. Senegal |
| 16. Eritrea | 42. Seychelles |
| 17. Ethiopia | 43. Sierra Leone |
| 18. Gabon | 44. Somalia |
| 19. Gambia | 45. South Africa |
| 20. Ghana | 46. Sudan |
| 21. Guinea Bissau | 47. Swaziland |
| 22. Guinea | 48. Tanzania |
| 23. Ivory Coast | 49. Togo |
| 24. Kenya | 50. Tunisia |
| 25. Lesotho | 51. Uganda |
| 26. Liberia | 52. Zambia |
| | 53. Zanzibar |

54. Zimbabwe

Russia

Christopher Kristofco, Andrew Swan., and Jessica Bailey

Introduction

The United States' former Cold War adversary has been gaining attention recently for increasingly authoritarian policies, fueling fears that an emergent nationalism might once again put Russia at odds with the West. Democratization has not been as kind to the former Soviet Union as one would have wished. The weakened economy has affected every Russian citizen, and security concerns have motivated the Russian government to crack down on internal dissent. Russia's position in the international community is also uncertain. Disagreements over former President Vladimir Putin's continued control of the political system, autocratic political tendencies and former President George W. Bush's decisions both to invest in a National Missile Defense System and to invade Iraq have kept the United States and Russia from cementing their alliance. Russia, certainly, is on a precipice. Caught between former prosperity and future uncertainty, our formal rival is now reevaluating its own role in the new world order.

A Brief History of Russia

Although it doesn't tell us all there is to know about Russia and its future prospects, history provides both excellent introductions and necessary background information. Russia's history is fascinating and full of colorful characters. A competitor can set themselves apart by integrating elements of Russia's rich history into their analysis. It is impossible to come close to scratching the surface of Russia's history in these briefs, but students who take an interest in the subject will find ample additional reading are available.

Russian history can be divided into five parts; Kievan Russia, Tsarist Russia, Soviet Russia, Yeltsin Russia, and Putin Russia. For our purposes, we will examine from Tsarist Russia to the present.

More than perhaps any other country, Russia is largely shaped by its natural features and resources. The diverse geography of Russia has greatly influenced the people and the culture. Russia encompasses eleven time zones and stretches six thousand miles east to west. The immense landmass accounts for one-sixth of the entire landmass of the globe. At its height, the Soviet Union contained almost one hundred eighty distinct nationalities that spoke approximately one hundred twenty five different languages. This incredible diversity contributed to the strengths, and in many cases, weaknesses of the former Soviet Union.

Russia history is filled with regional conquest. With any group of conquerors, there must also be peoples who are conquered. The composition of the country is both conqueror and conquered, which leads to a precarious stability. Unlike many nations that come into existence from a singular national group uniting into a political force, the Russian people are a conglomerate of hundreds of nationalities forced to become one political entity.

Tsarist Russia

The leader of Russia (through the year 1917) was known as a tsar (male leader) or tsarina (female leader). These leaders were often weak, unable to unify the masses of Russians under one rule. Many times, tsars were forced to re-conquer their own people in hopes of achieving some sort of national unity. The first tsar to unify what we now know as the Russian people under one rule was Ivan III (1462-1505), also known as Ivan the Great. His shrewd leadership utilized diplomacy, power, and fear. While not nearly as ruthless as leaders to follow, Ivan III set the precedent of the powerful Russian despot.

Ivan IV (1533-1584), The Terrible is probably better known than other tsars of the time. Thrust to the throne as a child and tormented by his older sister, he began his brutal ways at age thirteen by having a

troublesome rival executed. Ivan's rule included some of the most brutal campaigns of Russian military expansion and resulted in a larger army, and a larger Russia.

While early tsars were often brutal despots with an eye to keeping their own power intact, a new breed of tsar was born with Peter The Great (1689-1725). Peter was an intelligent man with his eyes to the future and to the greater good of Russia. Realizing that Russia was, in many ways, a backward country, Peter hoped to modernize on the European model. He traveled incognito to several western European nations, learning how their economies worked and soaking up their cultures. The influences of foreign cultures on Peter's reform efforts sometimes generated resistance, but in many ways his rule was a transformational period for Russia.

Many of the tsars that followed Peter lacked the strength and vision of the great tsar, but Russia now had a sense of national pride that previously had been non-existent. Catherine II (1762-1796), also known as The Great, was able to elevate the tsar's role once again during her reign. Through military campaigns and diplomacy, she increased Russia's borders to resemble closely what they are today. Continuing the tradition of conquest was not surprising. However, Catherine did rule in a more enlightened way than those before her and introduced the "enlightened despot" to Russia.

Despite several strong rulers, Russia remained a loose confederation of previously independent nationalities that had been united under one banner as the result of military conquerors and forced assimilation. While Tsarist Russia was unstable because of the absence of a unifying force, the year 1917 brought a revolution that, though initially highly divisive, would ultimately bring some semblance of unity. But before we turn to the Bolshevik Revolution, it is important to discuss features of Russian society beyond simple history.

From 860 to 1861, over one thousand years, Russia had a feudal economy. Feudalism is a system whereby wealthy landowners controlled the land and allowed peasants (serfs) to farm the land in return for rent, usually paid in labor and crops. This arrangement is exceedingly inefficient, yet was a model followed by much of Europe throughout the Middle Ages. In Europe, however, the end of the Middle Ages also brought the end of the feudal system.

Beyond being an economic system, Feudalism was a social system as well. Peasants answered to lords and were, in many ways, glorified slaves. Permission was needed from the lord to marry a serf from a nearby manor and serfs rarely had anything beyond what was needed for survival. Understanding that serfdom ended only one hundred forty years ago is integral to understanding the Russian mindset. Russia has no real history of liberal political institutions or individual rights. From its inception to the fall of the Soviet Union, strong autocrats have ruled and dictated the rights of the peasant class.

Soviet Russia

In 1917, a coup would occur that would change the face of global politics. Weakened by its entrance into World War I, the tsarist regime was ripe for attack. The Bolshevik Revolution in 1917 was supposedly a spontaneous uprising of the proletariat (workers). In fact, the revolution was a well-organized effort to overthrow the tsar and give power to the revolutionaries. Tsar Nicholas was the unfortunate victim of the plot to end the tsarist regime. During the revolution he and his entire family were murdered, completely severing the line of succession and ending forever the rule of the tsar.

The revolution was undertaken in the name of Marxism. Karl Marx proposed that every civilization goes through a similar economic cycle. Feudalism, he argued, was but a part of the necessary history of a nation. Eventually, the workers of a nation would unite in a mass uprising to end the oppressive rule of the upper class. This revolution would result in collective property ownership, cooperation amongst the

citizens, and eventually the “withering away of the state.” Theoretically at least, every citizen was to be equal on political, social, and economic dimensions.

While the history of Soviet Russia from the revolution to the fall of the USSR is complex, we will discuss the major personalities and programs that shaped present-day Russia.

While the original March Revolution was undertaken by workers and meant to overthrow the tsar, the October Revolution was well organized by top officials to create a new ruling class.

Vladimir Ilich Lenin was the first major leader of the revolutionaries and the first true post-tsarist autocrat in Russia. During the time of the revolution, Lenin was in exile in Switzerland, trying to direct the revolution from behind the scenes. It is believed that Lenin controlled, or at least was a catalyst for the revolutionary movement. He became a powerful leader who was viewed for decades as the father of the revolution.

Lenin was followed by a more powerful, more ruthless leader. Joseph Stalin took control of the Soviet Union after the death of Lenin even though Lenin had made it apparent that he disapproved of Stalin ascending to power. Stalin quickly began to rule with an iron fist. Instead of exiling opposition, Stalin had opposition murdered. By many accounts, he is the single most proficient mass murderer in history. Stalin’s “purges” targeted anyone who was not content with the government and Stalin himself. He departed from the proposed ideals of the revolution, seeking to secure socialism in the Soviet Union before working to foster revolution abroad. He successfully led Russia through the Second World War (first by allying with Hitler’s Germany and then turning against it), and implemented the architecture of the quintessentially totalitarian government. His “five year plans” meant to rapidly modernize the Soviet Union were largely unsuccessful. His paranoia helped to turn the state apparatus into an instrument of an obsessive hunt for traitors.

Lenin and Stalin were followed by a long list of Communist Party heads which were rarely as brutal as Stalin, and the trajectory of socialist ideology in Russia often changed dramatically with the prevailing leader. Russia was devastated both economically and socially by the actions of communist leaders. Every institution was controlled by the state. There was no possibility of competition, and as such, there was no need for industry to become more efficient. Bureaucracy controlled much of the economy and kept Russia’s natural resources from being harvested and used effectively. Workers were abused and maltreated. The economy remained backward.

Beginning in Stalin’s lifetime, the Soviet Union was increasingly at odds with the United States as the world’s dominant superpowers. Shortly after the end of World War II, Russia acquired nuclear weapons technology, sparking off an arms race that would last 40 years. Dozens of international conflicts were driven by cold war ideology, including political tensions in Western Europe, the Middle East, Latin America, and Central and Southeast Asia. At times tensions were so great that they almost led to nuclear disaster, as during the Cuban Missile Crisis or the Soviet invasion of Afghanistan. Other times were marked by significant cooperation, as indicated by the Strategic Arms Limitations treaties.

The Beginning of the Fall of Communism

The USSR had become an archenemy of the United States through the post World War II era to the fall of the Soviet Union. Militarily, this rivalry meant an escalation of confrontation and an escalation of military spending. Both the United States and the Soviet Union felt they had to outspend one another in the quest to have the larger, more frightening military. Eventually, military spending became an issue of prestige, not tactical advantage. After the dawn of the nuclear age, it was clear that both countries could destroy each other many times over. The costs to continue to build militaries were stressful to the economies of both countries. The United States’ strong economy was able to sustain the escalation. The USSR, however, had more difficulties.

The Soviet Union began to fall at the onset of the 1980s. Though the confederation of States appeared strong, large cracks were beginning to form in the society and economy. Party leadership was weakening and the strong leaders of the past were gone. Mikhail Gorbachev was a young, eager leader who took power with the hopes of reforming Russia. Unwittingly, he may have precipitated the end of the Soviet Union. Through two programs, glasnost and perestroika, Gorbachev introduced western ideals to the Soviet Union and the Soviet people. The “openness” and “reform” movements instituted allowed press criticism of the regime in power, as well as allowing economic reforms. No longer would all of the economic activity be controlled by the state. Citizens were now allowed to amass very modest earnings. Personal property became a reality. While these reforms did not solve all of the problems of the Soviet Union, they did introduce ideas to the people of Russia which had never been experienced before.

The reforms of Gorbachev were meant to placate the people of the USSR and critics from around the world. However, what they truly served to do was to produce a revolution of rising expectations. The Soviet people embraced their newfound freedom and immediately demanded more rights. Newspapers and other publications began criticizing the government, a concept that was unheard of during earlier Soviet regimes. Borders were opened and citizens began to flee to freedom. When the Berlin Wall fell in 1989, the last symbol of the Iron Curtain and Soviet dominance was gone.

The USSR Crumbles

Gorbachev’s reforms led to opening of borders in satellite nations like Lithuania, Latvia and Estonia. Continual calls for independence became the rule of the day. While the USSR attempted to ignore these problems, continued demonstrations in the streets made the calls for independence an issue that had to be dealt with.

The final act of the fall of the Soviet Union occurred in 1991. Gorbachev was vacationing in the Crimea when Old guard Soviets, dissatisfied with the current state of affairs, began to plan a coup to overthrow him. Gorbachev was placed under house arrest in his vacation home. The coup was ill fated and poorly planned from the beginning. The plan was to take Gorbachev into control, and then simply walk into Moscow and assume power. The scheme never garnered popular support, however, and quickly failed.

Boris Yeltsin used the failed coup as an opportunity. He ultimately came to power in a wave of democratic unrest. The Soviet Union officially disbanded and former Soviet satellites became self-governing. Yeltsin became the first President of Russia and assumed the international obligations of the old USSR.

A New Russia

Boris Yeltsin led the charge for a democratic Russia. The Commonwealth of Independent States, or the Russian Federation as it became known, was now a reality. Since there was no democratic tradition in Russia, one had to be created overnight. The Russian Federation created its own constitution that was ratified in December of 1993. The concept and some of the language of the Russian Constitution were adapted from the American and French models. It lists almost eighty individual rights, many of which overlap with traditional rights canons but some of which specifically address some of the particular defects of the Soviet political regime. At the same time, the Russian Constitution establishes an extremely strong executive branch, and a judicial branch of questionable authority. This tension has played itself out in the post-Soviet period.

The new Russia also moved to a market driven economy, almost overnight. Expanding economic freedom opened up opportunities for many, but the liberalization was probably too rapid and poorly managed. Russia’s economy has had a difficult time adjusting, and the Russian economy continues to struggle to get

on its feet. Staggering inflation caused the ruble (Russia's currency) to precipitously drop in value. Even inside Russia, the dollar is the preferred currency.

Former institutions of the Russian state were dismantled. KGB records and archives were opened to the west and information about the Soviet era became available to Russians and the rest of the world. At this point the true atrocities of the Soviet Union became apparent. Stalin's purges became part of the public record, and the Soviet Union was cast in a whole new light.

The Present Situation

Russia is once again attempting to assert itself as a major international power. Although it is still in a state of economic and political disrepair, the economy is showing some small signs of improvement. That said, corruption is still rampant. Putin's presidency and allegations of election rigging in Russia's recent elections show that democratization remains an open question.

War with Georgia

In 2008, Georgia, a former Soviet satellite, launched an attack on South Ossetia, a region backed by Russia that was attempting to break away from Georgia. The following day, Russia came to the defense of South Ossetia, deploying troops to take control of the region and launching bombing raids into Georgia. After days of heavy fighting, Georgian forces were expelled from the region. A few days later, Russia, with another Georgian territory called Abkhazia, expanded the war into Georgia's interior, occupying several cities, including the larger Poti and Gori. During the conflict, Russia came under fire for denying humanitarian organizations access to the region, and ultimately only permitted a small amount of humanitarian aid.

A tentative peace was reached the following week, brokered by the European Union. After the peace deal as signed, Russian President Dimitry Medvedev issued the order ending the occupation, although the fighting did not stop for several days. Russia completed its withdrawal from Georgia's cities a few months later. It still has troops stationed in South Ossetia and Abkhazia, and is as of this writing it is the only country aside from each other that recognizes the independence of the two territories. The latest round of talks in 2009 did not provide much cause for optimism, with Georgians rejecting without consideration a Russian proposal to sign a non-aggression accord with South Ossetia and Abkhazia. Georgia has long maintained refusal to enter into agreement with any breakaway region because it would tacitly acknowledge the territory's sovereignty.

Many saw Russia's intervention into South Ossetia as an attempt to inflame the conflict and undermine Georgia's efforts at becoming a NATO member nation. The initial conflict and the ensuing war with Russia left leaders in the west fearing Georgia would be too needy of an addition to the military alliance.

Economy

During the Soviet period, breadlines were common. In the days following the fall of the Soviet Union, breadlines still existed, but often lacked bread at the end. Production in Russia was costly and archaic. Farmers no longer produced crops based on government mandated quotas and, as a result, there was not always enough wheat to feed the population. In a country with such vast amounts of land and natural resources, it was amazing that food could be so scarce.

Yet today many are becoming bullish about Russia's economic prospects. In 2003, GDP growth in Russia exceeded 7%. The rise of the Russian oil industry as caused many in the United States and elsewhere to invest vast sums of money. Investment increased by 12% in Russia in 2003. Most international bond raters, including Moody's, have declared the Russian debt to be investment-worthy for the first time since the economic crash in Russia in the late 1990s.

Perhaps most importantly, Russia is finally developing a real middle class. In the past four years, Russian poverty rates have fallen by a third. Most Russian cities, which once featured vacant storefronts and an underground economy that was more profitable than the legal, above-ground economy, now are centers of economic development. Russian domestic consumption rates continue to increase. Russians tend to have relatively low rates of saving and enjoy low tax rates. As a result, even though Russian annual incomes are lower than annual incomes in the west, retail corporations can be profitable in Russian markets. Mail-order and online-shopping corporations have found Russia to be a veritable goldmine, often making twice as much money in Russia as they would in the west.

Of course, the Russian economy is still facing tremendous challenges. Russia continues to have an ever-growing wealth gap. Indeed, Russia's economy still seems designed to enrich the few. Extremely powerful economic tycoons control vast segments of the Russian economy, and continue to defy those who seek to contain their influence. Furthermore, much of Russia's current economic growth is due to rising oil prices. Without the Russian oil industry, which is becoming more and more profitable by the day, economists estimate that Russian economic growth would have barely exceeded 4%. The oil industry employs only 1% of Russian workers, and much of the wealth the industry generates is going to a very small percentage of the Russian population.

Unrestrained consumerism that seems also to be a major factor in Russia's current economic success is a mixed-blessing. People are not saving their money, which makes the current cash infusion in Russia appear to be temporary rather than permanent. The government is also spending far too liberally. Although economic growth is creating surpluses in both state and national budgets, Russia's overall economic climate is encouraging local bureaucrats to spend virtually all budget surpluses on government spending programs in an effort to decrease unemployment temporarily and jumpstart consumer spending. Instead of rebuilding economic infrastructure and paying back Russia's huge national debt, these politicians are pursuing short-term economic stopgaps. Until Russia installs some fiscal austerity, permanent growth seems unlikely.

Finally, Russian leaders have yet to institute the kinds of reforms that can sustain success under capitalism. Many aspects of the Russian economy are not sufficiently regulated, and corruption stemming from organized crime is extremely widespread. The banking sector, like much of the Russian economy, is controlled by a few major monopolies. Although thousands of banks are registered as private lenders in Russia, most of these banks are tied, officially, or unofficially, to one of a few major banks. This kind of system lacks transparency, encouraging systemic corruption and causing some to wonder whether the Russian banking system will suffer the same fate that befell the similarly challenged Japanese banking system in the early 1990s. If opposition politicians are successful in their push for transparency and against monopoly, international investment will likely increase, and international faith in the Russian economy will certainly increase.

2008 ended with Russia's GDP growth rate at 6%, a slight decline following a decade of growth averaging 7% or more. Russia has been moderately successful in its attempts to insulate its economy from the global financial crisis. Moscow responded to the financial crisis quickly, passing a plan that would pour more than \$200 billion into the financial markets. With Russia's economy also tied significantly to the oil markets, however, whether Russia experiences growth or stagnation will depend in part on trends in oil prices.

Politics

While the short-term economic climate in Russia appears to be improving, the political climate is increasingly troubling. Many international observers have long feared that a combination of Russia's tendency to autocracy and the weakness of the Russian state following the fall of communism would open the door for a return to a pseudo-authoritarian state apparatus. Further, these same observers have long

feared that corruption and organized crime in Russia would create impediments to true democracy. Today, both appear to be happening.

Corruption in Russian government and Russian society is widespread. Many governmental officials are allegedly diverting government and international funds for personal gain. Organized crime continues to play a large role in the Russian government. Figures with ties to the mob have, in the past few years, served in the Russian Duma. Boris Yeltsin himself had strong ties with the powerful economic actors and corruption in his administration was rampant.

Even more unfortunately, however, President Putin has revoked many important democratic reforms in his quest for political power. In almost every poll conducted over the course of the past four years, Russians have, by overwhelming margins, stated that they prefer a strong executive to a democratic system. These results may be the result of the nostalgia many Russians feel for the decades of Soviet autocratic control, a time of great power and security. Putin, like any good politician, has taken them at their word.

Putin continues to behave in a manner that, at best, suggests a distrust of democracy. First, he had his primary political opponent, Michael Khodokovsky, a Russian oil oligarch who, despite his economic power, was consistently critical of the autocratic nature of Putin's governing style, arrested on trumped-up charges. Putin claimed that the arrest was a major blow to the Russian oligarchy, but it looked much more like a keenly calculated political move. Then, Putin imposed extremely one-sided campaign restrictions on his opponent, outlawing many forms of public campaigning and making the national campaign little more than a mockery. Throughout his tenure as Russian president, Putin attempted to return the free media to state control, and to outlaw public expressions of dissatisfaction with his regime. The press has endured significant censorship, including threats (and some say act) of violence against those reporting unfavorably on the present regime. Although, under intense pressure, Putin agreed to allow a public square in Moscow to serve as a public soap-box for his political opponents, those opponents had little else to cheer about under Putin's administration.

In 2008 Dimitry Medvedev, Putin's chosen successor, was elected President with just over 70% of the vote after dubious elections. Medvedev made clear after his victory his intent to continue Putin's policies, and with Putin as Prime Minister that has not been difficult. The Russian election was highly criticized as biased towards Medvedev, with him receiving ample media coverage while his liberal opponents were prevented from even registering.

Today, little effective opposition to Putin's party, Unity, exists in Russia. Once powerful, the Communist Party is today clearly on the decline. Furthermore, fledgling pro-democracy parties such as the Liberal Party and the Reform Party, which gained increased power during the Yeltsin years, have been effectively neutralized. The future of multi-party democracy in Russia looks bleak.

Security

Russia has also faced its share of civil war and terrorism over the past few years. Supporters of Osama bin Laden and other terrorist extremists have begun to infiltrate southern Russia through now-independent former-Soviet Republics. Meanwhile, civil war in Chechnya, a province in the Caucasus region of Southern Russia, has raged off and on essentially ever since the breakup of the USSR. Putin's hard-line response to both of these challenges has increased his popularity at home, but has caused some to view him as ruthless.

Members of bin Laden's Al Qaeda network, along with other fundamentalist terrorists, have moved into southern Russia. Some authoritarian leaders in Central Asia have turned a blind eye to the terrorists, but many have attempted to court American approval by at least superficially cracking down on terrorism.

Thus, some terrorists have been looking for new hiding places, and have entered the Caucasus region. Al Qaeda may be using Chechnya and other majority-Muslim portions of Russia as terrorist bases from which they have been launching attacks on Russia.

Putin has chosen to take extreme measures to combat terrorism. In response to recent terrorist occupations of a Moscow theater and a Russian school auditorium, Putin ordered the Russian military to invade the occupied buildings. In both cases, the terrorists were killed, but not before hundreds of innocent victims were executed by the terrorists or caught in crossfire.

Another major reason that terrorists have focused on Russia is the brutal military campaign that has been waged in Chechnya. Ever since Chechnya began its quest for independence, the Russian military has attempted to subdue the province through incredible demonstrations of force. Bombing campaigns in the Chechyan capital, Grozny, have leveled that city, and the province's once robust economy is in ruins. Despite this, the rebels have continued their guerilla fight, and, as recent terrorist attacks confirm, have taken the fight into the heart of Russia.

Putin's response to the Chechyan rebels has so far been uncompromising. Although he claimed, in December of 2002, to have reached an agreement that would establish an interim government in Grozny, the rebels refused to accept the agreement because the interim leader would be directly accountable to the Russian president. At this point, the two sides appear to be at stalemate, as neither side seems interested in any compromise. Whether Putin and the Russian military are guilty of genocide, or whether the Chechyan rebels are guilty of terrorism and extremism, is open to debate.

In the meantime, Putin and Medvedev will most likely stay the course on security. Much of Putin's overwhelming popularity at home and support abroad is due to his uncompromising stances against terrorists, and thus he has ample incentive to continue hard-line policies. However, a failure of Russian policies in Chechnya, combined with more tragic terrorist attacks, could convince Putin to change his ways and seek peace.

Nuclear Weapons

The fall of the Soviet Union meant the end of the arms race. Unfortunately, it also meant the end of closely monitored nuclear weapons. Countries like Ukraine, Lithuania and Belarus all had nuclear weapons positioned within their borders when they gained independence from the Soviet Union. Many of these weapons, both in former Soviet satellites and in Russia, have decayed or disappeared over the past ten years, causing many to fear that the weapons may be stolen by or sold to terrorist organizations or rogue states. Short of these outcomes, ineffective command and control could lead to accidental launch or nuclear accidents with potentially catastrophic consequences.

Finally, much of Russia's nuclear infrastructure continues to crumble and deteriorate. The story of the famous Chernobyl reactor is a tragic one. The reactor at Chernobyl melted down, killing hundreds, contaminating the environment, and poisoning thousands of other residents of the region. Unfortunately, there are countless other "Chernobyls" out there. Crumbling reactors and lax safety standards could lead to another disaster. In order to avoid such a disaster, the US continues to fund clean up and safety testing at other reactors.

As of this writing, Secretary of State Hillary Clinton was working to get Russia's cooperation in discussing ways to secure Russia's nuclear weapons and prevent them from falling into the hands of terrorists. Compounding the issue is the US's desire to develop a missile shield based in Europe.

The Future: Could it get any worse?

The picture painted above is certainly bleak, but Russia's current political state does not have to continue into its future. Many analysts forget that Russia is in its infancy as a modern nation. Like most fledgling democracies, Russia is bogged down by corruption and a legacy of political autocracy. But as with other emergent democratic states, that condition need not be permanent. The economy is now showing clear

signs of recovery, which will tend to encourage the development of more responsive and transparent government. Russia's dependence on the international community may well help to push it down the path of democracy.

It is hard to believe that Russia will never recover from its turbulent past and present. Given the pride of the Russian people, it is likely that Russia will rise again. Hopefully, this time, there will as a free and democratic member of the international community.

Bibliography

- Mackenzie, David and Michael W. Curran. *A History of Russia, The Soviet Union, and Beyond* (1993 California)
- Woodby, Sylvia. *Gorbachev and the Decline of Ideology in Soviet Foreign Policy* (Boulder, Colo., 1989)
- Crumney, Robert, ed. *Reform in Russia and the USSR: Past and Prospects* (Champaign, Ill., 1990)
- Florinsky, M.T., ed. *McGraw Hill Encyclopedia of Russia and the Soviet Union* (New York, 1961)
- Gaddis, John L. *Russia, the Soviet Union, and the United States: An Interpretive History* (New York, 1990)
- Bendersky, Yevgeny. *Putin and Russia's Presidential Democracy*. *Eurasia Insight*: 26 October 2004.

The European Union

Jason Warren, Jesse Nathan, and Jessica Bailey

Introduction

A longstanding theme of international relations is the need to balance the interests of national sovereignty with the need to unite for common defense. The concept of governments joining together to pursue their mutual interests has spread to regional organizations throughout the globe. Members of the Asian Pacific Rim have formed ASEAN, the Association of Southeastern Asian Nations. OPEC is the Organization of Petroleum Exporting Countries. South American nations have formed a trade block called Mercosur. Arguably the most successful of these regional cooperation organizations is the European Union (EU). Initially created to coordinate the mutual interests of the European member nations, the EU has since grown in purpose, scope and size to include an assembly directly elected by European citizens, an agency that coordinates police forces, and a common currency.

Today, the European Union faces many challenges that might force the alliance apart. Some member nations believe that the EU is stable enough to expand membership to Eastern nations, others believe that the EU is too fragile at the current time to sustain expansion. Should the EU continue to rely on the North Atlantic Treaty Organization, or NATO, for its defense resources, or should the EU go it alone and develop a self-sufficient army? Is the Euro, the currency of the EU, fairing well under international pressure? This chapter will serve to explain the background of the EU, the structure that binds these nations together, and the challenges that could potentially tear it apart.

EU Member Nations

The EU is currently comprised of 27 member nations:

Austria	Germany	Netherlands
Belgium	Greece	Poland
Bulgaria	Hungary	Portugal
Cyprus	Ireland	Romania
Czech Republic	Italy	Slovakia
Denmark	Latvia	Slovenia
Estonia	Lithuania	Spain
Finland	Luxembourg	Sweden
France	Malta	The United Kingdom

Who joined the EU when?

- 1957: Founding members: Belgium, Germany (at the time, West Germany), France, Italy, Luxembourg, Netherlands
- 1973: Denmark, Ireland, UK
- 1981: Greece
- 1986: Portugal, Spain
- 1995: Austria, Finland, Sweden
- 2004: Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia
- 2007: Bulgaria, Romania

History of the European Union

Although the organization has only been called the European Union since 1993, it has existed for more than half a century. In 1951, six years after the end of World War II, European powers were still anxious

to prevent the kind of dangerous nationalism and fascism that was at the heart of the Axis countries' ascent to power and call to war. To thwart the appeal of nationalism, the victorious Western European countries attempted to align their common interests through several organizations. Three of these, the European Coal and Steel Community, the European Economic Community, and the European Atomic Energy Community, would be combined in 1967 into a single institution known as the European Community (EC). As a way to unify member nations, the EC sought to:

- Eliminate customs duties and other protective barriers concerning the export of goods between member states,
- Create a common commercial policy,
- Protect the environment,
- Create a common market among European Member nations, and
- Create a policy in the sphere of development cooperation.

The EC, however, was not nearly as unified or politically sound as the modern day organization. Following the collapse of communism in Europe and the fall of the Iron Curtain in 1990, the political landscape of Europe suddenly looked very different. With the intent of enlarging towards Eastern Europe, The Maastricht convention of 1992 sought to change the goals and priorities of the organization, and changed its name to the European Union.

Realigning the priorities of the EU (and consequently its member states) was not without its difficulties. Initially, conflict over unification arose mainly around the state of Germany. Then-Chancellor Helmut Kohl of Germany thought that European unification was the continent's best hope for mutual progress and security. He called for a "renationalization" of defense, foreign, and economic policy. Following the Cold War, Germany favored European unification to avoid hostility from neighboring countries. Having just secured the unification of East and West Germany, Kohl believed that this cohesion would serve as a catalyst for the formation of a full-fledged European Union. Yet Germany's push for unification on the continent was initially met with apprehension. In the minds of many Europeans, the image of Germany attempting to unite the continent under a single governing body harkened back to the extreme nationalism that took hold of Germany under Hitler – the very thing the EU was designed to safeguard against. Other nations, particularly France and Great Britain, feared that a unified Germany would seek to expand its power base just as it did under Hitler before and World War II. Furthermore, both of these nations were protective of their national sovereignty, or the ability for a state to govern itself without outside interference. John Major, the Prime Minister of Britain, and Francois Mitterand, the president of France, were both concerned that a stronger European Union would infringe on their power.

In the end, however, France decided that it would indeed be in their best interest to allow for a stronger European Union. At the time, all French currencies were tied to the deutschemark of Germany, since Germany was a major economic powerhouse. For the French, this meant that the French economy was at the whim of German policies. Whenever the German bank changed interest rates, devalued their currency, or made some other economic move, France would be equally affected even if the government did not agree with the decision of Germany. Thus, France backed the European Union in the hope that it could eventually lead to the creation of a European central bank.

The Maastricht Treaty of 1993 solidified the European Union by deepening and widening EU objectives, largely on the strength of Germany's enthusiastic lobbying. Aside from creating additional institutions such as the Court of Auditors and the Committee of the Regions, the EU set 3 "pillars", or goals, for the EU to achieve:

1. Enhanced economic power through cooperative development.
2. Unified foreign policy that is satisfactory to all concerned.

3. Joint efforts to protect the security of EU citizens and provide an impartial forum for hearing disputes.

Not everyone, however, was ready to join in a collective economic and foreign policy. A social charter within the Maastricht Treaty allowed any member nations to exempt themselves from joining the European Union. Some nations viewed the economic requirements of joining or maintaining monetary membership as too cumbersome. Britain (under the leadership of John Major) and Denmark both elected to opt out of the economic union when the treaty first went into effect.

A Common Currency

Two years following the creation of the European Union, the entire continent hit a major recession that devastated the economies of member nations. Unemployment skyrocketed throughout the EU and foreign investment plunged as Asian and Latin American nations attracted more and more investors. This recession left European Union members wanting an even stronger union that would significantly increase the economic power of member countries. Thus, EU members started to contemplate the formation of a European Monetary Union, also known as the EMU. However, the EU was still experiencing problems with nations not willing to fully concede their political power to the collective whole. There was still a great deal of resentment among members that the EU was too powerful for its own good. There were several reasons why nations were apprehensive about the foundation of the EMU and establishing a common currency.

First, the formation of the EMU would require nations to become reliant upon its economic policies. If the Euro, the common currency, failed, it would be extremely difficult to go back without major economic disruption. Nations would be forced to resume governance of their monetary policy after a failed Euro altered their policies.

Second, from a political perspective, member nations might try to manipulate one another after joining the EMU. Although prohibited by EU regulations, member nations were suspicious that fellow members would erect trade barriers, such as tariffs and quotas, to protect themselves from free trade. If the EMU were to dissolve, it would leave a great deal of antagonism among members.

Third, EMU policies would dictate greater levels of labor mobility (the ability of a worker to find a job in any EMU member nation, regardless of the national origin of such individual), as well as more freedom concerning financial transfers. It was unclear who would enforce these laws to make sure that all members are following them equally.

However, there were many advantages to establishing a common currency. Five such advantages stand out in particular:

1. A more efficient single market is created allowing for trade to go uninterrupted.
2. Better borrowing conditions and a single currency reflecting a unified monetary policy would stimulate growth and employment.
3. The costs associated with currency conversion among member states would be eliminated.
4. Greater international stability would be achieved as the new currency would be on an equal footing with the dollar and the yen.
5. With capital flowing freely between interdependent economies, individual national monetary policies were rarely effective. The EMU would serve to facilitate and coordinate fiscal policies to adequately address challenges that would arise against the Euro.¹³

¹³ "Introducing the single currency: Commission calls for discussion and action"
<http://europa.eu.int/en/agenda/emu/isc1.html>

Thus, the formation of the EMU came about in three stages:

First, European political structures were reformed through the Maastricht treaty to allow for greater political coordination and integration, which in turn laid the groundwork for the EMU.

Second, the European Monetary Institute was created on January 1st, 1994. The EMI was intended to strengthen cooperation among banks and monetary institutions and to help implement the necessary monetary policy to facilitate the Euro. In order to assist in these duties, the European Central Bank was established in June 1998.

Third, the EMU adopted the Euro as a multinational currency, and in so doing took a major step to integrate the economies of the various EU member states.

One of the more difficult aspects of this task was determining the exchange rate between the yet-to-be-created Euro and the national currencies. The Euro was initially introduced in electronic form only, while the national currencies' bills and coins were phased out. By 2002 the Euro was the only currency of participating states in either cash or electronic form.

Not every nation within the European Union wants or qualifies to participate in the "Eurozone," the term applied to the EU member states who have adopted the Euro as their the currency. Before a nation can join the European Monetary Union, they must meet 6 requirements known as convergence criteria:

1. The country's currency must not have been devalued in the previous two-year long application period.
2. The budget deficit of the applicant country cannot exceed 3% of that nation's gross domestic product, or GDP. GDP is an economic performance measure made up of the market value of all the goods and services produced in a country throughout the year.
3. The inflation rate of the applicant cannot exceed the inflation rate of the three best performing countries currently in the EMU by more than 1.5%. This measure not only ensures that the prospective member nation is stable, it prevents wide fluctuation between the strengths of the individual currencies which the applicant states with to integrate.
4. Public debt cannot exceed 60% of GDP. This stipulation basically requires that the total amount of money a country owes must be less than 60% of what it makes in a year.
5. Long term interest rates must not exceed the long term rates of the three nations with the best inflation performance by more than 2%.
6. Exchange rates must be consistent with the rest of the union.

Expansion of the Common Currency

Shortly after the introduction of the Euro, the EU stopped using the name EMU to refer to the group of nations adopting the Euro, and instead began calling it the Eurozone. Currently the Eurozone has 17 members: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Spain, and the United Kingdom. Greece and Sweden have not met the above criteria and thus cannot become part of the Eurozone.

The criteria for joining and remaining a member of the Eurozone poses many challenges. Of them, the hardest requirement to meet and maintain is the first: member nations and applicants must significantly limit spending in order to join the European Union. Toward the conclusion of 1999, Germany was facing several problems with unemployment throughout the nation. In order to address the problem, citizens insisted that the government spend more money in order to create jobs. However, Germany had already spent a great deal of their budget. Gerhard Schroeder, chancellor of Germany, was reluctant to spend

additional funds for it could mean that Germany would not be in compliance with the convergence criteria. This example serves to highlight the debate over monetary sovereignty.

A second challenge that the Eurozone faces is competing with other international currencies, the dollar and the yen in particular. When the Euro was first introduced to world markets in 1999, foreign investors were highly wary of investing in the new currency. As a consequence, the Euro quickly slipped into a distant third to its American and Japanese counterparts in terms of international value. As the Eurozone attempts to expand, the stability of the Euro will be a paramount concern. Eastern expansion into undeveloped markets could further decrease investor confidence and cause the Euro to become more volatile. Today the Euro's competitive position against most foreign currencies is fairly strong.

The benefits of monetary union are many. Initially, trading with one currency throughout a particular region makes monetary transactions quicker and cheaper since member nations do not have to worry about currency conversion. This allows capital to flow quicker throughout the monetary union, and thus financial transactions take place quicker. Secondly, a higher degree of transparency is achieved between and within member nations. Operating under one monetary policy makes it extremely difficult for a member nation to attempt to undermine the efforts of the group through corrupt practices or other underhanded means. Because monetary policies must be publicly announced and implemented, foreign investors feel that the Eurozone is more stable and worth supporting financially. Finally, free trade is a major advantage of Eurozone membership. Manufacturers in Eurozone nations are not confined to just domestic markets, nor are they subjected to protectionist measures by other members. The free flow of goods between states makes trade easier and markets more accessible. Such trade is expected to expand beyond the European continent, as Mercosur, a South American trading group, is currently negotiating with the Eurozone to create a free trade block. The EU and Mexico also signed an agreement allowing for more free trade in the future. Thus, Eurozone membership facilitates free trade regionally and internationally.

With more open markets and easy access to trade, mergers are becoming rampant throughout the European Monetary Union. In 1999 alone, the value of mergers more than doubled from the previous year to a total value of 1.2 trillion dollars, just over one third of the total amount of mergers world-wide.¹⁴ While the economic benefits of freer trade are well documented, the increasingly transnational nature of European business creates difficult regulatory challenges for both the EU as a whole and individual member states.

Now ten years old, the success of the Euro is unquestionable. It is the second most traded currency in the world after the US dollar, and the Eurozone is the second largest economy in the world. How it weathers the 2008-2009 recession will depend largely on whether its member states can reconcile their interests and balance their weaknesses to act with a single voice.

Recent History

Growth of the Euro has continued, and, in 2003 it was rivaling the dollar in strength as the EU's credibility and size promised to continue growth. Additionally, in 2004 several new members (see above) were added to the Union, adding significantly to its economic strength. In turn, this increase in economic strength can be correlated with a corresponding increase in political clout, especially as the European Union moves to include members who were formerly part of the Eastern European bloc of nations, traditionally considered part of the sphere of influence of Russia or the former Soviet Union.

Structure: How does the European Union work?

The European Union consists of several different institutions that work together to create policy.

¹⁴ "How Mergers Go Wrong" The Economist July 22, 2000

The European Parliament

Serving as the largest multinational parliament of the world, the European Parliament is unique among intergovernmental organizations. In other associations, like the UN, the governments of member nations decide who will represent that nation. In the European Parliament, delegates are elected directly by the citizens of member-states. As a result, the European Parliament is held directly accountable to the people of Europe, not just the governments.

Furthermore, individual citizens are allowed to petition the Parliament on matters that fall within its jurisdiction. While the Parliament has general legislative authority, it is specifically charged with control over the EU's budget and supervision of the executive organs of the Union. The Parliament works cooperatively with the European Commission and the Council to come to a consensus on policy making. The highest level of legislative authority that the Parliament exercises is known as Parliament's Assent, which is when all three (the Commission, Council, and Parliament) come together to make decisions on large issues, such as the possible addition of new member states. Terms in the Parliament run five years.

Council of the European Union

Also known as the Council of Ministers, the Council of the European Union serves to create policy with the European Parliament. The president of the Council is responsible for arranging and presiding over EU meetings, helping to find pragmatic solutions to problems presented before the EU, and enforcing the decisions made by the Union as a whole. In its early days, the presidency of the council rotated every six months. Since 2007, the presidency has been more of a cooperative arrangement known as Trio presidencies, where three successive presidents work together over a one and a half year period to accomplish a common agenda by the current president picking up where the previous left off. The upcoming presidents of the EU are:

Sweden	July 1, 2009- December 31, 2009
Spain	January 1, 2010- June 30, 2010
Belgium	July 1, 2010- December 31, 2010
Hungary	January 1, 2011- June 30, 2011

On some issues, such as internal market reform, consumer affairs, education, and health development, the Council must work in conjunction with the Parliament before change can be implemented. In other cases, such as agricultural issues, environmental protection, foreign affairs, and transportation to name a few, the Council can take action without the authority of the Parliament. Bear in mind, of course, that these initiatives require money, and the Parliament ultimately decides on the budget of the European Union. The voting procedure for the Council is weighted by state size, with Germany, France, Italy and the UK holding the most votes with ten each, and Luxembourg holding the smallest number of votes with two. The entire council is comprised of 87 votes, but only 62 are necessary to be cast in favor in order to approve a proposal.

Court of Justice

Individuals, companies, EU institutions, and member states can bring a case before the Court of Justice when they feel a wrongdoing has occurred. The goal of the Court of Justice is to interpret and enforce the current law as it is set forth in the various treaties that form the European Union. On September 1, 1989, a Court of First Instance was created to assist the Court of Justice. This court has the jurisdiction to deal with cases in which individuals or companies wish to challenge the actions or decisions of EU institutions. These decisions can be appealed to the Court of Justice. The Court is comprised of 15 members and 9 advocates general who are appointed by member states for renewable terms of six years.

These judges then elect a President of the Court, who is up for reelection every three years. The Court of First Instance has the same composition without the advocates general. Only two types of cases are brought before the Court of Justice: direct actions and preliminary ruling. When the European Commission, a EU Institution, or a member state wishes to bring a case to the court, it is known as a direct action. A preliminary ruling is a request by the court of a member state for an interpretation of EU law in order to provide a judgment in the member nation. The Court of Justice is not instituted to veto or overrule the courts of member governments, but help correctly apply EU law.

The purpose of the Court of Justice is to provide judgments concerning community law in the European Union, not to meddle in the domestic affairs of member nations.

There are three other institutions which comprise the EU but which are less prominent than the institutions listed above.

Court of Auditors

Simply put, the Court of Auditors represents the taxpayers of the European Union and ensures that the European Union spends its money according to set guidelines, and that money is spent for the purposes for which it is intended. It is the belief of the Union that taxpayers be able to see that the money of the Union is being managed responsibly and that no funds are squandered or wasted. Thus, the Court of Auditors provides a level of transparency, and confidence, in the Union.

European Ombudsman

The European Ombudsman is the organ of the EU that investigates citizen complaints about the other institutions and bodies in the EU.

European Data Protection Supervisor

With the least sexy name of all the institutions, in the information age, the Data Protection Supervisor (EDPS) actually performs one of the most important functions in the EU. The EDPS is an independent arm of the EU with the responsibility of monitoring the EU's processing and storing of personal data and cooperating with similar authorities to maintain consistency of data protection. As the reach of the EU expands more fundamentally into the everyday lives of European citizens, particularly in the information age, the role of the EDPS will become increasingly significant.

Challenges of the European Union: A Look Ahead

The EU faces many challenges in the coming years, many of which implicate the stability of the organization and its future success.

Expansion

With the introduction of the Euro a success, there is little doubt left about the benefits of EU membership. In June 1993, the Copenhagen European Council helped to establish criteria by which other nations may join the European Union, which came to be known as the Copenhagen criteria. Basically, applicant countries must meet three requirements:

1. Political requirements. The country must have a stable democracy that guarantees that the basic rights of citizens will be protected (particularly with regard to human rights abuses and the rights of marginalized groups) and that the rule of law will be enforced.
2. Economic requirements. Each applicant must have a stable free market economy and be compatible with the economies of current member nations.
3. Incorporation of the Community. The applicant must adhere to the aims of the European Union and pledge to help the EU achieve those goals.

The process to get into the European Union is a long and laborious one, as the most recent members (who joined in 2007) could probably attest to. The Council, by a unanimous vote, must agree to open negotiations with the applicant country. Once the Council has determined that the applicant has met the above criteria, all member nations must then ratify the agreement before the applicant can become a member. This clause was the primary concern of Turkey, an applicant nation who was afraid that Greece would not allow them into the European Union (since it only takes one veto, Greece could have easily prevented membership. Greece has recently pledged to support Turkish ascension to the EU). Turkey has yet to make enough political and economic reforms to fully comply with European Union requirements, and thus has not yet achieved EU membership.

As if the dynamics of European Union expansion were not complex enough, the debate as to whether or not the EU is ready to expand is becoming a heated one. Critics have claimed that the current structure of the European Union is inefficient enough as it is, and that adding more members would only complicate matters. Each member nation is entitled to seats on the Parliament. The larger Parliament becomes, the less likely it is that the proportion of votes necessary to pass a certain measure will be achieved. Furthermore, many of the applicant nations are still experimenting with democracy. Internal reforms in these nations are trying to ensure that free and fair elections are maintained, but allegations of internal corruption still run rampant. What happens when elections must be held to determine national representatives to the European Parliament? Some believe that applicant governments cannot be trusted to report election results fairly and accurately. Most importantly, an East-West divide could be created in the European Union that some fear might threaten its cohesion. Western economies, such as Germany and France, are stable enough to try to expand their international trading efforts. Many Eastern European nations, however, are still trying to develop their fledgling economies. It will be a politically difficult task to reshape existing trade policies that are highly protectionist. Nationalistic pressures in Eastern European nations could further be inflamed due to the perceived and actual loss of national sovereignty. Each of these risks constitutes a significant barrier to expansion.

However, there are benefits to EU expansion. Some applicants are still struggling to implement democratic reforms. Granting membership gives current member states a stronger voice in the domestic politics of nations who continue to have difficulty implementing democratic reforms. The political cohesion associated with EU membership may serve as a boon to local democratic reformers and serve as a mechanism to level external pressure on governments which are resistant to change. When Greece, Spain, and Portugal first entered the European Union, full fledged democratization had not been realized. EU membership, once it was extended to these nations, pushed those nations toward more fully democratic political institutions.

Further, once in the Union applicant nations would also find it easier to trade and receive economic aid from the West. As a member of the common market, it would be easier for Eastern European nations to purchase the technology they need to become more competitive in the global market.

With new parliamentary elections in June 2009, the question on the horizon for the EU is whether the international organization can balance the challenges facing individual member states and the concerns of the union.

A European Military

Currently member states are responsible for their own national defense. When NATO, the North Atlantic Treaty Organization, was first founded in 1949, its primary purpose was to protect Western, democratic nations from the expanding influence of the Soviet Union. Ever since the USSR disintegrated in 1991, however, many have questioned the purpose and future role of NATO. The conflict with Slobodan Milosevic in Kosovo brought serious doubt to the need to maintain NATO. The United States currently

contributes more than half of the troops and money needed to run NATO, causing EU members to discuss the need for their own, separate military. While some see the move as unnecessary and provocative, others see the creation of an independent European military as essential to European self-reliance.

The idea of the EU forming their own defense force that would operate separately from NATO was first raised at a conference held in 1998 in St. Malo, France. Kosovo forced member nations to realize how truly dependant they were on American forces, which is why the Helsinki Conference in December 1999 found EU members resolving to form a 60,000 man “reaction force” to conduct missions similar to ones in Bosnia and Kosovo, without American assistance. The EU has already made moves to try to construct this defense force: Several committees have been formed in order to facilitate the process.

The underlying theme as to why the EU may be motivated to develop its own military is that an independent military would allow the European Union to act regionally and internationally without the consent of the United States. The EU could address internal and external problems without drawing on the resources of the U.S. That said, many fear that an independent European military would increase tensions with the United States and reduce the need for international coordination of defense policy. It is also not at all clear that Europe is willing or able to spend the resources necessary to create a military force sufficient to address any global military necessity of great significance without the aid of the United States. Lastly, many question whether there is actually a need. While the United States and Europe have certainly had their differences over matters of military policy, the two regions are culturally and economically interdependent such that actual military confrontation between the two seems exceedingly unlikely. As long as the United States is willing to bear the costs of being the world’s superpower, why not let it? As you can see, the issue is not likely to be resolved in the near future.

National Sovereignty

The ongoing tension in any attempt at regional integration is the conflict between the sovereignty of the individual nation-states and the power ceded to the organization as a whole. Traditional conceptions of international relations enshrine the nation-state as the central actor of global politics, and international law is largely premised on this assumption. The ability of nations to legitimately surrender some measure of their sovereign power to a transnational institution, and the rights of the national governments vis-à-vis other member states are still conceptually murky and continuously evolving.

With its common currency a resounding success and most of its growing pains behind it, it is likely that the European Union will continue to grow steadily in political importance for the member states and economic strength. With its economic security intact, the future of the EU will be shaped by its ability to adapt to the global recession and meet the unique security challenges posed by international terrorism, among other issues. If the member states can keep their common interest in sight, the EU is likely to succeed.

Bibliography

- The Financial Times of London- www.ft.com: Think of the Financial Times as the New York Times of England. (Great insight into the fluctuations of the Euro, and excellent coverage of events going on in the European community.)
- The Economist- www.economist.com: The Economist online has resources for subscribers and non-subscribers alike. For those who
- “Austria plans autumn referendum on EU sanctions” [CNN Online](http://www.cnn.com) July 4, 2000
- The Tocqueville Connection- www.ttc.org: Also providing links to the French Press Review, The Tocqueville Connection is a great source for insight on the French perspective of European politics. Also has unique commentary concerning outside foreign affairs.

- The Guardian Unlimited- www.guardianunlimited.co.uk: Keep in mind that this does come from the perspective of Britain. However, it still provides an interesting perspective on regional and international actions.
- The EuroTimes- <http://www.ireland.com/eurotimes/index.htm>: Published with the Irish Times, the Euro Times is exclusively published to report on the activities and decisions of the European Union.
- Le Monde Diplomatique- <http://www.monde-diplomatique.fr/en/>: Published on a monthly basis, it is an excellent source of news not just on the European Community, but for international politics as a whole. A premier analysis source if you can use it in a round.
- John C. Hulsman, "The Guns of Bussels," Policy Review, June/July 2000, p. 35-51.
- Samuel P. Huntington, The Third Wave: Democratization in the Late Twentieth Century, Norman: University Oklahoma Press, 1991.
- John Newhouse, Europe Adrift, New York: Pantheon Books, 1997.
- Elizabeth Pond, The Rebirth of Europe, Washington DC: Brookings Institution Press, 1999.

Israel & Palestine

Inbal Alon, Jesse Nathan, and Jessica Bailey

Introduction

The seemingly intractable Israeli/Palestinian conflict is one of the bloodiest, longest lasting, and most costly in history. The dispute began with the creation of Israel as a Jewish homeland after WWII, but the history of people involved in the creation of Israel and the current conflict goes back much further than the 52 years Israel has been in existence. The chapter will start around the time of the creation of Israel but it is suggested that you know a little bit about the history of the region, which goes back to biblical times.

A Brief History of the Israeli State

Israel is one of the world's youngest nations. With only 52 years in existence, many of the current issues in Israel originate from the creation of the state.

Situation Leading to the Creation of Israel

Though the history of the people who eventually settled Israel goes back to biblical times, the establishment of Israel as a Jewish homeland seemed a remote possibility until 1917. At that time the British controlled the land known as Palestine, home of both Arabs and Jews. In November of 1917, the British signed the Balfour declaration, a document promising to "secure an establishment of a Jewish National Home" and recognizing the "historical connection of the Jewish people with Palestine." The Balfour declaration was an agreement between the British and the World Zionist Organization (WZO), a group founded in August 1897 at the First Zionist Congress called by Theodor Herzl. The movement, named after Mount Zion in Jerusalem, was created with the goal of establishing a home for Jews in Palestine. The Balfour declaration recognized the WZO and created the Jewish Agency, a branch of the WZO responsible for bringing Jews to Palestine.

By far the most important consequence of the Balfour agreement was the unification and organization of Jews determined to create a new state. Ben Gurion, later the first prime minister of Israel, organized a large community called the Yishuv. While Jews were unifying, Arabs in Israel were going in the opposite direction. Two opposing families appointed by the British, the Husaynis and the Nashashibis led the Arab community. The British patronage system competed with the traditional Islamic ties, which ruled during the Ottoman Empire. Along with political frustration, depression pushed many Arabs to the coastline and created an opposition to the Husaynis and the Nashashibis. Depression and fragmentation pushed the Arab people to sell their land to Jewish settlers. The shift of land ownership to the Jews only caused Arabs to fragment even more. The situation changes in 1936 when Palestinian Arabs revolted. Britain was preparing for the possibility of another war and did not want to spread its resources and deal with the Palestinian revolt. In May, 1939, the British ended the Palestinian Revolt by publishing the White Paper, a document ending British commitment to the Jews and providing for the establishment of a Palestinian Arab state within 10 years.

These two documents are important because they show the determination of both Jews and Arabs to secure a homeland, and also explain why each side feels it has been wronged. The territory of Palestine is the ancestral homeland of both groups, and was promised to both groups. That promise would prove impossible to fulfill.

The situation changed again after World War II, when millions of displaced European Jews had no place to return home to. With the deaths of six million Jews weighing heavily on the European conscience, there was significant pressure on Britain to devote at least part of its mandate in Palestine to the creation

of a Jewish homeland. A UN special commission recommended dividing Palestine into an Arab and a Jewish state, with the holy city Jerusalem to be put under international administration. Mutual antagonism made any chance of a compromise impossible.

Independence

By 1947, Palestine had become a hot spot in the British Empire, requiring more than 100,000 troops and a major financial commitment. The British decided to hand over the problem to the United Nations. On May 15, 1947, a special session of the UN General Assembly established the United Nations Special Committee on Palestine (UNSCOP), consisting of eleven members. UNSCOP supported a plan that would divide Palestine into separate Arab and Jewish states, and create a special international status for Jerusalem. The Zionist Great Council expressed its willingness to support the resolution but did so unenthusiastically. The League of Arab States Council promised to take any measures to prevent implementation of the resolution. Violence broke out between Arabs and Jews as the international community went back and forth on what to do next. On May 14, 1948, in the midst of violence, Ben Gurion proclaimed the establishment of the state of Israel, with himself as the first prime minister. Within a few days, fifty-three nations, including Britain, the Soviet Union, and the United States recognized Israel. By the end of May, Israel was admitted to the United Nations.

Independence and the war that followed left many issues between Arab Palestinians and Jews unsolved. Many Palestinians still demand their own state with the same borders as described in the UNSCOP.

Independence War

On May 15, 1948 Arab military forces began their invasion of Israel. With troops from Egypt, Syria, Lebanon, Jordan, Iraq, Saudi Arabia, and Yemen, Arab forces out-numbered Israeli forces. By October 1948, the Hajj Amin al Husayni, the then current leader of the Husayni family, gathered troops and created the Palestine Liberation Force, later an important member of the Palestine Liberation Organization (an umbrella organization for Palestinian resistance groups). Israel, lacking an organized army, defended itself by using all the independent defense forces, which defended the Yishuv, such as the Hagannah and Irgun. By January 1949, Jewish forces held the area that would define Israel's territory until 1967, an area much larger than the UN partition plan. The parts of Palestine remaining in Arab hands were the Gaza Strip, which belonged to Egypt, and the West Bank, which belonged to Jordan. Jerusalem was divided with Jordan holding the Old City, which includes the Western Wall, the Holy Jewish site of Solomon's temple, and the Sacred Muslim Dome of the Rock. The UN negotiated an armistice signed by all nations involved except for Iraq. During the independence war many Palestinians escaped to Israel's borders such as the Gaza Strip and the West Bank.

Today, Palestinians still claim Israeli forces pushed them off their land, while Israelis say Arab nations encouraged Palestinians to relocate so they weren't in harms way during the war. The questions of who is responsible for caring for the refugees created by this war and whether they should be allowed to return to Israel is a sticking point in diplomatic processes to this day.

Problems of the New State

The War of Independence was extremely costly. Israel faced numerous challenges in the effort to stabilize the nation. Problems included absorbing of thousands of new immigrants, creating defense forces, keeping a war-torn economy afloat, and managing foreign policy alignments. To deal with all these problems, Ben Gurion set up a Provisional Council Agency with himself as prime minister. Chaim Weizmann became president of the Council, a role that Ben Gurion planned as mostly ceremonial. The Provisional Government held elections to form the Constituent Assembly, the Knesset. With a government in place, Israelis undertook the hard work of building a nation.

Mass Immigration and a New Society

In its Declaration of Independence, in 1948, Israel was called the homeland of all Jews, giving every Jewish person the right to live in Israel. Soon after, Israel became a true immigrant society. In only twelve years Israel received 1.2 million immigrants from many countries, including India, the United States, Morocco, Russia, Ethiopia, Canada, Iraq, South Africa, Yemen, Peru, and France. Zionism, the concept of bringing Jews to the state of Israel where they can unite and develop a sense of pride, held this immigrant society together as the new immigrants discovered their diverse society must deal with many divisions.

Religious Divisions

Judaism is not a monolithic cultural entity. Israelis can categorize themselves as *dati*, religiously observant, and *lo dati*, not religiously observant. The groups can be further subdivided.

Within the Orthodox or *dati* category there are ultra-Orthodox Jews and neo-Orthodox Jews. Ultra-Orthodox Jews, or *haredi*, adhere strictly to religious law and criticize Zionism and the state of Israel for neglecting religion. These Jews are exempt from compulsory military service. Often they live in their own neighborhoods and maintain their own schools, courts, and institutions. In recent years, religious parties have demanded federal funding for such private and religious institutions.

Neo-Orthodox Jews, often referred to as Orthodox Zionist, also follow strict religious law but are more integrated into society at large. They share a commitment to Israel as a state and participate in the army and other institutions. Neo-Orthodox Jews have been included in many political coalitions.

Within the non-orthodox category a few more distinctions can be drawn. Reform and Conservatives Jews have introduced some modifications to religious laws and believe in rational and ethical behavior. Many Reform Jews live in the United States and Europe. Reform and Conservative Jews are not recognized by the Israeli Chief Rabbinate. The last group includes people who consider themselves Jewish but do not follow religious law strictly and usually only practice Judaism during the holidays. This loosely religious group is actually the majority of the population.

The different levels of religious following in Israel have caused some political and social problems. Socially, the orthodox Jews believe in censoring many products and services that they find unethical according to Jewish law, while other people believe Israel is a secular state that should continue to allow freedom of the media. Politically, many strictly orthodox groups have formed political coalitions in attempts to institute religious laws. The struggle between religious and secular parties has caused turbulence in Israeli politics.

Jewish Ethnic Groups

As mentioned before, Judaism is by no means monolithic; it includes people from over 103 countries who speak over 70 languages. As people immigrated to Israel and ethnic groups interacted, certain challenges arose.

As soon as immigrants arrived to Israel there were categorized into ethnic groups. The most important distinction is the Ashkenazi-Oriental distinction. The Ashkenazim people trace back their origins to northern and eastern Europe and recently the United States. The Oriental group includes African and Asian Jews and also encompasses Sephardim. The Sephardim are Jews from the Mediterranean, Balkan, Aegean, and Middle East regions. Ethnic distinctions have developed into socioeconomic differences. The Ashkenazim, who immigrated to Israel during the first immigration wave, owned most of the land and were highly educated. On the other side, the Sephardim tended to be underprivileged. Transition camps were set up which located most Sephardim as farmers in undeveloped regions of the new state, which helped to cement the social and economic gaps between different ethnic groups in Israel. Aspirations for an egalitarian society gave way to the reality of turbulent social divisions, not only with Israel's Arab neighbors but also among its own ethnic groups. Eventually, ethnic differences led to

political changes. In the 1970's a generation of Moroccans organized the Black Panthers group, which demanded equality of opportunity in education and employment for all Israeli citizens. As Oriental Jews increased in numbers and became the wide majority, talks began of a second Israel, or in Hebrew Israel Shniya. The New Israel would be ruled by a new party, replacing the Labor Party, which had been in control since the founding of Israel. Menachen Begin and his Herut Party, later turned to the Likud Party, stepped to the plate and won the May 1977 elections. This changing of the guard was evidence of the continuing ethnic tensions within the state of Israel.

Arabs: Problems Within the New State

After the war for independence, about 750,000 Palestinian refugees settled at Israel's borders, primarily in the two territories of Gaza (which at the time belonged to Egypt), and the West Bank (which at the time belonged to Jordan). 170,000 more Palestinians remained in Israel and gained citizenship. According to the Declaration of Independence, all Arabs who became Israeli citizens gained social and political equality. However, soon security threats and terrorist acts caused the Israeli government to restrict the freedom of Arabs left in Israel, despite constitutional guarantees of equality. Land was confiscated from Arabs and given to Jewish immigrants. Judaism, not Islam, was integrated into daily life and some aspects of the law. Economic aid was directed to Jewish citizens, and certain predominantly Arab regions were placed under military government. Arabs in Israel suffered from a lower standard of living and a lack of economic opportunities.

One of the most difficult aspects of living in Israel as an Arab citizen was the lack of identity. The Arab world condemned Arabs who chose to become Israeli citizens by calling them "Judaized Arabs." At the same time, Israelis patronized local Arabs by calling them "Our Arabs." In a search for an identity, many Israeli Arabs joined the Palestinian Liberation Organization (PLO). Despite this hostility, Palestinians became largely dependent on the Israeli government for basic public services. The Israeli government also promoted internal segmentation between Arabs by treating some ethnic groups more favorably than others. In December of 1987 Israeli Arabs living in the Gaza Strip started the Palestinian Uprising, also known as the Intifadah. The uprising, which is still going today, includes throwing stones, explosions, and attacks on Israeli soldiers. The Intifadah truly represents all the problems between Arabs and Israelis that date back to the creation of the state.

War, what is it good for?

Israel has a long history of armed conflict with its neighbors. Below are several of Israel's major military engagements over the short course of its existence.

The Six Days War

In 1967 Israel launched an attack on the air forces of Syria, Egypt, and Jordan. In only six days Israel occupies the Sinai Peninsula, West Bank, Golan heights, and the rest of Jerusalem. The new territories more than doubled the size of pre-1967 Israel. The successful performance of the Israeli defense Forces released a wave of Israeli nationalism. The Palestine Liberation Organization emerged as a response to Israel's victory and as a method of representing the Palestinian people who remained under Israeli control.

Yom Kippur War

On Yom Kippur, the Jewish Day of Atonement, of 1973, Egypt and Syria attack Israel by surprise. In the south, Egyptian troops crossed the Suez Canal. In the north, Syrian troops reached the Golan Heights. Then, on October 10th, the tables turned when Israeli forces pushed Syrian defenses to the outskirts of Damascus. The Soviet Union responded by making a massive airlift to Damascus. At the same time the United States made an equally large airlift to Israel. In the south, Israeli forces led by Ariel Sharon recapture the Sinai. Israel stayed on the defensive until a UN sponsored ceasefire ended the conflict.

1982 Invasion of Lebanon

Convinced that it could stop terrorist actions which originate in Lebanon, Israel occupied southern Lebanon with help of Christian militias from within Lebanon. By creating the Southern Lebanon Army, Israel remained in Lebanon until the year 2000, when Ehud Barak decided that too many lives were lost and that by not letting Syria play the Lebanon-card in peace negotiations, Israel would gain an advantage. The pull out from Lebanon was catastrophic. Many members of the Christian militias were killed by Hizballah forces.

2006 Invasion of Lebanon

In response to rocket attacks from inside of Lebanon, Israel invaded the southern part of that nation in the summer of 2006. Those responsible, principally the Islamist organization Hizballah, proved difficult to catch or defeat, however. With both international and domestic political pressure mounting, and the death toll of both Israeli soldiers and Lebanese civilians rising, Israel was ultimately forced to withdraw despite having accomplished few of its strategic objectives.

Many of Israel's wars do not end with the ceasefire. The effects of the wars still cause political tensions within Israel and with its Arab neighbors. Perhaps the greatest tragedy of the Middle East is that none of its wars have been resolved and a cycle of violence and tension continues.

National Security

Surrounded by enemies, Israel has developed a remarkable defense system. A brief overview is warranted.

The Israeli Defense Forces (IDF)

The army is vested in the command of the government through the minister of defense. The IDF is composed of a ground force, a naval force, and an air force. Military service in Israel is mandatory beginning at the age of eighteen for male and female residents. Conscription has turned the IDF to a way of life in Israel. Everyone goes through the army, and today it is viewed by many as a necessary stepping stone to adulthood. The IDF has also become an educational program that helps Israeli youth receive education. The IDF is so integrated into Israeli life that many important politicians in Israel were at a certain point important generals.

Nuclear potential

Israel has been involved with nuclear weapons since the day the country was created. In 1955, under an agreement with the United States a research reactor was built at Nahal Soreq. With assistance from the French, Israel constructed a natural uranium research reactor in 1957. In 1974, a Central Intelligence Agency report showed that Israel already produced nuclear weapons. By 1982, according to a United Nations Study, Israel has the capability to produce a large number of nuclear weapons. Officially, Israel never confirms nor denies any information about its nuclear status. The government of Israel did promise that it will not be the first to introduce nuclear weapons into the Middle East. Israel invests in its nuclear status for the concept of deterrence.

The Arab Military Threat

Because Israel is surrounded by hostile neighbors it must always be on guard. The Israeli defense mechanism focuses on two important threats: dormant threat and extensive threat. **Dormant threat** is the continuous Israeli-Arab struggle for survival. Israeli officials believe that even one military loss would mean the end of the country. Thus, the national defense forces have to be ready at all time to save the country. Even when not engaged in combat with its Arab neighbors, Israel maintains that what former General and Prime Minister Yitzhak Rabin calls a "dormant war" could erupt any day. **Extensive Threat** is the possibility that every Arab county is a potential member of a unified Arab coalition that could

attack Israel at any time. To confront this extensive threat, Israeli Defense Forces must be able to defend Israel not only against a single Arab attack but also against a combined attack from all borders. The concept of extensive threat is used by the Israeli government to justify its constant need for military aid from the United States.

Terrorist Groups

Terrorism has had a lasting impact not only on national security but also Israel's political system. The two main terrorist groups operating in and around Israel are Hizballah and Hamas. Hamas, also known as the Islamic Resistance Movement, works mostly from within Israel, specifically from the Gaza strip. Hamas leaders believe that the PLO should not compromise with the Israeli government and claims the entire state as a Palestinian nation. Hamas tends to take action either as vengeance for an action committed by the Israeli army, or as a disturbance in time when peace talks seem to be moving in the right direction. Hamas is one of the leading forces behind the Intifadah and the Palestinian uprising which started in 1987. Israel allowed the Hamas to participate in the 1988 elections with hopes that a political channel will stop the violence, but thus far attempts at political integration have been unsuccessful. Hizballah, also known as The Party of God, is located in Southern Lebanon, which is one of the reasons Israel has invaded the region twice.

Hizballah is supported by Iran which supplies its funding and weapons. Much like the Hamas, Hizballah does not believe in any compromise with Israel. Both terrorist organizations have strongly criticized the PLO for negotiating with Israel. Many people assume that many peace talks ended in failure due to Yasser Arafat's fear that a compromise with Israel would cause the end of his political career. Both terrorist groups have a strong social and political hold on the Arab and Israeli communities. Hamas in particular developed enough political clout to supplant the PLO as the governing political party of the Palestinian territories.

Less known are the Jewish terrorist groups. A few small Jewish terrorist groups have attacked Arabs in the West Bank and Jerusalem. One of these organizations is the Gush Emunim Underground which was formed in 1979. The small Jewish terrorist groups are not a threat to the Israeli Defense Forces, but the reputation and disturbances to peace certainly do not help the peace process.

Military Alliance with US

The military partnership between the United States and Israel started soon after Israel was founded. As the only non-Muslim democracy in the Middle East, Israel has a special significance to the United States as its connection to the Middle East. The United States hopes to gain a better perspective and control on the region through cooperating with Israel. The United States also wishes to stabilize the region by pushing all nations, and especially its close ally, Israel, to negotiate and compromise for peace. The United States formed the close connection it needed with Israel through military relations. In 1983 the United States and Israel formed a Joint Political Military Group to address the threat to American and Israeli military interests in the Middle East. By 1988 this military relationship encompassed not only military assistance, but also intelligence sharing, joint weapons researching, and arms trading. Israel benefits more than any other country from American military assistance. For example, during the Persian Gulf war in 1991, the United States provided Israel with Patriot missiles to defend itself against Scud missile attacks from Iraq. The partnership between the United States and Israel will remain important even during times of peace since both countries benefit from the partnership. Indeed, many in Israel and Palestine argue that until the United States wants peace, there won't be a viable peace process because the United States has such an influence over Israel.

The Palestinian Territories

The Palestinian Territories now refers to the Arab-occupied regions of the West Bank and the Gaza Strip, two discontinuous tracts of land within Israel. Israel came to occupy the West Bank and Gaza Strip in

1967, when a failed attempt to attack the newly created Jewish state resulted in an Israeli preemptive attack. Israel would win what came to be known as the Six Day War, and at its conclusion occupied a territory significantly larger than the original British Mandate. For this reason, the Palestinian Territories are also referred to as the Israeli Occupied Territories, or the Occupied Palestinian Territories. Israel also occupied the former Egyptian-held Sinai, but returned it to Egypt in 1979 as part of a peace treaty.

The biggest issue of contention between Israel and Palestine are Israeli settlements in the Palestinian territories and the Israeli government's policy of encouraging Jewish settlement in Gaza and the West Bank. At the time of this chapter's most recent update in summer '09, newly elected Israeli Prime Minister Benjamin Netanyahu (who previously served as Prime Minister from 1996-999) has just begun dismantling Israeli settlements in the Palestinian territories, but there is significant skepticism among Palestinians and some in the international community over whether Israel will enforce the breakdown of the settlements or turn the other way as Jewish settlers return.

Israeli Politics and the Multiparty System

Constitutional Framework

The executive branch of the Israeli government consists of the cabinet, composed of the Prime Minister, who must be a member of the Knesset, and other ministers. The cabinet needs confirmation from the Knesset. Members create coalition governments in order to pass the confirmation vote in the Knesset. A vote of no confidence can be issued to break the ruling coalition. The Knesset is a unicameral parliament. All 120 Knesset members are elected by for a four-year term under a proportional representation system. The Judicial system includes local, civil, military and supreme courts. Israel also has a president, who serves a five year term. The power of the office is more ceremonial than executive. The president usually recommends government ministers, signs treaties and legislation but has no veto power, and accept foreign ministers. The primary executive responsibilities are carried out by the Prime Minister.

Multiparty System

Political power in Israel is fought for in a multiparty competition. In fact, at any given election Israel has about 30 political parties. Representation in the Knesset is determined by the proportion of the overall vote received by a given political party. The party with the most seats gets to elect a Prime minister and attempt to put together a coalition that will support its cabinet. The multiparty system allows smaller political group who would not be represented in other political systems to win a few seats and still have an impact on the government. The problem has been that small minority groups who do not represent the majority of Israel have gained incredible amounts of power from being a part of a coalition. For example, Shas, a religious party, has used its important part of the coalition to get the government to fund its religious schools. Thus, although the political system allows all opinions to be heard, small groups with too much power often create conflict. Political groups in Israel change by the day. Only Likud and Labor have been the more stable political groups around which coalitions regularly form.

Prospects of Peace

Peace with Egypt

When the Likud bloc defeated the Labor party for the first time in 1977, new Prime Minister Menachen Begin had to deal with more than just internal changes. Both the US President Carter and Soviet Premier Brezhnev advocated for peaceful settlement of the longstanding tensions between Egypt and Israel. After nearly a year of stalled negotiations, Begin and Egyptian president Anwar Sadat met Carter at Camp David for two weeks in September of 1978. On September 17th, Begin agreed to return Sinai to Egypt in return for peace. The Camp David Accords were signed and approved by the Knesset. The agreement also called for Israel and Jordan to settle disputed over the West Bank and for Israel to deal with Syria in a "spirit of cooperation." Further negotiations with Palestinians were also promised in the agreement.

Furthermore, the United States compensated both sides with aid packages, making Israel and Egypt the first and second largest recipients of US foreign aid. To date the agreements remain the benchmark of successful conflict resolution in the Middle East.

Peace with Jordan

In 1994, Prime Minister of Israel Yitzhak Rabin and King Hussein of Jordan signed a peace agreement between their two nations. The agreement gave a portion of the West Bank back to Jordan. Some of the returned portion was under direct Jordanian control, while other parts of the returned area are governed under combined rule by both nations as a kind of buffer zone. The agreement permits Israelis and Jordanians to travel freely across the border. Peace with Jordan was possible due to the vision of two remarkable leaders who compromised with each other and got their nations to come along. After peace was established between Jordan and Israel, King Hussein became very active in helping negotiations with Palestinians until his death a few years later.

Main Issues in the Israeli/Palestinian Conflict

The Israeli/Palestinian conflict remains a source of tension throughout the Arab world. Many commentators argue that peaceful resolution of the decades-long struggle would be the single most important accomplishment in international war on terrorism and the ongoing project of alleviating Arab/Israeli tensions. The problems associated with doing so, however, have to date prevented any meaningful settlement, and the situation has essentially become a permanent state of emergency. The issues which must be resolved are complex, and a history of violence and mistrust make the peace process excruciatingly difficult.

Israel's overarching concern stems from its long history of living under the existential threat of war with nearly all of its neighbors. The concession that Israel even has a right to exist has been a sticking point, particularly when hard-line groups control the Palestinian territories. Relatedly, Israel's primary objective in recent conflicts has been to secure its citizenry from terrorist attacks, whether by suicide bombers or rockets launched from Palestinian territory. Its hugely disproportionate responses to such attacks (and the hundreds of resulting civilian deaths) have further entrenched Palestinian hard-liners and drawn the rebuke of the international community.

Though Palestine's precise demands vary greatly depending on which group is currently in power, a few common interests are consistent over time. Minimally, Palestinians want autonomous control of the geographic territories which they occupy. This often includes the demand that Israeli settlements in areas under Palestinian control be moved. More fundamentally, Palestinians generally want access to basic services and opportunities for economic development. The crisis has scared generations of Palestinians, and to many the future seems hopeless. They want the freedom to travel, both in Israel and to other countries. Perhaps most fundamentally, they do not want to be subject to heavy-handed Israeli military operations, which kill scores of innocent civilians and destroy what little infrastructure currently exists in the Palestinian territories. Lastly, Palestinians often demand that refugees displaced in the various armed conflicts with the Israelis be permitted to return the Palestine.

As if these demands were not difficult enough to reconcile, there is ongoing tension over water rights in the country. Equally if not more important, all sides want control of the holy city of Jerusalem and the holy sites therein. Most accept mutual governance as an acceptable framework for a lasting peace agreement, but so long as no such agreement prevails the issue will remain thorny.

The great difficulty is that violence always derails the peace process. Those not happy with the potential of compromise are often successful at using targeted violence to polarize all involved. It seems that until one side or the other has the restraint to not respond to violence with violence, the prospect of peaceful coexistence will remain unlikely.

Recent Palestinian Elections

The democratic election of Hamas as the ruling party of the Palestinian territories has severely complicated the peace process. While its domestic program is largely based on expanding basic services for Palestinian civilians, Hamas nonetheless maintains hard-line positions in relation to Israel and the Israeli state. The peace process has suffered severe setbacks in recent months with rocket attacks on Israel and enormously disproportionate military responses.

Negotiations with Syria

Negotiations with Syria deal with many of the same issues as with Palestine, borders, water resources, security arrangements, and returning land, specifically the Golan Heights. In 2000, when Israel pulled out of Lebanon, it took away Syrian ability to play the Lebanon card against Israel in negotiations. Syria by all means controls Lebanon, and Israel expects that part of a peace deal would be the termination of all Hizballah actions with originate in Lebanon and are supported by the Syrian government. Peace between Syria and Israel would have to start by opening communications, which have been lacking between the two countries and are terminated quickly whenever attempted.

Conclusion

The goal of this chapter is to provide you with some historical background as well as analysis of some key issues in Israel. Overall, as Israel continues to develop, remember that it is a relatively young nation and many of its domestic and external problems originate from the history examined here.

Bibliography

- Metz, Helen Chapin. *Israel- A Country Study*. Library of Congress. Copyright 1990.
- Hazony, Yoram. *The Jewish State : The Struggle for Israel's Soul*. Basic Books. Copyright 2000.
- Organski, A. F. K. *The \$36 Billion Bargain : Strategy and Politics in U.S. Assistance to Israel*. Columbia University Press. Copyright 1991.
- Neff, Donald. *50 Years of Israel*. Amer Educational Trust. Copyright 1998.
- Fraser, T.G. *The Arab-Israeli Conflict (Studies in Contemporary History)*. St. Martins Productions. Copyright 1995.
- Garfinkle, Adam M. *Politics and Society in Modern Israel : Myths and Realities*. Dimensions Books. Copyright 1995.
- Heller, Mark A. *No Trumpets, No Drums: A Two-State Settlement of the Israeli-Palestinian Conflict*. Hill and Wang Publications. Copyright 1993.

China

Derek Green and Jessica Bailey

Introduction

With the first unification of China under Emperor Qin Shi'huang in 214 BC, a nation came into being which could not help but to significantly impact world affairs. Now a country with a population of 1.3 billion and an economy unrivaled in terms of dynamism, China senses (and the world notes) that its destiny is finally coming to fruition.

Integral to any understanding of these complex topics is a basic understanding of their roots in Chinese history and the general trends which have gripped China for the past 30 years - a knowledge pool which, unsurprisingly, can fill entire volumes. In this chapter, the aim is to present the reader with a short (if not cursory) overview of Chinese history and an assessment of the issues as they stand in the giant to the east. These issues are usually posed in questions relating to the four general areas outlined above: internal politics, foreign relations (especially with the United States), economics, and human rights.

China's Collective Ideas

In order to understand how a nation views itself and the difficulties it must surmount, one must first investigate that nation's mindset. In the case of China, thought as applied to itself has concentrated upon how to structure a stable social order; not surprising given the 100 languages and 56 ethnic groups within its borders.

Two early traditions have shaped the modern evolution of Chinese ideology. The most basic, Legalism, elevates the law to a near-divine status. "Pragmatic" infractions should garner punishment equal to that of useless violations. In addition, morality has no place - the law is of inherent and insuperable power which derives directly from the office of the Emperor. This stern, unforgiving philosophy dominated the political landscape of the earliest emperors. Confucianism, the second doctrine, emphasizes mutual obligation over the absolute obedience of Legalism. Though subject to the commands of those higher on the hierarchy, the dominated nonetheless deserve protection and justice on the part of the powerful - even in family hierarchies. One should note that neither of these dominant traditions stresses individual freedom and that each serves to craft some strictly-defined set of interactions, leaving no room for improvisation. According to predominant Chinese thought, that which is undefined any possible outcome, effectively voiding the social structures which hold China together. Therefore rigid sets of norms are the general rule. With that in mind, interpreting modern Chinese history is easier and answering the question, "Why isn't China a democracy?" becomes easier still.

Opening the Door to the End of an Age

Following a golden age culminating in the Qing Dynasty during the 17th century, China regressed into a state of weakness. The refusal to acquire European technology and the Dynasty's lack of a modernization program resembling the Meiji Restoration in neighboring Japan left China defenseless against the opportunistic European Powers. With defeat in the Opium Wars at the hands of Britain and the lack of reform in subsequent years, the other European powers learned of China's weakness and sought to exploit it with imperialistic aggression of their own.

America, however, refrained from such exploitation - though it did so principally out of a lack of means. In 1899, US Secretary of State John Hay expressed the United States' desire for nominal recognition of Chinese territorial integrity and openness of the Empire's ports to the avaricious Western colonialists (read: unfettered American access to Chinese markets). This measure largely succeeded in its aims.

This period created, both directly through victimization and indirectly through stunted development, a certain Chinese political resentment of Western values and the resolution to avoid the industrial weakness which ushered in this era of subjugation. Some scholars even claim that China is only now beginning to overcome the foreign policy inferiority complex fed by the exploitation of this era and assert its interests in the Pacific region against the power that once cemented its fall.

The Failed Democratic Experiment

By 1911, China's status had become intolerable. A slew of deaths among the top ranks of the Imperial Family enabled the disenfranchised supporters of the liberal ideology espoused by academic insurgent Sun Yat-Sen to ignite a revolution culminating in the establishment of the Republic of China on March 12th, 1912. Unfortunately for the young provisional government, the conservative turncoat Yuan Shikai used his control of much of the Chinese army to muscle his way into the Presidency. Yuan disbanded the legislative bodies of the embryonic (yet totally unrepresentative) Republic, exiled Sun, and proclaimed himself Emperor - only to die months later and leave behind him chaos, clashing warlords, and a disunified China. The first syllable of all tri-syllabic Chinese names is the title analogous to our last names. Thus, when referring to current leader Hu Jintao, it would only be proper to refer to him as Hu, not Jintao or Tao - the last two would resemble referring to President George W. Bush as "George."

China's distrust of democracy due to its rigid ideologies actually catalyzed a traumatic experience with the institution of representative government itself. The liberal reformers lacked broad support, allowing a classic Chinese dictator to rise again and shortly thereafter leave the country in shambles. Some perceive that the effort towards democracy permitted the manifestation of such disorder, the state which China above all feels it must avoid. Thus, the lack of support for Chinese liberal democracy undermined its first iteration and damaged the ideal in the minds of the Chinese, at least giving the contemporary leadership a convenient historical event to justify its own rule.

If you decide to make note of this event, try not to premise an entire argument against the coming of Chinese democracy on it alone. This should only act as a historical vehicle and display of immense background knowledge on the topic: other more current reasons against its rise would be of greater argumentative weight. In addition, note that Chinese leadership does attempt to legitimize its rule by claiming that its governmental structures represent a cross-section of Chinese society. Your analysis should focus on the lack of effective representation and liberal values.

Civil War, Japanese Incursion, and Communist Triumph

Nationalist politician Chiang Kai-shek rose to the forefront of Sun's Kuomintang (Nationalist Party, or KMT) in southern China following Sun's death. Seeing an opportunity for full reunification, Chiang violated a standing alliance with the Communist Party of China (CPC, later CCP) - the other major force in this period of fragmentation - by striking at Red areas. By 1927, the communists were on the run from the south and west, with Mao Zedong and colleagues accompanying supporters on the famous Long March.

Thankfully for the Communists, the resource poor yet militarily powerful Japanese invaded Manchuria four years later, thereby effectively ending further civil war and forcing the Nationalists into a temporary alliance with their enemies in the face of the powerful foreign invader. Death of the Communist movement would be nearly certain had Japan invaded just a few years later. By the surrender of Japan in 1945, the Communists' more appealing political platform and larger share of American military aid placed them at an advantage over the KMT. In 1949, Chiang and his government (still the Republic of China, or ROC) realized the hopelessness of their cause and fled to Formosa (now Taiwan), enabling the declaration of the People's Republic of China (PRC) on October 1 of that year with Chairman Mao Zedong at the helm.

The influence of the ideologies of and prioritization of order help explain the victory of the Chinese Communist Party. Mao himself contended that the similarities between Communism and classical Chinese political philosophy predisposed the Chinese to accept this modern ideology. Under communist rule, the "law of proletarian rule" stood supreme and unquestionable, yet the government couched its domination in its supposed obligation to better the lives of Chinese peasants. At the very least, the repressive policies of the PRC managed to solidify national unity to the greatest extent since the loss of the First Opium War: the prime aim of Chinese government stood satisfied.

In fact, this maintenance of order and provision of prosperity remain the sources from which the current Party leaders derive legitimacy, though modern leaders stress the latter over the former. As Deng Xiaoping proffered to the people, "To be rich is to be glorious."

Something Wicked This Way Comes

Communist success engendered more than just a change in leadership, for Mao had enormous (and disastrous) reforms in mind for the entire country. The Great Leap Forward, a breakneck economic growth package similar to Stalin's famed "Five Year Plans" brought into effect in 1958, sought to substantially increase agricultural and industrial output through collectivization of arable land and the creation of "backyard factories," small industrial operations in some cases literally in the backyards of

some peasants. It was an unmitigated disaster, as the huge changes and lack of incentives hugely undercut agricultural yield and the “backyard factories” wasted raw materials in the fabrication of near-worthless products. Famine resulted in the winter of 1960-61, bringing with it millions of deaths from starvation. Even the Soviets were appalled at the ramifications of this initiative, leading them to restrict technological and monetary aid: an act which strained Sino-Soviet relations and perhaps even made possible Nixon’s exploitation of that conflict years later.

Deng Xiaoping, the future leader of China, actually attempted to use his clout to curb some of the detrimental effects and market distortions of Mao’s policies. Mao, none too happy with such actions, imprisoned Deng and his supporters in 1966 until the 1970s. This goes to show that contenders for succession struggles within the Chinese communist party can return from being ostracized when the opportunity presents itself.

In 1966, Mao turned his revisionist eye from economics to politics. The “Great Proletarian Cultural Revolution” unleashed a scheme of “purification” on the population resembling the Great Purges of Stalin in the late 1930s. The Chairman’s “Red Guards” toured the country, rounding up intellectuals, associates of the KMT, the affluent, the middle class, and virtually anyone considered a “dissident” for imprisonment and, in some cases, summary execution. All hints of “bourgeois” and anti-Communist culture were wiped out with few exceptions. This period ended by 1971, and Mao died in 1976.

Mao’s legacy, however, encompasses more than failure and brutality. According to some governmental statistics (undoubtedly at least somewhat inflated), life expectancy doubled and illiteracy was cut by a factor of ten between 1949 and 1976. China, in the minds of many, began to emerge from its years of victimization as a nation with a seat on the Security Council and an economy with the requisite conditions for a boom. Finally, Mao had solidified China under one government, providing some sense of order - even as individuals were sacrificed in its name. One must not, however, overlook the immense death wrought by Mao Zedong. An estimated 40-50 million died as a result of his oppression and misguided economic policies.

An Enemy of My Enemy Is My Friend: Rapprochement and Conflict

Yet Mao engaged in one other important act: he accepted Nixon’s outstretched arm and initiated a process that would normalize relations with the United States. In 1971, Nixon sent his advisor, Henry Kissinger, to meet with the Chinese and pave the way for a later meeting between the leaders of the respective states.¹⁵

Nixon ventured to the Peoples’ Republic in February of 1972 for discussions with Mao in issues of concern to both countries. On the 22nd of that month, Nixon and Mao agreed to establish liaison offices in both capitols and seek a closer long-term relationship. With this declaration, Nixon and his counterpart initiated the era of rapprochement between China and the US - the reconciliation of “old friends.” In 1979, President Jimmy Carter would officially recognize the Peoples’ Republic of China as the legitimate Chinese government as a corollary to the Taiwan Relations Act.

These events were paralleled by the Sino-Soviet split as outlined above. Indeed, Chinese soldiers clashed with elite Soviet Spetsnaz commandos during a border dispute in 1969 when belligerent negotiating

¹⁵ Here’s a great fact to insert into a speech about China or international relations in general. Chinese translators had a difficult time finding an English term to express the Mandarin word *ba*. The word they found - hegemony, which was up until then an obscure, anachronistic term not present in international relations scholarship. Even Henry Kissinger had to call Washington and ask for its definition. Today, that term enjoys widespread use in academic and, occasionally, mainstream literature.

tactics failed to resolve the spat. Ideologically, Soviet and Chinese differences over relative influence in determining policy in smaller Communist states and differing interpretations over Marxist theory led to further divergence.

Why did these nations decide to take this step, given their antithetical ideological commitments? Why did China react to relatively small conflicts with the USSR by pursuing alignment with the US? One must understand the balance of power considerations of the time. China, above all else, wished to maintain its independence and embryonic sphere of influence. As such, the country wished to avoid relative weakness at the hands of a global hegemon and was willing to support the nation which it perceived as a weaker power. Throughout the 1960s and 1970s, the momentum of the Communist movement and greater (estimated) amounts of Soviet nuclear and conventional weapons compared to the US, among other factors, convinced CCP leadership that the United States was falling behind in the Cold War. These calculations spurred China to begin to cooperate with the US in its goal of curtailing Soviet power. Later, it will be explained why this close Sino-American relationship has continued to flourish in the wake of Russian weakness - in a word, the answer is “money.”

You might want to use this realignment as an example of a possible weakness of ideological ties if you ever find yourself supporting Realist theories of international relations.

Deng Xiaoping and the Beginning of an Economic Miracle

After a fairly protracted succession struggle, the once-prisoner Deng Xiaoping emerged as the de facto leader of the CCP and, hence, China. Realizing that subjecting economics to radical political ideology created horrendous outcomes which endangered the regime, Deng decided, essentially, to premise the Communist Party’s right to rule upon its ability to provide individual and collective wealth.

In this aim, Deng and his supporters theorized “socialism with Chinese characteristics,” a statement which basically blended some of the social welfare nets of the Maoist era with more pragmatic and capitalist policies and incentives and connoted less direct economic management. Chinese economic policy especially emphasized openness to foreign trade and investment, with sufficiently low labor standards and reasonable corporate taxation in order to increase Chinese attractiveness to labor-intensive multinational industrial operations. This emphasis has carried over to the present day - much Chinese growth is grounded in foreign investment and the country receives 100 billion dollars in Foreign Direct Investment (FDI) per year. In addition, Chinese leadership stressed the “Four Modernizations:” agriculture, industry, national defense, and science/technology, areas which would quickly augment Chinese power potential and safeguard it from foreign designs. To expedite development in these areas, Deng risked an infusion of Western influence by permitting the brightest Chinese students to study at American universities with the financial support of the Party, yet another reform that has endured into the new millennium. Overall, Deng’s reforms have allowed China to maintain an astounding average GDP growth rate of 8 percent.

Not everyone, however, agreed with these measures. With the inception of these reforms, the CCP suffered from the origins of a schism that remains a reality to this day. The “conservatives,” old Maoists who fundamentally disagreed with prioritizing capitalistic economic policies over a “continuous socialist revolution,” tried to curb the changes as much as they thought possible. Posed against them were (and are) the “modernizers,” supporters of Deng who came to the higher ranks of the party under his Rule.

Today, power is not evenly divided between these two factions. Many of the “conservatives” abdicated power due to retirement or death and many more saw that no return to the Cultural Revolution would ever come. Thus, the “Modernizers” of Deng - supporters of economic freedom and party autocracy - find themselves juxtaposed against even younger officials who desire some measure of political liberalization.

Bread and Circuses Fails: Tiananmen Square

Even in this era of incredible economic progress, the tide of political dissent reached a crest. Two traditional hypotheses regarding social evolution stand in opposition to one another in the case of China. A specific analysis of Chinese mainstream political thought, as outlined earlier, would render little to those in support of popular rule and its resultant possibility for chaos. More generally, however, most theorists agree that a growing middle class of educated professionals, regardless of the nation in which they are citizens, will agitate for political freedom as a result of their richer conception of political rights, self-worth, and social utility. An increasing number of urban Chinese university students, most descended from the new middle class, became disgruntled with party corruption, controlled speech, and the lack of citizen voice. Some older urban Chinese actually suffered at the hands of some of the more ambitious of Deng's modernizations, reforms which did create a high level of inflation and some unexpected decreases in social welfare spending. With these two groups living in close proximity to one another and dissatisfaction with the government growing, the powder keg required a single spark to explode.

On April 15, 1989, former Party advocate of greater economic and political openness Hu Yaobang, forced to resign by conservative forces in 1987, passed away. Democracy activists camped out in Tiananmen Square in Beijing both in remembrance of the fallen icon and to protest China's oppressive political system and were soon joined by those concerned with rapid economic change. Within days, the rally grew into a gigantic protest for democratic change and, with the party's famed crushing of the huge gathering, became a demonstration of the intolerance of the CCP for glasnost-like modifications.

As one could expect, the Chinese government reacted to this scene of apparent chaos with an extreme, repressive reaction. In the view of many within the upper echelons, any loosening of centralized political control could endanger both the Party's leadership and the adhesive of power binding together China's disparate groups. More analysis will be provided later as to whether the political reformers or staunch authoritarians emerge victorious in directing Chinese governmental structure.

Nascent Maturity: China, 1990-Present

Despite some resistance and changes in Party leadership, China has continued its proliferation of economic liberalization while holding (nearly) constant its level of political freedom. Chairman Deng Xiaoping, the last of the peasant rulers of Communist China, died on February 19, 1997, but he had essentially abdicated years before. The mayor of Shanghai, a loyal party functionary by the name of Jiang Zemin, had managed to prevent any major protests from arising in China's largest city during the Tiananmen "disturbance." Not long after such unrest, the Party leaders realized that it was absolutely necessary that they avoid a succession crisis that could allow the democrats room to force the CCP into a multi-party system. In that Jiang's views did not offend any faction within the Party and the current nominal party chair, Zhao Ziyang, was considered too ideologically similar to the student protestors, Jiang garnered enough favor to obtain a tacit agreement of his future leadership.

Jiang's tenure, effectively initiated over time as Deng's health deteriorated, saw a continuation of Dengist economic reform. On December 11, 2001, China gained membership to the World Trade Organization, the worldwide body through which states negotiate general trade liberalization agreements and settle trade disputes. This event signified the acceptance of China as a capitalist juggernaut and a nation which had sufficiently abandoned its revolutionary tendencies so that it could now find acceptance in the world economic mainstream. Significantly, it managed to attain its seat despite other nations' qualms with China's human rights violations and skewed currency value - the West truly craved unfettered access to Chinese consumer and labor markets above all other considerations. In addition, WTO membership meant that China had liberalized its trade practices (including minimizing tariffs and abolishing import quotas) to such an extent that the Communist power had become nearly externally identical to any middle-level capitalist economy.

Accession to the WTO enabled a meteoric rise in Chinese world trade that continues today. Whereas the total value of world trade increased by a mere 1% in 2002, Chinese international trade rose an astounding 18% in that same year. Even as the Asian Financial Crisis spiraled beyond the control of many Asian central banks, China managed a 7.9% growth rate, demonstrating unparalleled economic dynamism. Simply by maintaining the free industrial policies of Deng and reducing the barriers of entry to the Chinese market, Jiang managed to safeguard Deng's growth rate, resulting in increased economic well-being and potential Chinese power.

Here's an interesting tidbit you may want to invoke demonstrating how far China has come towards capitalism. Jiang, as a part of his "Three Represents" doctrine (found incomprehensible by many Sinologists), legitimized "capitalists" under "Socialism with Chinese Characteristics" and actually granted the capitalist class a place in the Party hierarchy.

On the political front, Jiang oversaw the transfer of Hong Kong from British to PRC control. Jiang vowed to protect the tradition of individual rights observed in Hong Kong since the British assumption of power over the area and maintain the nearly pure capitalist system of city. Though he and his successors have maintained their promise in terms of economic interference, Hong Kong's political freedom has not enjoyed the same respect from Beijing. This more recent problem will be discussed later.

Finally, Jiang managed to bring the United States and China closer than ever before. President Clinton visited China for high-profile negotiations on various issues in 1997, symbolizing a greater linkage than ever previous. In 1994, Clinton officially de-linked China's protection of human rights with trade considerations, taking a step codifying the tacit agreement reached years before by the Reagan administration. Unfortunately, possible leaks of nuclear secrets (through Wen Ho Lee or other sources) and "Chinagate" (possible illegal campaign contributions linked to official Chinese sources) marred the legacy of this period in the United States and has made many Sinologists wary of further comity.

The Fork in the Road

Of all of China's immense and storied history and all of its grappling with the concept of order, the current era will likely be one of the greatest in terms of the Chinese future. With a new "fourth generation" of party leadership, an array of economic challenges ahead, and rising dissent, China likely must either find a way to maintain the classic mode of power structure or adapt out of necessity. Hopefully, this discussion of the past displays how China arrived at this crucial juncture. The following analysis will pertain to China's contemporary issues and possible solutions.

Problems of Order: Chinese Internal Political Issues

Of all the areas of a possible question about China, politics most directly intersects with Chinese concerns about order. As demonstrated, Chinese political culture has rarely been anything resembling democratic - yet forces in favor of democracy seem to be gaining strength, at least for the time being. Other issues, such as human rights and minority relations, could arise as possible questions as well, especially due to China's great diversity.

The New Leadership

Prior to his ascent to power, the West knew little of hydraulics engineer-cum-politican Hu Jintao. He had spent most of his career in the Chinese hinterland and was not generally seen as a major candidate for succession until he became a member of the seven-person Politburo Standing Committee shortly before his confirmation as Party chair on March 15, 2003. In fact, his suppression of an incident of Tibetan dissent in 1989 that resulted in the killings of a few Tibetans was the only time he had been of concern to Sinologists.

As leader, however, he is the object of intense scrutiny and speculation. Initially, since Hu was not a member of Jiang's "Shanghai Clique" on the Standing Committee few people thought he would rule without great difficulty. Recently, however, the increasing number of appointments of Hu supporters to high office has signified that the Chairman may now enjoy sufficient control.

Though interesting, mere biographical information relating to this "Fourth Generation" of Chinese leaders is useless without analysis as to their probable policy directions. In terms of economics, Hu and Wen have already publicly stated that they would modify China's current "economic growth at all costs" paradigm by adding greater consideration for growth's social and environmental consequences. Hu has also expressed concern for the omission of emphasis on the working class during the Jiang years. Though he will undoubtedly continue to premise CCP legitimacy on the ability to provide economic benefits, he will probably attempt to shape those benefits so that they aid those previously overlooked by China's economic engine.

What Next?: Party Legitimacy and Democracy

In evaluating the future of Chinese governance, one must always train one eye on the success with which the Communist autocracy maintains its legitimacy, for a loss of legitimacy would likely cause major reform in the direction of legitimation derived from popular will, i.e. democracy. These issues are undoubtedly tied to all other fields of analysis (economics, foreign policy, and society), but the following will attempt to analyze prospects for change from a strictly political perspective.

As it stands now, the Chinese Communist Party manages to maintain its strictly political legitimacy by, among other things, bringing forth corruption and extirpating the impropriety that it reveals. In glaring front page exposés on the covers of *The People's Daily*, the government has released reports on "major corruption" within mid- and high-level offices and the individuals responsible for such graft. With much fanfare, the government proceeds to "try" them and mete out severe punishment for the crimes committed. This tactic makes it appear as if the CCP wishes to stop the siphoning off of public funds and assiduously pursue the "enemies of the people" who act in a manner contrary to popular interests. Unfortunately, the government chooses only pursue corruption in selective instances - for all Chinese know that small bribes to officials bring their complaints to the top of the docket and that nepotism often allows incompetent cousins to hold a bureaucratic position.

Simultaneously, the government has taken to an aggressively nationalist education curriculum which attempts to safeguard the fealty of Chinese youth. This professed doctrine, roughly translated as "Great Han Chauvinism," teaches students that China is a blessed country which is best served by a Communist autocracy which inherently embodies Chinese interests and asserts Chinese supremacy in the world at large. To supplement these teachings, the Communist party maintains Communist Youth programs similar to those found in Kim Jong-Il's North Korea.

If these factors seem rather weak, consider that economic provision and classical Chinese concepts of order stand as the main sources of CCP legitimacy, with these initiatives as mere high-profile accouterments to these pillars. Remember that the possibility for democracy hinges on the two major factors.

The degree to which efforts to maintain legitimacy are successful will depend on the Chinese government's ability to alleviate some of the disparity between China's urban city population and its rural dwellers. China currently experiences one of the largest rich-poor gaps in the world, yet there is a sizable emerging middle class.

In 2008 China fell victim to a series of natural disasters that seriously tested the government's ability to provide for the welfare of the citizens, particularly in the rural parts of the country.

Increased popular voice, however, has been one avenue through which the government has sought to stave off full-scale democracy. The People's Congress, which was once populated solely with Party insiders and only rubber-stamped any of the Chairman's legislation, now entertains more diverse representation and open debate - even if the proposals usually garner unanimous support in the end. More importantly, the Village Democracy Program, phased in during the waning years of the last millennium, brought nominal voting on People's Deputies and local officials to 928, 000 villages (30-40% of all Chinese municipalities). One could interpret this as an unprecedented reform in PRC history, but one must also remember that the candidates must be party members, the votes are officially "recommendations," and the candidates are almost always pre-selected by regional party structures. Finally, as outlined above, the middle class, theoretically, always comes to demand a greater voice in politics. Thus, there exists a rosy side for proponents of democracy in China.

The PRC, wary of democrats' possible utilization of Hong Kong as a base for spreading dissent throughout the country, have reneged on their promise to maintain virtual political freedom for the territory. In 2003, the government attempted to force the puppet Legco legislature to pass Article 23 reforms, an act that would have essentially destroyed free speech in Hong Kong. A half-million person protest managed to parry this endeavor, but the national government has continuously sought to find new ways of creatively avoiding the possibility of full democratization by 2008 (a clause agreed upon by the PRC in its 1997 assumption of control over the city, contingent upon the popular desire for such a system of government.) One would be wise to keep an eye on developments in this hotbed of democratic initiative - it may act as a barometer for China proper.

China's Economy: What it Is and Will Be

Given the astounding rise of the Chinese economy, the possibilities surrounding its future, and its sheer economic potential, it is no wonder that questions related to this topic abound. This section provides a basis for understanding the present and one major concern for the future of this dynamic force in world affairs.

The Nature of the Beast and Its Implications

As previously mentioned, China has maintained an unprecedented 25 year growth average of 8% GDP growth per year. Though slowing in recent years, such hardly surprises anyone - the more mature the economy, the slower the growth rate in that the economies exhaust the easiest paths to growth first and only later struggle for increases and contend with popular discontentment with single-minded policies.

Such growth, furthermore, stands solidly upon the basis of foreign investment. China has accepted 500 billion dollars in Foreign Direct Investment (FDI) since Deng's initial reforms in 1978, ten times that accepted by Japan from 1945-2000. China, though maintaining account surplus (meaning it exports far more than it imports and thus absorbs more dollars than it spends), relies very heavily on foreign corporations that construct labor-intensive manufacturing operations (such as textile manufacturing and general assembly work) in the Special Economic Zones (SEZs, areas with special tax breaks for corporations and other economic incentives) on Chinese soil and subsequently send the finished products abroad. Thus, China acts as a major conduit of global growth in this specific sector.

Following this growth, China has become the third-largest trading body, after the US and the EU. Unfortunately for the United States (and other major trading associates), the attractiveness of low-cost Chinese exports has led to a trade deficit (and a resulting loss of dollars) with the PRC as it gains comparative advantage to other Pacific Rim nations. In the first 10 months of 2004, the United States has accrued trade deficit of \$140 billion with China, the largest trade deficit of any nation trading with the PRC. Two reasons deserve most of the credit for this development. First, since Chinese laborers in many regions earn as little as \$55 per month in Spartan and occasionally dangerous conditions, companies that

station factories in China can charge lower prices for their exported products than can domestic producers in the United States. Consumers thus purchase the Chinese product and the money from that purchase goes overseas. Secondly, the yuan (or renminbi, both names for the official Chinese currency) is fixed at a rate of approximately 8 yuan as the equivalent of a single US dollar. If China allowed the yuan to “float” (to have its price determined by supply and demand on the world currency market), it would likely settle at a value of two to four yuan to the US dollar, meaning that companies operating in China are currently allowed to effectively halve their overhead and investment costs in relation to companies operating in the US. This, quite obviously, allows the Chinese companies to price their exports at a lower price than American domestic goods and creates a further incentive for US consumers to buy from China. Unless this flight of dollars is soon to cease due to market forces, both governments will have to come to terms to avoid a major trade war.

Recently, China has indirectly exacerbated this problem with the EU and other non-US trading partners by clandestinely selling dollars when the dollar is already incredibly deflated in value. Since the yuan is tied to the dollar, a decrease in dollar value equals an identical decrease in the value of the yuan, further reducing the value of the Yuan relative to the Euro and other major currencies. It should be noted, however, that China has agreed to eventually increase the value of the yuan - though the time at which this would happen remains uncertain.

Finally, though the Chinese economy seems quite open and modern, three major issues continue to prevent it from reaching its full economic potential. First, Chinese wealth is far from equal geographically. Though only 20% of the population resides in the southeast of the country, over half of the total wealth exists there, as well as nearly all of the SEZs and technologically advanced corporations. Chinese not located in this region grow increasingly restless with this maldistribution and demand greater economic incentives for development in the North and/or social welfare programs to compensate those in economically disadvantaged regions (especially the inland rural areas). Thus, the North has remained untapped and could begin to demand that Chairman Hu respond with possibly disruptive economic redistribution. Second, most economic interactions occur on a local level and any projects require special permission from often-corrupt government officials. Since outside corporations do not have the same rapport with these officials (who often privilege familial or otherwise non-economic conditions for allotting contracts and permits), they often find themselves excluded from important growth possibilities stolen away from them by less efficient and less productive (and usually state-owned) firms. Thirdly, modernization has already wrought major social deviance and disaffection in some of the more dynamic areas. Throughout Chinese cities, never before seen problems like drug use, prostitution, alcoholism, and organized crime have taken root due to the lucre and economic freedom these areas now enjoy. Not only are the social costs of these effects bad in and of themselves, but they also reduce productivity and undercut possible growth. If China wants to maintain its economic boom, it must counteract these limiting factors in some manner.

Whatever doubts observers may have about its economy, China itself remains confident in its position, and is becoming bolder in asserting its own interest in the global economy. In the early official days of the recession, Chinese leaders expressed significant concern over the stability of the US, and threatened to reduce its interaction with the US economy. Most analysts agree that this measure was intended to make the US acknowledge the importance of its trading relationship with China. President Hu was successful, US President Obama in a press conference directly addressed the concerns of the Chinese government, reassuring them that the US’s currency remained viable. A US president having to take steps to assure China that it is a stable economy is quite the turn around, and it belies the growing strength of the Chinese economy.

Because of its still relatively tight control on the economy, the Chinese government has been able to insulate its citizens from the initial effects of the global recession. As the recession deepens, it remains to

be seen whether the interdependence of the global market will cause the effects of the recession to be felt in China, or if the government can continue protecting it.

The Dangerous Future of Chinese Banking

Now that the status quo is understood, a number of problems (including future troubles in the Chinese financial sector) require comment. Though China has managed to sustain its boom on the basis of foreign investment with capital provided by its domestic banking institutions, such will not be an option when China wishes to advance beyond a focus in labor-intensive production. If it wants a greater status than as a mere receptacle of western companies' externally-produced knowledge, it must ensure the existence of domestic capital for such projects.

Unfortunately for the future of the Chinese economy, the CCP initially forced its banks to provide massive loans to inefficient state-run firms for risky endeavors. Many of these projects failed, and the companies (because both the banks and the corporations were government-owned) could default on the debt with no consequences, effectively neutralizing the banks in entire sectors of the economy (including the vital infrastructure sector). The lack of liquidity remains to this day, hence forcing Chinese banks to become incredibly conservative in their loaning policies in that they fear that one more large "bad loan" could utterly destroy entire banks. China must overcome this problem, possibly with a large-scale government infusion of capital or through privatizing the banking sector.

The Dragon Rises: A New Era in Chinese Foreign Policy

For the duration of the Cold War, China found itself overmatched by the US and USSR and caught between the clash of the superpowers. Since the collapse of the Soviet Empire, however, Russia has faltered severely and China's incredible economic growth and military augmentation has propelled it into (arguably) second-place status. China has naturally become more assertive on a range of issues as this reality has taken hold.

The Thorn in China's Side

To this day, Taiwan (the Republic of China) remains both independent from the People's Republic of China and a constant reminder of the Communists' failure to fully eradicate its Nationalist opponents. In fact, Chinese leaders still vow that China will become "whole again" (despite the fact that Taiwan has been independent from the mainland for over a century and sustains a distinct culture) and the US, with its concordance with the "One China Policy" as per the 1979 Taiwan Relations Act, agrees. The United States, however, remains sworn to the military defense of Taiwan and considers the island an important base for power projection and stability in Asia.

The picture is not completely negative, however. The Chinese military actually owns a major economic stake in the "rebel province," and the nominal level of Red Army autonomy probably means that they would prefer not to destroy their assets unless such a course of action becomes utterly imperative. Furthermore, trade links have increased between the two wary nations. Whereas Taiwan only invested \$11 billion in the mainland in 2004, that number has grown to \$32 billion in 2002. Neither side would prefer to see these significant gains retracted in the face of conflict.

In this tense yet ambiguous situation, what should the United States do? In all likelihood, the current policy is probably the best course of action. Any retraction of military support for Taiwan would probably cause the Chinese to become more aggressive and to risk war (or at least less flexible policies) across the Strait. Any additional support for Taiwan, however, may both scare the PRC and cause the DPP of the ROC to push more aggressively for statements of further independence which would serve to bring the two nations to absolute loggerheads. Hopefully, cooler heads will prevail and Washington will continue to work disinterestedly with both sides at a future negotiation table.

If the relationship between China and Taiwan is to improve, it will likely be because of their economic ties. Taiwanese president Ma Ying-jeou has made a departure from the anti-China policies of his predecessors, and as a result trade, travel and investment barriers have begun to loosen, and China and Taiwan are now seeking business ventures in each others' territories. This will be a welcome change for both countries, as up to this point the flow of trade and investment has tended to be one-sided. Taiwan's export market is growing, however, and China is encouraging some of its electronics and telecommunications companies to invest in Taiwan. It is too early to tell whether China and Taiwan's steps towards economic integration will increase regional growth as a whole. However, it is clear that increased investment and integration is in the interests of both.

China and Its Other Neighbors - US Included

During antiquity, the Chinese Empire maintained a patron-client relationship with the other Asian states. All of the states not directly under Chinese control (with the occasional exception of Vietnam) accepted Chinese hegemony and paid the Chinese Emperor tribute in exchange for protection and conference of legitimacy. Chinese weakness and subjection during the colonial era, however, allowed these other states a greater degree of freedom and/or protection by other patron states, such as the United States and the Soviet Union. Analysts should now note that China has recently become more assertive in its foreign policy and that the days of an inferiority complex are over: China will now bargain with determination and will seek a larger role in the international arena, especially in its own backyard.

Though China does not wish for Asian nuclear rearmament, the CCP could effectively destroy Kim Jong-Il and North Korea at any time. The smaller neighbor is completely dependent: China currently provides the North Koreans with the majority of their foodstuffs and 70-90% of their energy supplies. Since China could therefore effectively stop the North Koreans from continuing nuclearization, why do they refrain from doing so? For one, China would probably like further concessions from the US on trade policy and human rights before that could occur. Secondly, a sudden blockade could, for all anyone knows, spur the strained and cornered North Korean regime into launching a suicide attack and wreaking havoc on all of East Asia. Finally, China views North Korea as a modern client state and would prefer not to endanger future patron-client relationships by treating North Korea with such a heavy hand. Thus, the US either must offer China major benefits for stifling the Korean nuclear program or find other means for doing so. China, however, must share the Asian theater with one other player of over a billion people. China and India have often had conflicting relations in the past, with China having emerged victorious militarily in the past and annexing some Indian territory. Now both nations compete primarily for increasingly high-skilled jobs in the economic arena, though border disputes and the possibility of a military conflict in an extreme situation remain.

In terms of the other Asian states, China may not one day enjoy the same superiority it once did. Most of Indochina (with the exception of Burma) and the other Pacific Rim states have oriented their economies, governance structures, and outlooks to the West and have created the trade bloc called the Association of Southeast Asian Nations (ASEAN) which has yet to include the PRC. One must remember, however, that economies tend to reorient themselves toward large consumer markets. If China fulfills its economic potential, it would hardly be surprising if ASEAN turns toward the major engine of economic growth in the area and away from the lure of the Occident.

The final challenge for China pertains to its relationship with the world's remaining superpower. China resents both the deployment of US troops in Asia and US dominance of Asian financial markets. The CCP sees hegemony in the East Asia (at least economically) as its birthright. With labor unions and NGOs in the US demanding more protectionist trade policies and stronger stances in favor of Chinese human rights and many hawkish conservatives growing increasingly wary of rising Chinese power, the US must consciously attempt to maintain the level-headedness that would prevent major conflict and gargantuan destruction.

With all the issues that may lead to instability in Chinese relations in the future, let's all hope that all parties leave their heads planted squarely on their shoulders.

Dangerous Gifts: China and WMD Technology

China has been actively accruing and disseminating missile and nuclear technology ever since it developed its own bomb in 1964. Much to its own profit and to the detriment of the world community, China and Pakistan developed a military trading regime in the 1970s which undoubtedly hastened the development of A.Q. Khan's "Islamic Bomb" - the technology for which was later sold to North Korea. In February of 1993, the US forced China to cancel its agreement with Iran to construct for the theocracy two large nuclear reactors, but not before China transferred the plans and technology needed for their construction and military applications. Countless other incidents of proliferation could be cited, but it suffices to say that all acknowledge China's proclivity towards weapons proliferation, though it is fair to say that these incidents have become less frequent.

Unfortunately, the US has played an important role in providing China with some of its missile and nuclear technology. Possible security leaks at Los Alamos and elsewhere aside, lax military trade restrictions have permitted sales of sensitive equipment on the part of US companies. For example, Chinese Dong Feng (east wind) missile guidance systems from the early 1990s paralleled US guidance systems from the Minuteman missiles of the 1960s - that is, until corporate transactions allowed modern gyroscopic technology to fall into CCP hands. Now, Chinese missile guidance almost equals our own in terms of accuracy. Unless the US can curtail further sales, it will find itself losing arms ground to the Chinese.

National Missile Defense (NMD) will probably fail as a solution. While the first sector of the system will soon become operational in Alaska, China has promised to counteract its installation with a tenfold increase in strategic nuclear missile stockpiles. With the cost of NMD remaining astronomical and China's threat, even if overblown, having a modicum of credibility, this is a losing proposition for the United States.

Freedom Doesn't Ring: China and Human Rights

Although the PRC maintains a dynamic and open modern economy, it has certainly not embraced all of the principles enshrined in the UN Declaration of Human Rights. In addition to the previously discussed lack of political rights, China violates key minority, expression, and religious rights worthy of note here.

First, the CCP refuses to grant self-determination to Muslims in the province of Xinjiang in the northwest and the Tibetans in the southwest. Xinjiang, though inherited by the People's Republic, is sixty-percent Muslim and has openly expressed a desire for separation (both verbally and violently) in the 1970s and 80s. Even though revolutionary activity has since all but ceased, the government continues its oppressive social regulations regimen and has made few substantial concessions to the Uighurs, the most prominent Muslim group. Tibet, the Dalai Lama's government of which was forced into exile in 1959, remains officially (though definitely not in reality) an atheistic territory against the wishes of the devout Buddhist population. The regime does not tolerate dissent - note the now-Chairman Hu's refusal to allow disagreement and his subsequent crackdown in 1989. Unfortunately, because these groups do not reside close to the majority of the population and yield extremely limited force, do not expect them to begin the charge toward freer government.

Second, no Chinese, regardless of minority or majority status, enjoy the basic right to free expression. Vocally expressing discontentment toward the government will surely result in a jail term and permanent surveillance by the regime. Even in a world economy increasingly based upon information, the CCP controls the vast majority of media outlets, limits Chinese internet access to Western sites, and even bans

words such as “democracy” in internet messaging conversations. Though many analysts predict that the further economic modernization will increase the economic and political costs of such controls to an unbearable level, the Chinese government shows little pliancy for now.

Finally, the state has not revised its Marxist opinion of religion as opium for the masses and, thus, nearly forbids any and all religious expression. The Falun Gong, a cult of 20-40 million individuals in 2000, has experienced the epitome of CCP repression - imprisonment, killings, and forced exile abounding. Other religions, especially Western faiths, cannot practice openly and must furtively celebrate their beliefs. Despite calls for tolerance on the part of other nations and human rights NGOs, the government has yet to modify its stance. It seems that only other major liberalization could allow Chinese religious freedom.

Whether the future for China will continue to be comparably positive or take a turn for the worse remains to be seen. Whatever else happens, one thing China has gotten accustomed to, and will continue to experience, is change. Although the current human rights outlook in China is far from desirable, if Chinese social control follows the same path as the economy, we are likely to see a trend towards liberalization, even if it crawls at a snail’s pace. China currently has the world’s fastest growing economy, no small feat in a global recession. China’s ability to react to and predict change has enabled it to emerge as one of the most powerful and important actors on the global stage.

Bibliography

- Hoge, James F. “A Global Power Shift in the Making.” *Foreign Affairs* 83 (4), 2004: p. 2-7
- Shambaugh, David. “Facing Reality in China Policy.” *Foreign Affairs* 80 (1), 2001: p. 50-64
- Ahn, Soong-Bum. “China as Number One.” *Current History* 100 (647), 2001: p. 250-256
- Huntington, Samuel. *The Clash of Civilizations and the Remaking of World Order*. New York: Simon & Schuster, 1996.
- Summers, Lawrence H. “America Overdrawn.” *Foreign Policy* July/August 2004, 2004: p. 46-49
- Gilboy, George. “The Myth Behind China’s Miracle.” *Foreign Affairs* 83 (4), 2004: p. 33-48
- Oatley, Thomas. *International Political Economy: Interests and Institutions in the Global Economy*. New York: Pearson/Longman, 2004.
- Hale, David and Lyric Hughes Hale. “China Takes Off.” *Foreign Affairs* 82 (6), 2003: p. 36-53
- Medeiros, Evan S. and M. Taylor Fravel. “China’s New Diplomacy.” *Foreign Affairs* 82 (6), 2003: p. 22-35
- “Chen Survives Again.” *The Economist*, online, http://www.economist.com/agenda/displayStory.cfm?story_id=2516204
- “Analyst Predicts US/China Trade War.” *The Washington Times*, online, <http://washingtontimes.com/upi-breaking/20041109-052535-6534r.htm>
- Mosher, Steven W. *Hegemon: China’s Plan to Dominate Asia and the World*. New York: Encounter Books, 2002.

India & Pakistan

Amol Jain, Jesse Nathan and Paul Storm

Introduction

The nations of India and Pakistan have been at odds since their creation in August, 1947. Differences in their respective worldviews and cultures periodically erupt into conflicts of varying intensities and durations which shape and redirect world affairs with considerable potency. US Presidents visit the region/invite the leaders of the warring sibling nations to America with a regularity that indicates lasting peace between India and Pakistan is nowhere in sight on the political horizon. It seems that after each accord or treaty signed, after each Presidential visit, these rivals find a new dispute or means to resurrect an old one and are back at war.

This volatility makes the region a frequent topic of discussion in all politically-focused realms of forensics. Understanding the relationships and significance of these two nations is crucial for debaters/speakers. To give a thorough and intelligent speech, one must not only understand the current crises these nations face, but also the historical soil from which it has grown. As Robertson Davies wrote, “What’s bred in the bone comes out in the flesh.”¹⁶

A Brief History

Though Christopher Columbus’ infamous voyage in search of a shortcut to India and all its riches brought him instead to the Bahamas Archipelago, it serves as sufficient starting point in understanding contemporary India/Pakistan. By this point in your education, the story is a tired anecdote, but perhaps the gamble that made it possible is not. European monarchs were in fierce competition with one another for resources, treasure, land, and anything that might set them apart from the other families claiming divinely bestowed crown and throne. When India’s exotic goods and spices appeared in the West for the first time, demand for them launched thousands of vessels filled with money-sign eyed crews of merchants and sailors. The mix of economic competition and national imperialism percolating in Europe made India/Pakistan’s entanglement in international affairs inevitable. Everyone wanted a cut.

The Start of British Rule

The comedian Eddie Izzard includes a brief history of Britain in his stand-up routine that goes as follows:

We stole countries with the cunning use of flags. Yeah! Just sail around the world and stick a flag in: ‘I claim India for Britain!’

And they go; ‘you can’t claim us. We live here! 500 million of us.’

And we said ‘Well. Do you have a flag?’

‘We don’t need a bloody flag, it’s our country.’

‘No flag, no country. You can’t have one. That’s the rules that I just made up and I’m backing it up with this gun.’ (*sic*)

Jokes aside, Izzard does a pretty good job of summing up the ludicrousness on which most imperialist land grabs were based. The actual story involves Britain’s love of “tea time.”

¹⁶ This is actually a proverb that all sorts of sources lay claim to, but if you haven’t read him already, Davies is great fiction! Also, you will find many footnotes throughout the coming chapters, most contain actual and valuable content. This one is just meant to get you looking toward the bottom of the page so you don’t miss out on valuable content. READ THE FOOTNOTES!

The significant events leading to British control of India/Pakistan occurred around the early 1600s when the British East India Company (BEIC)¹⁷ was established under a Royal Charter of Queen Elizabeth I. The company dealt in many Indian goods - diamonds, gold, silks, opium, indigo, cotton - but is best known for its involvement in the tea trade and its exercise of military and administrative functions in India. The political role of the BEIC slowly replaced its economic function as the BEIC usurped control of India's government in 1757 after the Battle of Plassey. India's first attempt at revolution came in 1857 with the Sepoy Mutiny. In 1876, Queen Victoria assumed the title of Empress of India- implying that Britain would protect the Indian states from internal as well as external danger. The cost of this proclamation to the Indian people was what remained of the nation's autonomy; Britain claimed and exercised unlimited power to intervene in the internal affairs of the region. Rule over India was, predictably, tense and difficult to maintain. In 1919, Britain passed the Rowlatt Act (Black Act), authorizing itself to imprison any person without trial. On 13 April 1919, thousands of protesting Indians were brutally massacred in Jallianwala Bagh by General Dyer in an attempt to terrorize the people of India into submission.

Nonviolence and Division of South Asia

In the 19th Century, Mohandas Gandhi (later Mahatma¹⁸) led India's successful movement for independence. This movement practiced *satyagraha* and *ahimsa* or "civil disobedience" and "total non-violence." The campaign lasted from the early 1920s until 1947 when India was finally granted independence. At midnight on 14 August 1947, India was divided into two regions based on the religious majorities: India (Hindu majority) and Pakistan (Muslim majority).

Pakistan was composed of two geographically separate regions on opposite sides of India. These were unoriginally named East Pakistan and West Pakistan. Hindus and Muslims who lived on the wrong side of the newly formed borders were forced to leave their homes and go to whichever nation their religion possessed the majority in. The intention behind the partition and relocation/concentration of the two religious groups was to liberate and empower both groups. Consolidating two conflicting religions, giving them neighboring territory, and expecting peace should have been immediately recognized as ridiculously unrealistic. The often-bloody state of conflict that exists today is largely the result of this error.

Violence and Division of South Asia: Kashmir

Over one million Indians and Pakistanis died in conflicts that erupted along the Indian-Pakistani border during the beginning of the two nations' internationally recognized existence. Reasons range from territory disputes to religion to the frustration and hardship of moving to plain misdirected religious hatred. With no British empire suppressing them, the Pakistanis and Indians found themselves fighting each other. The 1947 Partition thus marks the beginning of both a liberated South Asia and the bondage of warfare.

The two nations struggled most fiercely with regards to the regions known as the Princely States. These portions of the region were not included in the 1947 Partition.¹⁹ Instead, they were free to choose which nation to join. One state, Kashmir,²⁰ chose not to choose. The Maharaja of Kashmir, Hari Singh Dogra, wanted to preserve his state as an independent nation. This choice was rejected by both India and Pakistan, turning Kashmir into one of the most violent regions in the world for the last 50 years.

¹⁷ There are many variations on the name of this company; The East India Tea Company, East India Trading Company, English East India Company, etc. Just know that a company was created by Britain to trade with India. Yes, it makes a cameo appearance in *Pirates of the Caribbean 3: At World's End*.

¹⁸ A Hindi term meaning 'great spirit.'

¹⁹ The Princely States served as negotiation locations. To provide the fullest neutrality, they were left out of the negotiation of territorial boundaries.

²⁰ Also referred to as Jammu and Kashmir.

India and Pakistan maintain different interpretations of the powder keg-moment that sent them to war, so it's difficult to say what actually occurred. What we do know is that Kashmir had a strong Muslim majority (over 70%), so Pakistan expected the state would cede its territory to their (Pakistan's) government. Pakistani Muslims and Pashtuns began to settle the region and Pakistani officials attempted to persuade Kashmir to join newly-formed Pakistan. India, either at the request of the Maharaja or not, sent troops to protect the region from further Pakistani influence and demanded in exchange for the protection that Kashmir join India with a signed agreement called the Instrument of Accession (allegedly signed early October 1947). When the Instrument of Accession was signed in relation to when the troops arrived is difficult to determine and ultimately changes India's action from one of protection to one of aggression; without the explicit permission of Kashmir, India's actions would be no better than Pakistan's. The two nations went to war over Kashmir again in 1965 and 1971, and today neither nation has given up its claim to Kashmir. Each nation controls a portion of Kashmir, but neither will settle for less than the whole thing. India claims that the Instrument of Accession gives Kashmir to them. Pakistan argues that by the agreements of the 1947 Partition, it makes more sense for Kashmir to become part of its territory.

The 1965 Indo-Pakistani War

This war began when a clash between Indian and Pakistani border patrols erupted into fighting. The Indians eventually withdrew. Pakistan claimed victory. The government of Pakistan then launched a covert offensive across the ceasefire line into the Indian-controlled territory. India retaliated by crossing the international border at Lahore. After three weeks, both India and Pakistan agreed to a UN-sponsored ceasefire. In 1966, the governments of India and Pakistan met at Tashkent and signed a declaration affirming their commitment to solve their disputes through peaceful means.

The 1971 Indo-Pakistani War

Civil war erupted in Pakistan, pitting the West Pakistan army against East Pakistanis who were demanding autonomy and later independence. The fighting sent nearly 10 million East Pakistani refugees into India. India then invaded East Pakistan in support of the East Pakistani people. The Pakistani army surrendered at Dhaka and its 90,000 troops became Indian prisoners of war. Out of this conflict, East Pakistan was recreated as the independent country of Bangladesh on December 6th, 1971. The Simla Accord of 1972 committed both sides to solving outstanding issues and in 1974, Pakistan's recognized Bangladesh's sovereignty. Also in 1974, the Kashmir state government reached an accord with the Indian Government which affirmed its status as "a constituent unit of the union of India." Pakistan, of course, rejected the accord.

The Age of Insurgents

No official wars have broken out between India and Pakistan since 1971. Instead, the majority of fighting revolves around insurgent fighters who cannot be directly tied to national policy. In 1989, armed resistance to Indian rule broke out in Kashmir with calls for the region to join Pakistan. India believes these insurgents' weapons and training are from Pakistan, though Pakistan asserts that it only gives "moral and diplomatic support." Jihadists that had once fought in Afghanistan against the Soviet Union in the 1980s compose a significant proportion of the fighters.

A close-to-but-not-quite-war moment came in 1999 when India launched airstrikes against Pakistan, asserting that Pakistani troops had entered a region of Kashmir near the city of Kargil. Pakistani Prime Minister Nawaz Sharif, under pressure from the US, eventually called his troops out of Kashmir. This event precipitated General Pervez Musharraf's military coup in Pakistan, deposing the Prime Minister. Gen Musharraf's power was later validated by the supreme court of Pakistan.

9/11

The September 11th, 2001 attack on America reshaped the India/Pakistan dispute again. Pakistan agreed to co-operate with the US's campaign against Osama Bin Laden's al-Qaeda network and the Taliban rulers of Afghanistan which borders its western side. India, however, accused Pakistan of pandering to both sides of the War on Terror, alleging cross-border terrorism, and started shelling Pakistani military positions. An October attack on Kashmir led the chief minister of Indian-administered Kashmir, Farooq Abdullah, to call on the Indian government to launch a war against militant training camps across the border in Pakistan. On December 13th, an armed attack on the Indian parliament in Delhi was blamed on Pakistani-backed Kashmiri militants. The attack led to a dramatic build-up of troops along the Indo-Pakistan border, military exchanges and raised fears of a wider conflict.

In January 2002, General-turned-President Musharraf gave a speech pledging that Pakistan would not allow terrorists to operate from Pakistani soil. He again called on the government of India to resolve the dispute over Kashmir through dialogue. India responded with statements that boil down to "I'll believe it when I see it."

The Governments of India and Pakistan

Before we move into the events and issues currently in front of India and Pakistan, we should pause here to consider the two nations' governmental structures and major figures. These are the names you must familiarize yourself to speak cogently on topics related to South Asia.

India

India has a parliamentary system of government similar to the British system. There are two houses - a lower house known as *Lok Sabha* (House of People) and an upper house known as the *Rajya Sabha* (Council of States). Compare these to the House of Lords and the House of Commons in the United Kingdom. All Indians over the age of 18 have the right to vote. The two national houses and the various state houses elect the Indian president, who is a figurehead. The prime minister holds the power of the state. India has numerous political parties, but power has generally been concentrated in the hands of the Indian National Congress.

As of this writing, India's President is Pratibha Patil (Congress Party) - the first female president of the country. Prime Minister Manmohan Singh, also a member of the Congress Party is up for re-election in May 2009, though the opposition- the Bharatiya Janata Party (BJP) led by LK Advani- has a legitimate chance to replace the Congress Party after Singh's ungraceful handling of the Mumbai attacks of 2008. The coming years will be interesting if not dramatic for India's political leaders.

Pakistan

Pakistan also employs a parliamentary government. The two houses are called the Senate and the National Assembly. Anyone over the age of 18 has suffrage. Unlike India, the President holds the powers of government and the prime minister serves in the lesser role though still has considerable political power. The major political parties are the Pakistan People's Party and the Islamic Democratic Alliance.

President Pervez Musharraf resigned from the office on August 18th 2008. In the September elections of that year,²¹ Asif Ali Zardari won a clear majority. Zardari's inauguration returned Pakistan to civilian government after more than eight years of military rule. The nation's Prime Minister (again, as of this writing) is Syed Yousuf Raza Gilani.

Hot Issues in South Asia: India as a Global Pole

²¹ Elections were moved back from a January 2008 date when leading candidate Benazir Bhutto (Zardari's wife) was assassinated. Zardari's victory is largely credited to the popularity of his late wife.

Among India's objectives for the future is developing itself into one of the poles in the new international system. It hopes to be a political and cultural bridge between a rising China and the United States. Geographically and historically, it is well positioned.²² India's growing international confidence derives primarily from its economic growth and its successful democratic record. India will probably continue to enjoy relatively strong economic growth thanks to the nation's rapidly expanding middle class, youthful population, reduced reliance on agriculture, and high domestic savings and investment rates.

Future elections are likely to be multi-sided affairs involving awkward coalitions with unclear mandates. The general direction of India's economic policymaking is unlikely to be reversed, but the pace and scale of reform will fluctuate. Regional and ethnic insurgencies that have plagued India since independence are likely to persist, but they will not threaten India's unity. India is likely to experience heightened violence and instability in several parts of the country because of the growing reach of the Maoist movement (more on this later).

Indian leaders do not see America as a military or economic patron and believe they (India) do not need such a benefactor. India will, however, maintain favorable US ties as a hedge against any re-development of hostile ties with China. Also, Indian policymakers believe US capital, technology, and goodwill are essential to India's continued rise as a global power. The United States will remain one of India's largest export destinations. The Indian diaspora—composed largely of highly skilled professionals—will remain a key element in deepening US-Indian ties.

Hot Issues in South Asia: Terrorism

Terrorism is presently the most significant issue for South Asia. Most of the action is taking place in Pakistan, though India plays a huge role in the strategies being chosen. This section outlines some of the larger components of the struggle with terrorism.

Nuclear Jihadists- Nightmares and Fantods enough for the whole world

Just before her murder in December 2007, former Pakistani Prime Minister Benazir Bhutto (see fn. 6) said, "I now think Al Qaeda can be marching on Islamabad in two to four years." Her prophecy seems all too real. In light of the fact that successive American directors of the C.I.A. have labeled South Asia the world's most dangerous nuclear flashpoint, that 9/11 was plotted in the mountains between Afghanistan and Pakistan, that Islamists affiliated with al Qaeda now dominate significant swaths of Pakistani territory, and that we have two nuclear armed nations eyeing each other warily, a jihadist Pakistan would be a strategic nightmare.

²² India and China have had extensive cultural contact, especially with the transmission of Buddhism from India to China. The two countries had a conflict of interest in Tibet, a geopolitical buffer zone where India had inherited special trading privileges from the British colonial government. In April 1954, India and China signed an eight-year agreement on Tibet that set forth the basis of their relationship.

Relations with China worsened during the 1960s and 1970s as Chinese-Pakistani relations improved and Chinese-Soviet relations worsened. China backed Pakistan in its 1965 war with India. Between 1967 and 1971, an all-weather road was built across territory claimed by India, linking China's Xinjiang Uygur Autonomous Region (Tibet) with Pakistan. China conducted a propaganda campaign against India and supplied assistance to dissident groups in northeastern India. China accused India of assisting the Khampa rebels in Tibet. The flow of cultural and other exchanges that had marked the 1950s ceased entirely. In August 1971, India signed its Treaty of Peace, Friendship, and Cooperation with the Soviet Union, and the United States and China sided with Pakistan in its December 1971 war with India. By this time, Beijing was seated at the UN, where its representatives denounced India as being a "tool of Soviet expansionism."

India and China renewed efforts to improve relations after the Soviet Union invaded Afghanistan in December 1979. In 1981 Chinese minister of foreign affairs Huang Hua was invited to India, where he complimented India's role in South Asia. A warming trend in relations was facilitated by Rajiv Gandhi's visit to China in December 1988. The mid-1990s brought improved relations with China.

It would provide al Qaeda with the ultimate sanctuary: The world's second largest Muslim state, protected by nuclear weapons, with a global diplomatic presence and Pakistani Diaspora that could be used to support terror. Further, a jihadist takeover would be a direct threat to both Hindu India and Shia Iran, encouraging both to expand their own nuclear programs.

The likelihood of al Qaeda successfully taking control of Pakistan is considered small, but authorities in every country possessing nuclear weapons worry about the very real possibility of terrorist-sympathizers inside the military who are willing to help the Taliban gain access to facilities containing nuclear weapons and materials. While security measures have been stepped up in response to Taliban advances, there is no such thing as perfect security: the loss of one weapon or takeover of one nuclear facility would precipitate a crisis. The chain of security across a dispersed line of nuclear assets is only as strong as its weakest link. The risk is that extremists collaborating with insiders are able to seize an opportunity to exploit a lapse in the defenses. Twice since the 9/11 attacks, the U.S. took action to break up networks inside Pakistan's nuclear establishment who were collaborating with outsiders in efforts to help them build bombs.²³

Meeting of World Powers

The prominence of terrorism, particularly Al Qaeda, in Southern Asia cannot be overstated. Threats posed by extremist groups to political stability in the region are among the Obama Administration's primary U.S. Foreign Policy concerns. In early May, 2009, Obama held three-way talks with Pakistani President Asif Ali Zardari²⁴ and Afghanistan's president Hamid Karzai to address Al Qaeda's instability-generating activities on the nations' shared border and the failed Swat peace accords (more on this later). "Our strategy reflects a fundamental truth," President Obama said. "The security of Pakistan, Afghanistan and the United States are linked." These talks indicate a significant shift in the regions loci of tensions from Pakistan's eastern border to its western border.

During this meeting, American officials advised Zardari and the Pakistani Army to move troops toward the western border, where the government is battling Taliban insurgents. The obvious risk Pakistan sees in such a maneuver is leaving itself vulnerable to its historical adversary- India. Pakistan has requested additional military support from the United States to reduce strain on its own military. It argues that during the Bush Administration, it was promised more than \$10 Billion in aid and that without continued assistance, the battle against Al-Qaeda and the Taliban cannot be won. Given the number of obstacles the

²³The two instances were:

- 1.) A network run by the father of the Pakistani bomb, Abdul Qadeer Khan, that provided sensitive nuclear technologies to Libya, North Korea and Iran for years before it was taken down.
- 2.) The Umma-Tameer-E-Nau, founded by Pakistani nuclear scientists with close ties to Al Qaeda and the Taliban, was headed by Bashiruddin Mahmood, a retired senior Pakistan Atomic Energy Agency official. He discussed Al Qaeda's nuclear aspirations with Osama bin Laden.

²⁴ Zardari took office shortly after the death of his wife, Benazir Bhutto an extremely popular and polarizing political figure. Much of Zardari's popularity came from his marriage to Benazir. Bhutto (1953-2007) was the first democratically elected female prime minister in Pakistan (1988-1990). She was elected PM again from 1993-1996. She was expelled from both terms in office on corruption charges. During her third attempt at the office of PM, she was assassinated in a combination car bombing/shooting. The attack that killed her at a political rally came as Bhutto staged a series of mass meetings across Pakistan meant to restore confidence in her and her family's political legacy. Her father, Zulfikar Ali Bhutto, was a charismatic politician who was president and prime minister from 1971 to 1977, before being hanged in April 1979 on charges of having ordered the murder of a minor political opponent. He was ousted from office, and ultimately executed, on the orders of Gen. Mohammad Zia ul-Haq, one of the long succession of military rulers who have dominated Pakistan for nearly 40 of the 60 years since it emerged as an independent state from the partition of British India.

Obama presidency inherited on top of the newly developing/ripening ones around the world, Zardari will need to provide compelling proof of his competency and commitment to stopping terrorist groups to a heavily burdened Congress and American President. So far Zardari and his military have failed to reassure America.

This meeting also brought the announcement that Afghanistan and Pakistan would finally sign a trade pact that has been under discussion for more than four decades, one meant to increase commerce between the countries, which have long regarded each other with mutual suspicion. As of the writing of this chapter, negotiations continue. If the agreement is indeed signed, it will be yet another significant shift in Southern Asian relationships which must be carefully considered by the thoughtful speaker/debater as it creates a new political dynamic in the region.

Swat Valley Peace Accord

A region north of Islamabad known as Swat Valley plays stage to the majority of Taliban fighting in Pakistan. During the spring of 2009, Taliban fighters seized control of Mingora, the area's largest city, renewing American concerns that militancy was spreading unchecked towards the capital and adding to a sense of regional crisis. As American and NATO troops confront militants in Afghanistan, insurgents are displaying increasing self-confidence in neighboring (and nuclear-armed) Pakistan, undermining its role as a key American ally against the Taliban.

Pakistan attempted to placate the Taliban in exchange for a cease fire with a February 2009 agreement which all but ceded a tract of land to the Taliban- allowing Islamic law's (Sharia) imposition in the valley- which they (the Taliban) then used to push into Buner (just 60 miles from Islamabad, the capital) and Mingora. The land grab prompted public opinion in Pakistan to shift against the Taliban who, until recently, received considerable support from segments of the Pakistani population sympathetic to their cause. The new opposition to the Taliban apparently bestowed the Pakistani military with the confidence to move against the Taliban more forcefully. Even so, the military remains divided in its resolve, the United States remains deeply unpopular and some religious parties still sympathize with the Taliban.

The (sur)realness of Borders

With more than 20,000 new troops planned for deployment into Afghanistan in 2009-2010 for a fighting season that the United States military has called a "make-or-break test" of the allied campaign in Afghanistan, competitors in speech/debate/congress need to acquire a deep understanding of the complex and chaotic group known variously as Al Qaeda and the Taliban.

In particular, we must realize that these terms serve as umbrellas for an array of brands of jihadists. If pushed to select a single, identifying difference between Al Qaeda and the Taliban, one could safely argue that Al Qaeda's interests are international in scope while the Taliban's are usually more about local control. As the objectives of one aid the objectives of the other, however, they fight together and are largely treated as synonymous.

One distinct, and possibly crucial, advantage Al Qaeda/Taliban possesses is the border between Afghanistan and Pakistan. For the insurgents, it barely exists. Their networks and personal connections to the region make movement from one nation to the other relatively easy. The lack of identifiable dress allows them to hide easily among civilians. For American forces, however, the border is a much more potent reality.

Battles in the North-West Frontier Province of Pakistan are part of the most obvious front of a long-haul strategy to destabilize and take over a nuclear-armed Pakistan. In Afghanistan, the Pakistani Taliban are directly singling out the United States and NATO forces by sending guerrillas to assist their Afghan Taliban allies in ousting the foreigners from Afghanistan. While to the Taliban those conflicts are one

fluid and sprawling war, the border between Afghanistan and Pakistan has long presented a firm barrier for the United States. Although Pakistan is an official ally of the United States, the Pakistanis will not allow American troops to cross the border from Afghanistan. They will also not allow the troops to be present as a fighting force alongside the Pakistani military in the tribal areas that al Qaeda and the Taliban use as a base.

Hot Issues in South Asia: Nepal

For India, Pakistan's troubles are certainly significant, but another issue facing them is Nepal. Historically, Nepal has sat under India's umbrella of influence, but the political crisis in Nepal, triggered by the resignation of Maoist Prime Minister Prachanda, is yet another reminder of India's strategic challenges. The rise of the Maoists brought increasing antipathy towards New Delhi. At one point, the Maoists' foreign policy chief even argued that India was to blame for the current crisis in Nepal because they (India) blocked Prachanda's move to remove Army Chief Roopmangud Katawal. India fears the Maoists, who control 40 percent of Nepal's parliament seats, are edging towards China. Since re-warming to the US, India is leery of a China-supporting Nepal.

Hot Issues in South Asia: American Alliances

During the Cold War, Pakistan allied with the United States and India sided with USSR/China. At the time, Pakistan was more strategically valuable to the United States than India. In 1979, the USSR invaded Afghanistan to augment the Soviet bloc. The United States aided Afghan rebels by training them in Pakistan. The CIA also lent the Afghans weapons (more on this later). The U.S. viewed Pakistan as the end of the Soviet bloc and a strategic ally because of its proximity of the USSR. The U.S. placed their military camps and military bases within this region. Also, the U.S. was on friendly economic terms with Pakistan that effectively boosted the Pakistani economy.

At the end of the Cold War, alliances shifted. With the fall of the USSR, India and the US began discussions and developed a strong partnership. India is the world's largest democracy; fifty percent of the people who live in free society live in India. India is also in the midst of a booming economy.

Today, the US tries to keep close relations with both India and Pakistan. This is a delicate balance to maintain; both nations scrutinize US policy for any hint of preference or double-agency. International politics is a game of balancing self-interest with assisting allies that gets read and interpreted by other nations interested in their own well-being. Consequently, distortions and misinterpretations can be intentional just as often as they are the product of solipsism. And changes in governance always alter the equation; currently elections in India are underway which may remove Monmohan Singh from office.

This history must be kept in mind when researching India/Pakistan because the people of this region are conscious of it on a daily-life scale as well as at the macro-political. Just as Kashmir has become a dispute filled with egos, reputations, and history, so too is every other element of South Asian politics.

Hot Issues in South Asia: Arms Races

May of 1998 forever changed the course of history in South Asia when both India and Pakistan joined the exclusive nuclear weapons club. Unfortunately they joined by force rather than invitation. The logic for both nations was two-fold:

- 1) Gain the upper hand in the Kashmir conflict
- 2) Gain the respect (and added scrutiny) of the international community.

Even though India and Pakistan would be scolded and even have economic sanctions placed upon them, they were proud of their accomplishments.

Nations such as the United States, France, and Great Britain responded harshly. The tests, they said, constituted the behavior of rogue states and would be punished accordingly. So in accordance with the

United Nations the international community behind the United States placed harsh economic sanctions upon each nation, hoping that they would reverse their increased nuclear testing. India and Pakistan did not budge, replying that they have a right to have nuclear weapons. They argued that the nations condemning them are the ones with the most nuclear weapons capability.

These nuclear arms are dangerous due not only to the terrorist presence, but because they make proliferation more likely, especially if anything occurs to further destabilize the region. Both India and Pakistan plan on accelerating their military strengths by spending ever increasing percentages of their respective GDPs. India is expecting to spend \$9.4 billion on the military, which is a \$2 billion increase over the previous fiscal year. Pakistan will spend \$2.6 billion. This spending comes despite the poverty their citizens live in. Currently, 9 out of 10 Indians and 6 out of 10 Pakistanis live on less than \$1.65 a day.

Further, India and Pakistan refused to sign the Comprehensive Test Ban Treaty because they believed that they needed the weapons. Though India and Pakistan did sign an accord stating that they would not use the weapons against each other, they often seem willing to back away from this accord if deemed necessary.

Ultimately, though the complexities of the region are daunting, the need to address the challenges discussed above is urgent. Understanding the context in which these conflicts are situated is critical to effectively analyzing topics on the subject.

Central Asia

Michael Dorsi, Joshua Bone, and Paul Storm

Introduction

The tiny, former Soviet Republics that comprise Central Asia have played pivotal roles in major global events. The most visible was the American campaign to remove the Taliban government from Afghanistan beginning shortly after the 2001 attacks on the World Trade Center. Central Asian nations provided bases and logistical support that enabled the United States and the Northern Alliance to topple the Taliban in only a few months. More recently, Georgia's 2003 Rose Revolution has tested whether democracy can flourish in this still-volatile region. More quietly, Central Asian nations are helping to reduce global dependence on oil from the Persian Gulf. Oil reserves in the Caspian Basin, although largely untapped today, may provide an alternative to Saudi oil.

What is Central Asia?

Central Asia generally refers to the former Soviet Republics (FSR) east of the Caspian Sea and the Caucasus Region west of the Caspian Sea but east of the Black Sea. These include:

FSR

-Kazakhstan	-Kyrgyzstan	-Tajikistan
-Turkmenistan	-Uzbekistan	

Caucasus Region

-Azerbaijan	-Armenia	-Georgia
-------------	----------	----------

You should become familiar with the geography of this region. Not the terrain, but definitely the locations of each state with relation to the others.

Afghanistan is located just south of the former Soviet Republics. Because of Afghanistan's distinctive history and particular importance in contemporary world affairs, it will be discussed separately in this chapter from the rest of Central Asia.

Don't know much about Central Asian history?²⁵

Both the FSR and the Caucasus Region shared a common history for much of the past century. This is not to say they are without differences. The Caucasus Region has greater diversity of religion and culture than the FSR because of the many groups that passed through or conquered the area throughout history. Georgians and Armenians- for example- practice distinct forms of Christianity, speak their own distinct languages, and have cultures wholly unlike the FSR. Azerbaijan has a language that resembles Turkish, and the Shiite sect of Islamic religion that links them to Iran. Other ethnic groups (Chechyns, Ingush, Ossets) live in Russian territory as well as enclaves in these three nations. This diversity is one factor that has led to a high degree of ethnic and religious conflict in the Caucasus region.²⁶ Central Asia has a diversity of ethnic groups but a more homogenous religious tradition.

The region is far from peaceful, either now or in its history. At different times, it has been conquered by the Chinese, Arabs, Mongols, and Russians. The Russian conquest of the two regions, however, is the

²⁵ You're not alone.

²⁶ This region is a good place to examine the strengths/weaknesses of IR theories discussed in Ch. 8

beginning of their joined history. The Russian Tsars conquered much of both regions prior to the establishment of the Soviet Union. The Caucus nations achieved independence between 1918 to 1921, before the Red Army forced them to rejoin the Soviet Union. Under Soviet rule, the nations had little control of their affairs. Soviet authoritarianism and brutality kept an otherwise tumultuous region relatively calm. Since the dissolution of the Soviet Union in 1989, conflicts in the region have re-emerged. American and European investment has begun the development of capitalist oil enterprises. The region has had a new birth, and in many ways slipped into a new decline.

A Post-Soviet Decline?

Soviet rule over the Caucasian and Central Asian republics did not generate prosperity, and most people would not consider the post-Communist era to be a major improvement. The elite of the Communist Party found their power in both the political sphere as well as their amassed wealth. The elite who influence the businesses and governments of the region today are not much different. The average citizen of these regions lives in dire poverty. Given the degree of corruption, the poverty of the citizens, and the failure to achieve domestic stability force, many wonder whether these nations face a “Post Soviet decline.” This decline can be better analyzed by examining specific issues.

A Corruption Epidemic

Soviet Russia was a corrupt government, about that there is no question. The leaders of the Soviet Union lacked legitimacy and abused their power. Soviet corruption, for the most part, was at the very top. Present day corruption, on the other hand, is at all levels. Leaders employ family, friends, and business associates. So many bureaucrats have been installed through nepotism that most of the governments can't even afford to pay the salaries. Bribes have become one of the de facto means of paying government officials.

The corruption in these nations is, predictably, a drain on their ability to operate. As a result, foreign investors are discouraged. Those who continue their enterprise will often isolate it, so as to prevent the added cost of paying off corrupt officials. A Chevron operation in Tengiz, Kazakhstan, for example, does not use the local area for supplies, but rather trucks in supplies from Europe. The isolation of such operations prevents the benefits of industrialization from helping the local economy. The epidemic of corruption threatens to stifle any opportunities for the region to prosper.

The Environmental Disaster

The Soviet Union left some of the worst environmental damage the world has ever seen. Soviet industrialization largely ignored environmental concerns; ecologists only gained influence after the fall of the Soviet Union. The desperate need for economic growth and industry has dominated recent political agendas, re-silencing the environmentalists. The Volga River has become one of the world's most contaminated bodies of water. Industrial waste from cities along the rivers course from Moscow to the Caspian Sea makes the Volga a danger to all life in the area. Caviar, taken from sturgeon, has become rare because of the inability of sturgeon to survive in the polluted waters. The marshland of the Volga and Ural deltas has acted as a filter, preventing much of the pollution from reaching the Caspian Sea, but soon this protection will be gone too, endangering even more people.

The Caspian Sea has its own sources of pollution. Unclean methods of oil drilling make pollution especially bad near the city of Baku, Azerbaijan's capital and the Soviet Union's Oil boomtown. The rivers flowing east from the Caucasus also bring pollutants into the sea. The currents in the water make much of the pollution drift south, towards the Iranian shore. The Caspian has an unstable shoreline, which rose eight feet between 1978 and 1998. The submergence of towns has only worsened the conditions of both the environment and the local population.

The Aral Sea, on the border of Kazakhstan and Uzbekistan, has shrunk drastically since 1960. The Amu Darya and Syr Darya rivers which fed the sea were diverted to water farms in several countries. As a result, the Aral Sea has become too salty to support fish or any native life. The cities that survived as fishing ports are now becoming ghost towns.

Soviet industry often disregarded safety in industrial centers, and the lack of economic investment kept many of these industrial centers from modernizing. Factories and mines in Kazakhstan continue to contaminate the air and water to incredibly unhealthy extents. Industrial cities are contaminated by lead and zinc. Not surprisingly, these cities have higher rates of cancer, immune system abnormalities, and chromosome damage. Some cities have black snow in the winter, a result of the soot produced by factories.

Finally, untreated radioactive waste in Kyrgyzstan seeps into neighboring Uzbekistan. The Soviet-era Polygon nuclear test site in Kyrgyzstan has never been properly cleaned up. Although the test site itself is in a relatively unpopulated area of Kyrgyzstan, the region directly across the border is highly populated. To this day, the exact locations of some Soviet missile test sites in Central Asia and even of some Soviet-era nuclear missiles and radioactive material are unknown, raising concerns of further contamination.

Environmental problems in the former Soviet Union are a danger to residents and a detriment to investment. The lack of a safe, healthy, modern, and productive workforce in Central Asia prevents many corporations from establishing factories in the region. This lack of investment exacerbates the existing economic and environmental problems. Clearly, the crisis of pollution stands as an obstacle to any progress for the region.

Oil and Wealth

In the early 1990's, many estimates forecast more oil in the Caspian Basin than remained in the Persian Gulf. Estimates have since been reduced drastically, but not so far as to discount the significance of Caspian Oil. Presently, several countries support drilling operations in waters near to their coasts. Pipelines to transport oil overland, however, mainly go through Russia or Iran. Plans exist to build a pipeline across Azerbaijan, Georgia, and Turkey to the Mediterranean Sea, but internal political fighting for the last two decades continues to thwart building the pipeline. The United States also fears that such a pipeline would present an incredibly inviting target for regional terrorists. However, the current system of transporting oil from the Caspian into Russia or Europe is outdated and ineffective. The cost of transporting oil to the Mediterranean Sea, where it can be transported by tankers, is nearly half the cost of drilling.

Currently, drilling in the Caspian may provide more opportunities for Russia and the West than for local economies. American oil companies are drilling in several Caspian oil fields, and the United States increasingly buys Russian oil. Increased oil from the Caspian region has two major benefits to Americans:

1. It decreases Western dependence on Middle Eastern oil.
2. The increased supply decreases oil prices.

The workers in the oil industry are employees of international oil giants rather than residents of Central Asian or Caucasus republics. So while Caspian oil is good for America, it does not confer the full economic benefits to the people of the region that it could.

Drug Trafficking

Just a few years ago, Afghanistan was the world's second largest producer of opium, behind only Myanmar. A crackdown by the Taliban nearly eradicated production in 2001. The fall of the Taliban and the inability of the new government to prevent opium cultivation restored Afghanistan as the major opium producer in the world.

Central Asia is the first stop on the route to marketing Afghan drugs in European and American markets. This trafficking brings large flows of illegal but desperately needed money into these countries. Regulation has been difficult; the borders of Central Asian countries are easy for traffickers to pass through (as the borders are for militants and refugees).²⁷

Opium's allure is further explained by Central Asia's water scarcity. Most piping systems in the region are incredibly antiquated. Some estimates suggest that at least half the water supply is lost between the well and the faucet. An opium crop takes far less water than a traditional food crop. Since farmers can make far more money on opium than with any other crop, growing the drug and buying food is more attractive. As with the "Tragedy of the Commons,"²⁸ food becomes increasingly scarce when everyone plays by 'me first' rules in a region that lacks adequate infrastructure or regulation. Government efforts to crack down on opium production makes it a riskier crop to grow, which increases the price of opium, further tempting farmers to switch to drug production.

Terrorism

Some states have shown a willingness to exploit the American War on Terrorism. Islam Karimov, the former President of Uzbekistan, claimed to have arrested and executed thousands of terrorists in 2003, but international organizations have since learned that over half the terrorists were political opponents with no direct ties to terrorism.

Separatist violence has also risen in the region. In Uzbekistan in Spring of 2004, hotels and other public places were bombed, killing innocent civilians. Karimov has blamed the Islamic Movement of Uzbekistan, a separatist organization that also launched a series of bombings against his government in 1999. Karimov quickly and decisively arrested many members of that organization, denying trials to most. Human rights organizations argued that his government was yet again using the War on Terror to quash internal political opposition.

As far as the United States can tell, these attacks, and others like them, were motivated by local political concerns, and were not centrally planned by an international organization like Al Qaeda. This does not mean that Al Qaeda will not operate in these nations; many terrorist groups will be active for years to come in Central Asia.

Country by Country

Each country faces differing crises, many of which have, as of yet, only regional implications. Because of the potential for these crises to impact larger events, it is necessary to explore the countries, individually.

Armenia

chief of state: President Serzh Sargsian (since 9 April 2008)

head of government: Prime Minister Tigran Sargsian (since 9 April 2008)

cabinet: Council of Ministers appointed by the prime minister

next elections: February 2013

Yerevan, Armenia's capital city, sits on a plain below Mt. Ararat, the biblical resting place of Noah's Ark. Armenians thus claim to be the first descendants from the Ark. Also, many historians believe that Armenia was the first nation to embrace Christianity. Belief in their unique importance has been one of many factors that has helped Armenian culture to survive many invasions.

²⁷ The same reasons that the Afghan/Pakistani border discussed in the India/Pakistan chapter pose a problem to the uniformed militaries and not civilians apply here.

²⁸ Garrett Hardin wrote about this in 1968. An incredibly influential piece that if you haven't heard of by now, you really need to read!

Perhaps the worst aggression was the attempted relocation of Armenians by the Ottoman Turks during World War I. The result was a genocide, greater than any that had come before. In the years following the genocide, few remembered it, with one notable exception. Adolf Hitler, explaining why a Jewish holocaust would be tolerated, asked “Who, after all, speaks today of the annihilation of the Armenians?”

The Nagorno-Karabakh

Since the collapse of the Soviet Union, Armenia has been in conflict with Azerbaijan over the Nagorno-Karabakh. The Nagorno-Karabakh is an enclave of Armenians living inside the established borders of Azerbaijan, which Armenia claims is actually part of their territory.²⁹ The enclave declared independence from Azerbaijan in 1991, and the Armenian military has secured the region and access between Nagorno-Karabakh and Armenia proper. The war placed a strain on Armenia’s economy, and the Nagorno-Karabakh has not recovered from being a war zone. Although the enclave has an established government, only Armenia has granted it diplomatic recognition. The lack of recognition of Nagorno-Karabakh by the international community has been cited by some as a reason that the enclave receives little humanitarian assistance.

The crisis occasionally erupts into war, but is becoming less and less important from the Armenian point of view. Many believe that the conflict originally helped unify all Armenians behind a national cause, but more recently has been treated as a bone of contention. Many see the conflict as taking the government’s attention away from domestic economic problems.

Azerbaijan

chief of state: President Ilham Aliyev (since 31 October 2003)

head of government: Prime Minister Artur Rasizade (since 4 November 2003)

First Deputy PM Yaqub Eyyubov (since June 2006)

cabinet: Council of Ministers appointed by the president and confirmed by the National Assembly

next elections: October 2013

capital: Baku

Azerbaijan’s heritage links to its three powerful neighbors: Turkey, Iran, and Russia. The ethnicity of Azerbaijan is most closely linked to Turkey, and their language is of Turkish origin. Culturally and religiously, however, Azeris are like Iran. The majority of the population practices Shiite Islam, the same sect that has dominated Iran and southern Iraq for centuries. Azerbaijan owes Russia for the industrialization and transformation of Azerbaijan into an oil-producing nation. Today, Azerbaijan struggles to remain independent of the influences of the three powers, and has invited American corporations in to drill for oil, in hopes that it will stimulate economic growth.

American oil companies such as Exxon Mobil have seen the advantage of Azerbaijan as a country eager to accept American investment. Because Azerbaijan occupies the Caspian coast between Russia and Iran, and because of the proximity of the oil fields to Baku, nearly all oil pipelines run through Azerbaijan. The oldest lines run northwest through Chechnya to Russian ports on the Black Sea. One route passes across Azerbaijan and Georgia to the Black Sea, and a proposed line runs through Azerbaijan, Georgia, and Turkey to the Mediterranean Sea. Also, oil from Kazakhstan is brought across the Caspian in barges to be piped from Azerbaijan to the open seas. The transformation of Azerbaijan into a regional oil hub provides an opportunity for prosperity.

²⁹ Yes, another territorial dispute.

Two major problems have accompanied oil wealth. First of all, although there are substantial revenues flowing into Azerbaijan, little of that money reaches those who need it most. As the poor get poorer, the rich are getting richer. Oil production frequently employs only wealthy foreigners with longstanding ties to international oil corporations. One industry cannot employ the entire population, but oil could certainly employ many more native Azeris than it does. The results of Azeri drilling are beneficial to consumer nations, but have little effect on the poverty of many Azeri people.

The second problem has to do with terrorism. The prevalence of the oil industry in Azerbaijan has made that country a potential target for regional terrorists. Knocking out American access to valuable oil reserves would be an amazing coup for Al Qaeda or another anti-American terrorist network, and would also cause total economic destabilization. Further, the environmental costs would be astronomical. Therefore, both the oil industry and the military have designed extensive security networks that are designed to protect the oil pipelines from terrorist attacks.

Georgia

In 1801, the Georgian King, having suffered invasions on all sides, asked the Russian Tsar to make Georgia a protectorate. The Russian Tsar decided to annex Georgia, making it the route for the conquest of the rest of the Caucasus. Georgia's history with Russia is an understandably tense one. Many subgroups in Georgia have pushed for regional autonomy. Georgia's government has made concessions to these groups, but cannot continue to do so, or the nation will eventually splinter.

In the fall of 2003, President Eduard Shevardnadze rigged a series of Parliamentary elections that otherwise would have ended with him falling from power. Facing tremendous opposition from international observers, including most election officials, Shevardnadze refused to resign, and instead attempted to corral the Georgian Parliament. However, Mikhail Saakashvili, the leader of the Georgian opposition, claimed that the election fraud was the last straw for an administration that had been consistently fraught with corruption and had been totally unable to jumpstart the Georgian economy. Mr. Saakashvili was educated in the United States, and claimed to be a practical problem solver. His supporters stormed the fraudulently elected Georgian Parliament when Shevardnadze attempted to convene it, forcing him from power in a bloodless coup known as the Rose Revolution. In the days immediately following the Georgian coup, many felt that Georgia may regain its former prominence. Continued domestic challenges, including economic decline, corruption, and separatist movements, unfortunately plagued the Saakashvili administration.

It wasn't long before Saakashvili began adopting the tactics of his predecessors. He is now thoroughly discredited in the eyes of his European neighbors. In 2004, conflicts began breaking out again. In May of that year, Saakashvili engineered a second "Rose Revolution" for the autonomous region of Ajaria. This act created some discomfort for the autonomous South Ossetians (more on this group later), who remember Georgia's attempted land grabs against Armenia and Azerbaijan. Between 2004 and 2006, the South Ossetian separatists repeatedly clashed with the Georgian state. Throughout this time, Saakashvili was laying the groundwork for seizing and holding on to power, rather than bettering his people in any way.

In 2006, a second referendum on the autonomy of South Ossetia was held, the first (in 1992) having been deemed invalid by other nations. According to the Tskhinvali election authorities, the referendum turned out a majority for independence from Georgia where 99% of South Ossetian voters supported independence. A team of 34 international observers from Germany, Austria, Poland, Sweden and other countries were present at 78 polling stations to monitor the vote. Despite this presence, the vote was not recognized internationally by the UN, European Union, OSCE, NATO or the Russian Federation; the

reason being a lack of ethnic Georgian participation and the legality of such referendum without recognition from Tbilisi.³⁰

Ossetians took to the streets in peaceful protest like in the Rose Revolution that brought Saakashvili to power. Imagine their surprise when the democratic liberator of Georgia turned riot police with rubber bullets, hoses, tear gas, and water cannons on them. Saakashvili imposed a 15-day state of emergency in which Interior Ministry troops armed with truncheons patrolled the streets. He suspended news services and banned all demonstrations. In response to pressure from opposition forces, Saakashvili held snap elections in January of 2008 and won with a mere 52 per cent of the vote.³¹

Saakashvili concluded a ceasefire agreement with South Ossetian leader Eduard Kokoity on 7 August 2008. On that same day, as the rest of the world was preparing to watch the Olympic Games, Georgia invaded South Ossetia in a surprise attack. Georgian tanks were soon rolling into South Ossetia's capital, Tskhinvali. For the next day and night, the Georgian military attacked South Ossetia. Thousands of civilians were killed.

In a televised address, Georgian President Mikhail Saakashvili earlier called for the bloodshed to end, but also warned the Russian-backed separatists not to try Tbilisi's patience. This statement bordered on absurd: Tiny Georgia warning the Russia not to try their patience?

On 8 August 2008, Russia requested an emergency meeting of the UN Security Council. It offered an immediate halt to violence in South Ossetia on the condition that both parties renounce the use of armed force. Saakashvili refused. Meanwhile, Georgian military forces continued to bomb civilian targets and reduce buildings to rubble. Later that same day, Russian planes and tanks entered South Ossetia, halting the indiscriminate attempts at genocide by Georgian forces.

By 10 August, Russian troops, having cleared South Ossetia of the Georgian military presence, proceeded to cut off roads and bomb a military airfield in Georgian territory. Russian warships deployed to the coast of the Black Sea, where the Georgians claimed they were blockading food and fuel supplies. The Russians replied that they were not interested in a blockade but had a right to search all ships in the region.

Saakashvili then proclaimed a unilateral ceasefire and urged the Russians to respect this. Meanwhile, Georgian military forces continued to attack civilian populations in South Ossetia. Russia pointed this fact out and refused to accept the ceasefire. Russia warned Georgia to pull back and when Georgia failed to do so, advanced deep into Georgian territory from the Abkhazian side of the border after first evicting any remaining Georgian military from Abkhazia.

Ajaria

In the aftermath of the fall of Shevardnadze, Saakashvili made public his desire to bring Aslan Abashidze, a renegade leader of the province, to justice, and restore Ajaria to direct Georgian control. Batumi, the capitol of Ajaria, is a strategically important port, which Shevardnadze was willing to cede to Abashidze in the interests of stability.

Abashidze responded to Saakashvili's rise to power by attempting to declare Ajaria independent. He quite publicly destroyed a series of bridges that connected his province to the rest of Georgia in response to signs the Georgian military was preparing to invade. Then, in the last straw, Abashidze fired on pro-

³⁰ Capital of Georgia

³¹ He won his first election with 96% percent of the vote!

Saakashvili protesters, causing even more widespread protests, and public pronouncements by Saakashvili that he was prepared to invade. Abashidze, scared for his life, fled to Moscow.

Pankisi Gorge

Directly south of Chechnya, the Pankisi Gorge has been a haven for Chechen and Arab fighters with possible links to Al Qaeda. The problem is that for years Georgian government officials denied the presence of hostile militants in Pankisi. In February of 2002, the United States announced it would send 180 military advisers to Georgia to train Georgian forces to fight the rebels taking refuge in Pankisi. Georgia's military certainly needs assistance, but had turned down Russian assistance for years. Together with Americans, the Georgian military invaded the Pankisi gorge in the summer of 2002, and apparently cleaned out many of the Chechen fighters. The region has yet to reemerge as a haven for terrorists, but certainly could.

Some have criticized the United States by saying that we would not have been operating in Georgia if there was no oil involved. Certainly, Caspian oil and pipelines avoiding Russia and Iran (thus going through Georgia) are in our best interest. So, also, is preventing Pankisi Gorge from becoming a terrorist training center. There is plenty to consider in analyzing American involvement. Oil is something, but it isn't everything. Risks also exist for American troops and their possible entanglement in any crisis. The first American troops in Vietnam were advisers. Troops currently training the Filipino military to fight Abu Sayyaf have increased greatly in number. Like the Philippines, Georgia could become a major base of U. S. troops. If the Al Qaeda is truly preparing operations in Georgia, local U. S. troops could become a target.

South Ossetia

Ossetia is divided between North and South along the border between Russia and Georgia. Ossets are descended from ancient Iranian tribes that migrated to the area. The cultural and ethnic differences between Osstes and Georgians have been cited as grounds for independence. South Ossetia declared independence in 1990, hoping to join with North Ossetia. Conflict in 2008 brought them to the world's center-stage briefly.³²

Chechnya

Chechnya and Russia have fought two conflicts over control of the small republic. The first conflict ended in 1994 in a stale-mate that created de-facto independence for Chechnya. The small nation elected a President, Aslan Maskalov, and established an embassy in Georgia.³³ Many Chechyn militants are not Chechyn, rather, many are Arab or Afghan. Many Chechyn fighters, including the now deceased militant leader Khattab, are suspected of having links to Osama bin Laden. The elected government did not control the militants who fought Russia, and in 1999 militants made an incursion into Dagestan. As a reaction to the incursion and several terrorist attacks in central Russia, another war was launched.

This second conflict in Chechnya was directed by the then-newly appointed Prime Minister, Vladimir Putin. As a result of the apparent success, Putin's popularity surpassed that of President Boris Yeltsin. Putin succeed Yeltsin as President and was elected to a full term shortly thereafter. This second conflict continues today, despite major victories for Russia such as capturing the Chechen capital, Grozny. The violence has displaced thousands of refugees and involved Russia in a costly and unending conflict. For more on Chechnya, see the chapter on Russia.

Kazakhstan

³² This conflict is dealt with in the Georgia section of this chapter as it was largely instigated by Georgia's government.

³³ No other countries recognized Chechyn independence.

chief of state: President Nursultan A. Nazarbayev (elected 1 December 1991)

head of government: Prime Minister Karim Masimov (since 10 January 2007)

cabinet: Council of Ministers appointed by the president

next elections: 2012

NOTE: constitutional amendments of May 2007 shortened the presidential term from seven years to five years and established a two-consecutive-term limit; changes will take effect after Nazarbayev's term ends; he, and only he, is allowed to run for president indefinitely.

The largest republic to break away from Russia, Kazakhstan's vast land mass holds numerous resources and an enormous diversity of citizens. The land mass, nearly four times the size of Texas, holds many valuable deposits of ore and, along the Caspian coast, oil. The land also has numerous environmental hazards as a result of Soviet weapons testing. Chemical, biological, and nuclear weapons were produced in Kazakhstan. The waste from these projects was often dumped into rivers that became water supplies for the local populations. The Soviets also used nuclear weapons for nonmilitary purposes, such as opening mines or creating lakes. These actions have a lethal legacy, causing increased rates of infant mortality and birth defects. People of all ethnic groups suffer from the waste remaining from the Soviet era.

The changing demographics of Kazakhstan pose a degree of uncertainty in Kazakh politics. Presently, the Kazakh President has a high degree of both official and unofficial authority. The Kazakh Constitution gives the President the power to appoint the Prime Minister, establish a council of ministers, dissolve the parliament, and call for referendums. The sitting President, Nursultan Nazarbayev, enjoys a strong popular mandate from his overwhelming landslide in the 1999 Presidential election. Some have raised concerns about the validity of the results, and others have called for a stronger separation of powers. In response to these claims, Nazarbayev has proposed broad judicial reforms, including trial by jury and the decentralization of the judicial system into the provinces.

Kazakhstan's economy has an opportunity and the resources needed for long-term growth. The most notable sector, however, is the one least likely to help the people. Economically, if Kazakhstan is to prosper, it will need to be in favor with the United States and Europe. Oil investment drives much of the Kazakh economy. The economy has been booming recently, in part because of the rapid expansion of oil revenues. Growth in natural gas production especially is increasing by half every year. However, oil production in the Tengiz and Kashagan oil fields, like the oil fields near Baku, Azerbaijan, is done mostly by western companies. Local economies are helped, but the isolation of many operations prevents the region from truly tapping the resource.

Kyrgyzstan

chief of state: President Kurmanbek Bakiev (since 14 August 2005)

head of government: Prime Minister Igor Chudinov (since 24 December 2007)

cabinet: Cabinet of Ministers proposed by the prime minister, appointed by the president; ministers in charge of defense and security, appointed solely by the president

next elections: 2010

Small and mountainous, Kyrgyzstan is one of the poorest of the former Soviet Republics. They face insurgents and drug trafficking problems similar to their neighbors Uzbekistan and Tajikistan. An exporter of electricity to neighboring countries, Kyrgyzstan has a degree of industry. Major events, however, will likely avoid this small mountainous nation.

Tajikistan

chief of state: President Emomali Rahmon (since 6 November 1994)

head of government: Prime Minister Oqil Oqilov (since 20 January 1999)
cabinet: Council of Ministers appointed by the president, approved by the Supreme Assembly
next elections: November 2013

Located to the northeast of Afghanistan, Tajikistan has been the country most affected by the recent events in Afghanistan. Ethnic Tajiks are dominantly Islamic, and more Tajiks live in Afghanistan than in Tajikistan. Tajikistan itself suffers from crime that is both home grown and linked to international drug trafficking. More drugs from Afghanistan travel through Tajikistan than through any other nation in the region. Efforts to combat the narcotics trade have been somewhat successful, however, and the government has received American aid in its War on Drugs. Tajikistan's government has supported the American campaign in Afghanistan, and has asked for increased aid from the U. S.

After independence from the Soviet Union, civil war erupted in the small, impoverished nation. A peace accord signed in 1997 requires that political Islamists be allowed in the government. The Taliban and reportedly Al Qaeda supported Islamists in Tajikistan while the government openly denounced the Taliban and supported the Northern Alliance. The toppling of the Taliban was welcomed by the Tajik government, as it ended the threat of Taliban hegemony. Free from the instability felt during the Afghan civil war, Tajikistan looks more stable than before an American presence arrived in the region. The United States has also acted as a counterbalance to the hegemony of Russia in the former Soviet Republics as a whole. Tajikistan has welcomed the change, allowing the United States to use former Soviet bases to launch air strikes. The United States has used the bases and discovered they are far more inexpensive than aircraft carriers in the Arabian Sea.

Turkmenistan

chief of state: President Gurbanguly Berdimuhamedow (since 14 February 2007)
NOTE - the president is both the chief of state and head of government
cabinet: Cabinet of Ministers appointed by the president
next elections: February 2012

Turkmenistan's most serious international issue is their border with Iran. Russian troops are still on patrol along the Turkmenistan-Iran border, over a decade since the Soviet Union dissolved and authorities in Moscow relinquished the territory. The country, like its neighbors, is a route for drug traffickers and some opium production. The government has taken some steps to eradicate the cultivation of opium poppies, but it has had little effect. Turkmenistan's outlet on the Caspian has significantly less oil than the Kazakh or Azeri coasts, but still has the opportunity for increased production. Turkmenistan is also home to more natural gas reserves than any of their neighbors.

Uzbekistan

chief of state: President Islam Karimov (since 24 March 1990)
head of government: Prime Minister Shavkat Mirziyoyev (since 11 December 2003)
cabinet: Cabinet of Ministers appointed by the president with approval of the Supreme Assembly
next elections: 2014

The most powerful of Central Asian states, Uzbekistan is ruled autocratically and faces serious opposition from political Islamists. An "Islamic Revolution," like Iran's in 1979, could very well happen in this unstable nation.

Uzbekistan's population is significantly greater than any neighboring country. Notably, this population almost entirely lives in the eastern part of the country, near the borders with Tajikistan, Kyrgyzstan, and Afghanistan. By actions and size, Uzbek influence has, to some observers, earned the title of regional hegemon. Uzbekistan's role as such can have significant negative ramifications. Within Central Asia,

Uzbek interference in the affairs of other nations frequently breeds hostility. Although Uzbekistan's "hard power" (their political and economic might) remains high, their "soft power" (or persuasive sway) is undermined by their leader's authoritarianism and their nation's ethnic makeup. At a minimum, this undermines the ability of Uzbekistan to act as a hegemon. At worst, it can cause radicals to gain power and destabilize the region. These radicals may well take the philosophy of the Taliban, proposing strict Islamic law, and oppose the United States as well.

Afghanistan

A Brief History

Afghanistan's history is long and tumultuous. Its connections to many ancient civilizations are interesting but beyond the scope of our purposes here. The relatively recent history of Afghanistan continues to shape global affairs. Given its geographic location this is not surprising. Afghanistan is located to the east of, to the south of the former Soviet Union, and to the West of Pakistan.

Far inside the Soviet sphere of influence, Afghanistan wasn't particularly on the American radar until 1979. In December of that year, the Soviet Union invaded its relatively small, underdeveloped neighbor. Sensing a Soviet power grab, the West responded with quick diplomatic condemnation. As the brutal offensive continued, the US helped to conduct a clandestine local resistance against the hugely powerful Soviet Army. Many millions of dollars worth of advanced weaponry, training, and other supplies flowed into the country. Notably, the resistance was led by a group of religious warriors known as mujahideen. Though at the time US policy was not particularly fond of Islamist revolutionaries in the region,³⁴ the hope was that the fighters' radical religiosity would form a bulwark against Soviet influence. This would turn out to be a fateful strategy. Though effective against the Soviets, those who were trained by the United States would later form the substantial part of the Taliban government and Al Qaeda. Osama Bin Laden was among those trained and equipped by the United States.

With the United States backing the Afghani resistance, the Soviet occupation was long and bloody. Eventually under mounting internal pressure and internal dissent, the Soviet Army was forced to withdraw by early 1989. By then the Soviet Union was itself collapsing, and many argue that the blood and treasure expended in the Afghanistan campaign played a significant role. In the post-Soviet era, US aid quickly dried up and the war-raged state which quickly devolved into civil war. Eventually the Taliban, a group of radical Islamists, came to power in Kabul (Afghanistan's capital city). Their imposition of Shariah law and shocking repression of women were condemned by human rights activists, but little was done. The nation remained shockingly poor and underdeveloped.

The Taliban government sheltered the senior leadership of Al Qaeda, an international terrorist network responsible for a number of attacks in the middle east, US embassies, and of course most notably the 9/11 attacks in Washington D.C. , New York City, and Pennsylvania. In response to the latter attacks, the United States invaded Afghanistan and deposed the Taliban regime. The initial campaign used few ground troops and had notable NATO support. In particular, the United States had close ties with the Northern Alliance, a group of tribes and other groups who had opposed the Taliban in Afghanistan's civil war. Though Osama Bin Laden evaded capture and many members of Al Qaeda's senior leadership were able to flee the country into the mountainous tribal regions of Pakistan on Afghanistan's eastern border, the war was generally considered to be a success. National policies oppressing women were largely lifted, with many women voting and going to school for the first time. Though Afghanistan remains a culturally

³⁴ The American Embassy in Iran had been seized in an Islamist revolution shortly before the Afghan conflict, although that particular revolution was carried out by Shiite Muslims, where the mujahideen were principally Sunni Muslims.

conservative society, it has taken significant steps toward becoming a part of the liberal international order.

Despite these early successes, however, many of the gains initially won were slowly given back. US military resources shifted to the War in Iraq, and NATO forces were given a larger part of the responsibility for consolidating the military gains achieved in the initial campaign to depose the Taliban. This strategy was largely unsuccessful, and for the past several years the Taliban has been making gains in certain regions of the country. At the same time, Afghanistan has remained severely underdeveloped economically. As American involvement in Iraq winds down, President Obama has renewed America's commitment to making Afghanistan peaceful and stable, and to preventing it from once again becoming a terrorist safe haven. Whether these efforts will succeed is not yet known.

Relationship with Pakistan

Afghanistan's relationship with Pakistan has been somewhat contentious. At present, there is great tension over the apparent inability of the Pakistani government to control that part of Pakistan bordering Afghanistan. In that region, Taliban and Al Qaeda members travel relatively freely between the two nations. Taliban forces have retreated to these tribal regions of Pakistan to prepare for summer offenses against Afghanistan. Their continued strength has done much to undermine the present Afghani regime, led by President Hamid Karzai (elected in 2004). Improving cooperation on security and economic issues will be crucial in the coming years if the ruling powers of both Pakistan and Afghanistan are to survive

Afghanistan and the United States

To date, the relationship between Afghanistan and the United States has remained relatively strong. Afghanistan is dependent upon a significant amount both humanitarian and military aid from the United States, and continued assistance in its efforts to fight the Taliban insurgency. There has not been a significant American troop presence in Afghanistan, and so the resentment to the sense of occupation commonly associated with Iraq is not nearly so prevalent in Afghanistan.

The Drug Trade

Unfortunately, the ongoing underdevelopment of the region means that the major cash crop in Afghanistan are poppies used to make opium. Though the central government and the United States have made some efforts to interdict the drug trade based out of Afghanistan, those efforts had limited success. The problem is particularly acute as clandestine revenues from drug sales are one of the major sources of funds for the Taliban and various terrorist groups in the region. Still, most poppy growers are poor farmers trying to survive, without strong ideological convictions.

The only way to redress this problem in the long run is to secure Afghans from the threat of the Taliban and to engage in the hard work of economic development. The road is long, but the effort and commitment is well worth the price. As we have learned the hard way, the peace and security of Afghanistan is integral to the peace and security of the world.

The Balkans

Jesse Nathan, Trevor Levin, and Paul Storm

Introduction

The Balkans has been a battleground for differing national and ethnic groups. It has been caught between vast empires.³⁵ Indeed, this small region - no bigger than Texas - has been the source of much international conflict and hardship. History seems to have repeated itself many times in this region. Understanding the history of this region will significantly improve one's ability to analyze current struggles. The Balkans is most often in the news because of regional instability, a product of ethnic and political tensions. Four principal ethnic groups and many different minorities inhabit the Balkans. These include the South Slavs,³⁶ Romanians, Greeks and Bulgarians. Religiously, the ethnic groups are constantly at odds, with significant groups of Muslims, Orthodox Christians and Catholics--as well as Jews, Gypsies and some Protestants. Because of these many differences, the Balkans has not formed into one nationality, rather many small nation states. The central location of the Balkans has made it a "bridge and a battleground" for numerous empires, cultures and religions. History has left its mark on the Balkans. If one were to make his or her way through the Balkans one would travel the roads built by Napoleon Bonaparte, view the remains of Emperor Diocletian's palace and gaze upon the castles of Peloponnesus. For clarity, each section on a nation state has been broken down into two categories: Background and Current Issues. The background section provides history, necessary for well-rounded analysis. The current issues section provides a brief analysis of current issues facing that country.

History of the Balkans

As former Northwestern University History Professor L.S. Stavrianos notes, "historical tradition has been an important, and usually a disturbing factor, in Balkan affairs in the modern period." This historical overview begins around the time of the Ottoman Empire's climb to power in the fourteenth century.

The Age of Ottoman Rule and decay: 1300-1815

The Ottoman Empire had a very significant influence on the culture, politics and civil structure of the Balkans. At its peak, the Empire touched on three continents and contained a vast and diverse population. Its people included the Turks, Tatars, Arabs, Kurds, Turkomans, Berbers, Bosnians, Albanians, Bulgarians, Greeks, Hungarians, Slavs, Romanians, Armenians and many others. The religious diversity included the dominant faith, Islam, as well as Orthodox and Catholic Christianity, and small groups of Jews and Protestants. All together, the Empire commanded a population of nearly fifty million people. The Turks infiltrated and seeped into the Islamic world sometime during the late 1200's. The true beginning of the Ottoman Empire, however, starts with the story of Osman, an Islamic crusader. Osman was able to capture the imagination of hordes of Ghazi's, or Warriors of the Faith. Thus his mission was solidified by the religious fanaticism of his followers. Second, the Byzantine Empire was becoming stale, rotten and weak defensively. The followers of Osman were able to take the Byzantine Empire by a storm, and by 1337 they had taken much of its territory. Soon the fledgling empire had turned itself into a powerful engine for war. During Ottoman rule the Balkan peoples were oppressed and exploited. It was only when the Ottoman Empire's administrative and civil structure began to deteriorate that the peasants of the Balkans actually began to suffer, which of course, gave rise to rampant nationalism. Such conflict gave rise to the efforts by Milosevic and others to ethnically cleanse these regions. Culturally and politically, the Balkan peoples were generally able to independently develop their own culture but not their own political system. This hurt them because, in a historical sense, they had no experience with democracy or, for that matter, any other form of political management aside from monarchy or

³⁵ from the Ottoman Turks to the Third Reich and Adolf Hitler

³⁶ Slovenes, Croats, Serbians and Albanians

dictatorship. The Ottoman Empire began its decline in the mid-1500's. Peasants in the Balkans began to see the 'great opportunities' in the West and grew restless. As trade increased between the Ottoman Empire and Christian Europe, it became apparent that the West's economy was both growing faster and had more to offer the common person than the Ottoman's did. The Ottoman Empire faced decay both economically and militarily.

Napoleon and the Balkans

Because of the growing interdependent trade between the Balkans and West Europe, The intellectual and ideological tides that swept Revolutionary France seeped from that nation to the Balkans. While the concepts of democracy and liberty were not so much in the minds of Balkan nationalists, they did begin to consider the real possibility of uniting as one nation. The Balkan nationalists came to revere Napoleon as the "great one," because of his ability to lead and amass such a display of power and force. Yet because Napoleon did not show support for these very same Balkan nationalists and their causes, they grew more restless, turned against him and took matters into their own hands. In 1807, Serbian nationalists joined forces with Russia to fight off Napoleon, whose eventual downfall was indirectly the result of this failed invasion of Russia. Indeed, this relationship between Serbia and Russia is one that still exists today and has played a role in the present day power politics of peacekeeping in the former Yugoslavia. Furthermore, when Napoleon and Russia stirred the waters of the Balkans, they began to recruit soldiers to serve in their respective armies. In 1806, Napoleon enlisted Romanians, while Russia sought out Bosnian and Serbian fighters. This broadened the horizons of these troops, helped them learn new military techniques and established the discipline and military hierarchy that would prove invaluable in the coming decades of nationalist revolt in the Balkans.

The New Imperialism and the Treaty of Berlin

Essentially, the Treaty of Berlin was an agreement forged by Russia, Austria, Britain, The Ottoman Empire and the French. It finally recognized and codified the full independence of Serbia, Montenegro, Romania and Bulgaria. While these nations had been independent in some cases for years, this was the first time the Ottomans recognized it. It also recognized Greece and made Bosnia an autonomous province. From a European standpoint, it was a triumph: the Ottoman's had lost significant territories and Europe had enlarged its sphere of influence. From the Balkan perspective it was devastating. This may seem odd given the supposed "concessions" that it granted these newly independent states. The fact is, while the Treaty granted independence it dramatically altered the borders of these nations without addressing ethnic or nationalist needs and considerations. It partitioned Bulgaria, divided Serbia and Bosnia, granted Austria more control of Bosnia, cut apart the claims of the Greeks and Romanians and sliced up

Macedonia. Now, three peoples claimed Macedonia – the Serbs, the Bulgars and the Greeks - pitting three religions, three ethnicities and three national interests against each other in a suicidal three-cornered conflict which poisoned inter-Balkan relations and fomented bloodshed in Macedonia until WWI and even later. Thus, this New Imperialism was upon the Balkans. Imperialism can be defined as the rule or control, political or economic, direct or indirect, of one state, nation or people over other similar groups. In this sense of the word, such rule had been the norm in the Balkans for centuries. This New Imperialism, however, is distinct in its character as highlighted by the Treaty of Berlin. Now the great powers were fighting amongst themselves for the control of the Balkans in a much more ubiquitous and prevalent manner that provoked more internal conflict both within in the Balkans (Macedonia, for example) and among themselves (for instance, Russia and Austria). The other important distinction was the economic facet of this imperialism that meant much more direct and sharp economic penetration into these Balkan nations. Why? Because now these nations had abolished feudalism and were becoming industrialized, giving rise to the economic system that accompanied this imperialist bent: the New Capitalism.

The Age of War and Bloodshed: 1914-1950

The next several decades marked a period of repeated and brutal warfare that tore apart all of Europe, as well as the Balkans. The two defining events of the period, World War I and World War II, however, had less of an impact on the future course of the Balkans than did the previous segments of history we examined--most notably the Ottoman reign and the rise of nationalism. But nonetheless the "Great War" began in the Balkans, sparked by the fires of nationalism.

World War I and the Balkans

When Gavrilo Princip assassinated Archduke Ferdinand, he set off a chain reaction of events that engulfed the world in war. The primary result of World War I was the further destabilization and demolition of any sort of Balkan unity. Bulgaria, now allied with Germany and Austria, led an invasion of Serbia that devastated the Serbs--who were left to fend for themselves by the allies, who had 'more important' battles to tend to. Thousands of refugees and soldiers were forced to retreat across Albania and the mountains of Montenegro, as well as through Kosovo, where the fledgling Serbian Empire had been destroyed in 1389 by a different invading force.

Meanwhile, Russia was shaken by the Revolution of 1917 and the Bolsheviks soon began to coerce Balkan states like Romania to join its communist empire. At the same time Greece was fighting on the side of the allies, and so when in 1918 the allies won the war, the final result of the conflict was a more divided Balkans. Indeed, the feuding peoples were displaced, homeless and leaderless, leaving the four Balkan peoples bitterly at odds. With the end of World War I, the old empires finally passed away. The Ottomans and Hapsburgs were destroyed, which finally solidified the control of the Balkan Peninsula by Balkan peoples. Despite the infighting that plagued the region, and indeed quarrels between Croats and Serbs, in 1929, the Kingdom of the Serbs, including Croatia, Slovenia and Serbia became officially Yugoslavia. Romania acquired the most territory from the devastated German and Austrian nations and became more and more closely allied with Communist Russia.

Bulgaria, on the side of defeat, was utterly destroyed. Refugees from Macedonia flooded in, IMRO terrorist activities increased, and financially and politically the nation was brought to its knees. There was little surprise when it joined forces with the Axis Powers in 1941. The decades preceding World War II should have been defined by a cultural and social renaissance in the Balkans (aside from Bulgaria) because it would appear that imperial dominion had at last been lifted. The truth is that the nationalist and political rivalries prevented any economic or political growth. Furthermore, the Balkan nations were now under the watchful eye of an increasingly strong and ambitious Germany. Albania, for the first time, gained independence officially after World War I with its accession into the League of Nations as a sovereign state. Across the Balkans, socialist, communist and other leftist governments flourished until they were outlawed in most Balkan nations by the mid 20's. But ultimately, because these nations had no experience with running their own countries, dictatorships popped up around the region.

World War II and the Balkans

Once again, the Balkan nations were to be subjugated by aggressive forces from the outside. On April 6th, 1941, just after Yugoslavia had attempted to alleviate the growing land conflicts, Hitler's forces invaded and easily conquered Yugoslavia. Other Balkan nations and peoples were soon crushed as well. While Bulgaria had joined forces with Germany, this did not stop Germany from plundering and looting the population of this nation. Anti-Semitic, right-wing movements in Romania brought down that nation even before the Germans took control in 1941. Albania's brief respite from tyranny was soon ended when their allies in the League of Nations rejected their aid requests, causing them to turn to Mussolini in 1939. Mussolini, in turn, began an occupation of Albania in 1939 that would last the duration of the war. Greece, however, was able to rebuff the invasion of Italy and thus hold off occupation longer than any other

Balkan nation-- until Germany invaded in 1941. The Balkans were completely reoccupied by 1941.

World War II dramatically changed the social and political institutions of the Balkans forever. The geographic changes that followed World War I did not change and the borders defined after that conflict remained. However, all of the regimes of the pre-war Balkans - in Romania, Bulgaria, Yugoslavia, Greece and Albania (even the provincial governments of Montenegro and Bosnia, part of Yugoslavia) - were destroyed. In their place arose communist governments accompanied by Russian aid and facilitation--with the exception of Greece. The reason for this change was the resistance and liberation movements, which were led by communist revolutionaries who, through their fighting, gained great prestige and power among both their people and their Russian allies. For example, the disciplined and effective Partisan resistance fighters of Yugoslavia, led by Marshall Tito, successfully waged a guerrilla war against the Germans that cemented the authority of Tito and the Communists in the post-war era. Thus, with the end of World War II at the Potsdam and Yalta Conferences, the Balkans were, as usual, torn apart and divided. Once again, the sweeping influences and the power plays of the great powers of the time divided them. Now Greece stood with the West and the remaining Balkan nations were with the Red Army to the East. Like the Ottoman invasion centuries before, the advancing power of Russia brought with it a social and political revolution that is still affecting the Balkans significantly today.

The Cold War

For Greece, the Cold War-era meant billions in aid. In 1956 alone such aid from the West totaled 1.8 billion dollars (Stavrianos 841). In the rest of the Balkans, however, political and social turmoil continued. Dissidents across the Balkans were executed or imprisoned for their opposition to the new Soviet style "people's democracies" (Stavrianos 841).

Because of Cold War politics, these nations slowly began a further deterioration into financial and political decadence. Economically, from 1950 to 1960 industrial production dramatically decreased in satellite Balkan nations like Bulgaria and Romania while poverty increased substantially. Politically, repression only grew and the prospects for democracy further declined. Marshall Tito, for example, dominated Yugoslavia as a Communist dictator through the 50's, 60's and 70's with barely any political opposition. Tito did, however, begin to grant some forms of autonomy to provinces like Kosovo under his 1974 Constitution--or something "between an autonomous province and a federation member-state" (Chomsky 24). Finally, when the Berlin Wall fell the world hoped that the Balkans, like the rest of East Europe, would be able to make a peaceful transition from state socialist dictatorship to a market economy and democracy.

Recent History

For most of the Cold War, the harsh ethnic and religious tensions, while present, had been forced below the surface while economic and political survival became the question for the Balkans. Greece, the exception, evolved into a fairly strong, westernized democratic and free market based society. But elsewhere in the Balkans, when Slobodan Milosevic took power in Serbia in April of 1987 he sought to unite all of Yugoslavia to include Albania, Bosnia, Croatia, Montenegro and Kosovo--a province which had begun to demand independence after Tito's death in 1981. This vision for a greater Serbia required that Milosevic harness Serbian nationalism, and in turn re-ignite the age-old rivalries and hatreds, both religious and ethnic. In a speech to Serbs on the 600-year anniversary of the Battle of Kosovo he called on Serbs to rally behind his cause. Thus, Milosevic set off one of the most deadly and brutal decades in Balkan history by offering all the provinces of Yugoslavia a final ultimatum: accept my leadership, my terms of government and my version of society or face a war with my army of nationalists--the Yugoslav People's Army (JNA). It was a challenge that Croatia, Slovenia and eventually Bosnia would take up with disastrous consequences for the present and beyond.

Croatia

Background

When Milosevic came to power, Croatian intellectuals began demanding that Croatia break away from the rest of Serbia. Franjo Tudjman awakened Croats against Milosevic when the Croatian communists, like those of Slovenia, held elections in 1989. In another important step, Tudjman declared Bosnia part of Croatia and called all Bosnian Muslims "Islamicized Croats" while the Serbs regarded them as Orthodox Serbs (Silber and Little 86). The final turning point was the Fourteenth Extraordinary Party Congress of January 23, 1990, when Slovene and Croatian delegates walked out leaving the Serbs behind - for good. Both Croatia and Slovenia began arming their nations. Slovenia was able to better and more expeditiously arm themselves, while Croatia was only able to mobilize and convert its police force into a National Guard of sorts. Before full-scale war broke out, however, Serbs in Slovenia and Croatia, responding to the nationalist call from Belgrade, declared their independence and began armed rebellions from those respective provinces, further compounding the conflict. The situation was dire indeed: now two provinces were at once fighting off Belgrade and internal chaos, leaving their people caught in the crossfire of brutal guerrilla warfare. In the village of Borovo Selo in May of 1991, for example, like so many others, Croatian authorities were accused by Serbs of brutally torturing and murdering an entire village. It was one of many, many such accusations by both sides.

Despite proposals to re-unite the Federal Republic of Yugoslavia, none involved would back down. On June 25, 1991, Slovenia declared independence and fought a lightning war that won it for them. Meanwhile, Croatia began to fight for its freedom in earnest after declaring independence that same day, in what would be a longer and more devastating conflict than the war between Slovenia and Yugoslavia. Europe and the US were beginning to get involved but still declared the integrity and unity of Yugoslavia to be tantamount. As such they "clinked glasses" with Milosevic and toasted to Serbian unity (Silber and Little 162). Despite efforts at diplomacy - the failed Brioni Accord of 1991, for example - a brutal and divisive war ensued between Croatia and Serbia. But by the end of 1992, Croatia was independent, the Europeans had successfully deployed peacekeepers, and yet the conflict was far from over.

The conflict had become an international issue. Germany was calling for the recognition of these independent nations while the US and much of Europe insisted on peace, and if that failed, Yugoslav integrity. Finally, by February 12, 1992, 12,000 UN peacekeepers were deployed to the newly independent state of Croatia under Resolution 743. Croatia had been partitioned and its boundaries had been redrawn, leaving parts of its population under occupation--as well as slicing up Bosnia-Herzegovina as part of the "peace" accord developed by Lord Carrington, an English aristocrat, and Cyrus Vance, former US Secretary of State. Soon the crisis of Bosnia-Herzegovina would envelop Croatia and the rest of the Yugoslav Republic.

Current Issues:

Although Croatia declared its independence from Yugoslavia in 1991, it took four years of sporadic, but often bitter, fighting before occupying Serb armies were mostly cleared from Croatian lands. Under UN supervision, the last Serb-held enclave in eastern Slavonia was returned to Croatia in 1998. Discussions continue with Bosnia and Herzegovina over disputed territory around Kostajnica on the Una River and villages at the base of Mount Pljesevica; the Croatia-Slovenia land and maritime boundary agreement, which would have ceded most of Pirin Bay and maritime access to Slovenia and several villages to Croatia, remains controversial and has not been ratified. It has been complicated by Croatia's declaration of an ecological-fisheries zone in the Adriatic Sea. The economy emerged from its mild recession in 2000 with tourism the main factor, but massive structural unemployment remains a key negative element. The government's failure to press the economic reforms needed to spur growth is largely the result of coalition politics and public resistance, particularly from the trade unions. Opponents fear reforms would cut jobs, wages, and social benefits. The country is likely to experience only moderate growth without disciplined fiscal and structural reform (CIA World Fact Book 2004).

Religions: Roman Catholic 87.8%, Orthodox 4.4%, Muslim 1.3%, Protestant 0.3%

Ethnicities: Croat 89.6%, Serb 4.5%, Bosniak 0.5%, Hungarian 0.4%, Slovene 0.3%, Czech 0.2%, Roma 0.2%, Albanian 0.1%, Montenegrin 0.1%, others 4.1% (CIA World Fact Book 2001).

Bosnia-Herzegovina

Background

The West had concluded that recognizing Slovenia and Croatia as independent states would mean peace. But in reality it simply meant that Bosnian national interests would be forced to the fore of the debate, and a war would soon result. Bosnia had long supported the quest for independence of Croatia and Slovenia. However, when Croatia won independence the peace accords demanded that Bosnia be partitioned between Croatia and Serbia. And so Bosnian President Alija Izetbegovic was faced with a choice: either seek independence and recognition or remain divided and subverted by Yugoslavia and Croatia (Silber and Little 205). He and his people chose independence. A day after independence was unofficially declared, March 2, 1992, the Serbs in both Bosnia and Yugoslavia launched clamp-down attacks on Bosnian separatists. By daybreak Sarajevo, the capital of Bosnia, was a veritable maze of barricades and Serbian police checkpoints.

The three biggest communities in Bosnia--the Muslims, the Croats and the Serbs--had unified in the 70's and 80's to fight off communism (unsuccessfully). Now, that unified front had broken apart as they each chose different paths: the Muslims and President Izetbegovic wanted independence, the Serbs wanted to remain part of Yugoslavia and the Croats wanted to join the new state of Croatia. A three-way war was about to break out. The Serbs had the advantage when, in 1992 with the end of the wars in Croatia and Slovenia, the JNA and the entire Serbian army moved into Bosnia. Talks in Lisbon tried to avert crisis, but suddenly war had come again to the Balkans.

Over the next several years the most brutal war the Balkans has ever seen began. The Milosevic policy known as Ethnic Cleansing began in earnest when he attempted to empty Croats and Muslims from the region by force in late 1992. Across the region, the grim tales of genocide, rape, torture, mutilation and murder were well documented. By 1993, the United Nations was again fully involved in the Balkans, this time attempting to create peace by utilizing "Safe Zones" and engaging in mediation. The US and the European Community also joined in a full-scale mediation effort. But by 1994 the UN sponsored cease-fires and safe-areas had been disregarded and were no longer effective. NATO soon joined the fray, setting forth an ultimatum for peace in 1994. NATO action, however, threatened to split the international community--namely Russia and the West. But for a brief period NATO's voice silenced the war. Despite air strikes on Belgrade and the Serbs, NATO still was unable to sustain any peace and the war was reignited in late 1994. Finally, after the brutal massacre of nearly 8,000 Muslim men at the hands of Serbian nationalists in Srebrenica, Bosnia, Milosevic was forced to bow to international pressure. His vision for Serbian unity was dying, the Yugoslav economy was collapsing and his grip on power was threatened if he did not act. So, in late 1995, the leaders of the Balkan crisis met with Richard Holbrooke, US Secretary of State, to discuss peace in Dayton, Ohio. The Dayton Accords, as they eventually were called, seemed to resolve the differences for the time being. Dayton declared that a separate Croat-Muslim Republic would be formed to include Sarajevo as its capital. A separate Bosnian Serb Republic would be formed to include Srebrenica (formerly a Muslim enclave). A 60,000 strong NATO-led Implementation Force (IFOR) would maintain peace and stability. (Silber and Little 377)

Bosnia-Herzegovina is divided into a joint Bosniak/Croat Federation (about 51% of the territory) and the Bosnian Serb-led Republika Srpska or RS (about 49% of the territory); the region called Herzegovina is contiguous to Croatia and Serbia and Montenegro (Montenegro), and traditionally has been settled by an ethnic Croat majority in the west and an ethnic Serb majority in the east. (CIA World Fact Book)

Current Issues

Today, Bosnia-Herzegovina are facing several key issues. First, these nations are experimenting with democracy and are attempting to secure governmental stability. They are trying to encourage the free participation of all peoples--including the Serb nationalists within their borders. Second, terrorism is a continued problem as skirmishes between Serbs and Croats or Serbs and Muslims continue to break out. Third, to this day, the refugee crisis has not been resolved. The wars of the early 90's displaced hundreds of thousands of people who are still struggling to get home. Fourth, economic redevelopment and restructuring must be considered. Bosnia, for example, is 1.5 billion dollars in debt and still, like many Yugoslav economies, runs its financial affairs by communist rules.

In 1995-96, a NATO-led international peacekeeping force (IFOR) of 60,000 troops served in Bosnia to implement and monitor the military aspects of the agreement. IFOR was succeeded by a smaller, NATO-led Stabilization Force (SFOR) whose mission was to deter renewed hostilities. European Union peacekeeping troops (EUFOR) replaced SFOR in December 2004; their mission was to maintain peace and stability throughout Bosnia. (CIA World Fact Book 2004)

Bosnia and Herzegovina ranked next to The Former Yugoslav Republic of Macedonia as the poorest republic in the old Yugoslav federation. Although agriculture is almost all in private hands, farms are small and inefficient, and the republic traditionally is a net importer of food. The interethnic warfare in Bosnia caused production to plummet by 80% from 1992 to 1995 and unemployment to soar. With an uneasy peace in place, output recovered in 1996-99 at high percentage rates from a low base; but output growth slowed in 2000-02. Part of the lag in output was made up in 2003-04. The country receives substantial amounts of reconstruction assistance and humanitarian aid from the international community but will have to prepare for an era of declining assistance (CIA World Fact Book).

Ethnicities: Serb 37.1%, Bosniak 48%, Croat 14.3%, other 0.6% (2000)

Religions: Muslim 40%, Orthodox 31%, Roman Catholic 15%, other 14%

Serbia and Montenegro

Background

Ever since the small mountain fortress held out against the attacking Ottoman invaders in the 1400's and 1500's, a stubborn streak has run through this small mountain country. Montenegro had gained independence after the Treaty of Berlin, but after World War II it was brought back under the control of Yugoslavia and during Milosevic's nationalist fervor it was subjugated by Belgrade. Montenegro, like all the other Yugoslav republics, has a significant Serbian population who wanted to unite with Milosevic and a substantial population of nationalists who wanted independence. Milosevic, a native Montenegrin, was able to exploit the nationalist ambitions of the Serbian minority. Within months after the overthrow of Vojvodina's government, Montenegro's was also replaced with a regime that would be blindly loyal to Milosevic for the rest of the decade. It was only after the Kosovo fiasco that the independent streak resurfaced in Montenegro. During that crisis, Montenegro began to quietly support the cause of the Kosovar freedom fighters.

In 1999, massive expulsions by Federal Republic of Yugoslavia forces and Serb paramilitaries of ethnic Albanians living in Kosovo provoked an international response, including the NATO bombing of Serbia and the stationing of NATO, Russian, and other peacekeepers in Kosovo. Federal elections in the fall of 2000 brought about the ouster of Milosevic and installed Vojislav Kostunica as president. The arrest of Milosevic in 2001 allowed for his subsequent transfer to the International Criminal Tribunal for the Former Yugoslavia in The Hague to be tried for crimes against humanity. In 2001, the country's

suspension from the UN was lifted, and it was once more accepted into UN organizations under the name of Yugoslavia. Kosovo has been governed by the UN Interim Administration Mission in Kosovo (UNMIK) since June 1999, under the authority of UN Security Council Resolution 1244. In 2002, the Serbian and Montenegrin components of Yugoslavia began negotiations to forge a looser relationship. These talks became a reality in February 2003 when lawmakers restructured the country into a loose federation of two republics called Serbia and Montenegro. An agreement was also reached to permit a referendum in each republic in three years on full independence (CIA World Fact Book).

Current Issues

Milosevic-era mismanagement of the economy, an extended period of economic sanctions, and the damage to Yugoslavia's infrastructure and industry during the NATO airstrikes in 1999 have left the economy only half the size it was in 1990. After the ousting of former Federal Yugoslav President Milosevic in October 2000, the Democratic Opposition of Serbia (DOS) coalition government implemented stabilization measures and embarked on an aggressive market reform program. While technically still part of the Federal Republic of Yugoslavia (now Serbia and Montenegro), is largely autonomous under United Nations Interim Administration Mission in Kosovo (UNMIK) and is greatly dependent on the international community for financial and technical assistance. Severe unemployment remains a key political economic problem. The future status of Kosovo remains an unresolved issue in South Central Europe with Kosovo Albanians overwhelmingly supporting and Serbian officials opposing Kosovo independence; the international community has agreed to begin a process to determine final status only after significant progress has been made in solidifying multi-ethnic democracy in Kosovo as outlined in the policy of "standards before status"; the Contact group (including the US, UK, France, Germany, Italy, and Russia) will review progress on the UNMIK standard around mid-2005

Refugees (country of origin): 99,170 (Bosnia), 188,656 (Croatia)

Internally Displaced Persons: 225,000 (mostly ethnic Serbs and Roma who fled Kosovo in 1999) (2004)

Ethnicities: Serb 62.6%, Albanian 16.5%, Montenegrin 5%, Hungarian 3.3%, other 12.6%

Kosovo and Vojvodina (Regions of particular conflict in Serbia-Montenegro)

Background

The latest crisis in the former Yugoslavia has been in Kosovo. Kosovars and the inhabitants of Vojvodina (the Northern Yugoslav republic which was home to many Hungarians) were first granted limited autonomy under Marshall Tito's rule in the 60's and 70's. Up until 1989, the ethnic Albanians that inhabited Kosovo and the Hungarians of Vojvodina enjoyed this autonomy. In 1989, however, in line with Milosevic's general ambition to reign in any autonomous provinces, a number of constitutional revisions revoked this freedom. The Albanians of Kosovo declared that "we must demolish the border dividing Albanians from Albanians" while Milosevic attached sentimental value to the fields of Kosovo (related to the 1389 defeat of Serbs at the hands of Turkish invaders) when he proclaimed that if you "wipe away Kosovo from the Serb mind and soul...we are no more," (Chomsky 25). The Serbs now began a program of apartheid against the Kosovar Albanians, in revenge for what they claimed had been Kosovar Albanian cleansing and harassment of Serbs during the early 1960's (a claim that has been since validated, at least to a degree, by investigations). In 1990, an independent and illegal (according to Milosevic) parliamentary session of Kosovar separatists had declared Kosovo an independent state.

At first Kosovar Albanians pursued a non-violent peaceful approach in an attempt to gain both independence and respect from the international community, under the leadership of Ibrahim Rugova. At

Dayton, however, this movement lost credibility among Kosovars when the U.S. and the West refused to recognize his leadership or the peace movement as legitimate. When the international community snubbed this peaceful approach in 1995, the armed resistance known as the Kosovo Liberation Army (KLA) swelled in its ranks and began an underground guerilla war against Yugoslavia. Meanwhile, in Vojvodina, resistance to Milosevic's new control program was minimal and thus this province was easily brought under control of Yugoslavia. Slogans of "Kosovo is Serbia" and "Vojvodina is Serbia" rallied nationalist fanatics and using mob-style tactics they took control of the provincial governments in Kosovo and Vojvodina. Attacks and counter-attacks by Serb and KLA forces culminated with a public declaration of war by the KLA in 1997. By late 1998 the KLA had taken over 40% of Kosovo and was gaining popular support internationally (Chomsky 31).

Slobodan Milosevic responded with a massive offensive that included the 'ethnic cleansing' of the region. Reports indicate that Milosevic oversaw the murder, torture and destruction of whole villages in his efforts. In 1999 the U.S. led NATO intervention began airstrikes against Milosevic. He, in turn, responded by driving out hundreds of thousands of Kosovar Albanians. Soon the KLA - once called a terrorist organization by the US State Department - was fighting along side NATO as its de facto ground support.

Finally, in mid-1999 the government of Milosevic was forced to accept the autonomy of Kosovo and a peace settlement. As of the summer of 2001 the US had over 10,000 peacekeepers stationed in the Balkans between Bosnia and Kosovo. The UN force, along with the NATO led peacekeeping force, KFOR, will likely remain in Kosovo for many years to come.

Current Issues

Many key issues face Kosovo and Vojvodina today. First, the issue of full independence is still quite relevant. The West is not interested in another destabilizing independence fight and neither are any other Balkan nations. Second, now Kosovar Serbs are the victims. They have repeatedly complained to the UN and NATO that the KLA and other Kosovar Albanians are harassing them. In a situation the opposite of the 1998 Serbian repression of ethnic Albanians, the Serbs now require protection; the violence seemingly will only continue with the victim/oppressor roles reversed. Third, there is a huge refugee crisis. Not only are there many Kosovar Albanians still displaced, but also there are some 250,000 Kosovar Serbs who have fled Kosovo. Many in the West and in Russia insist must be re-patriated if peace is ever to be fully achieved there. Fourth, Vojvodina is now clamoring for autonomy --at least the kind it had prior to the 1989 consolidation by Milosevic--which could further destabilize the new government in the former Yugoslavia. Finally, the economic and political infrastructure of both Kosovo and Vojvodina need rebuilding. Some are calling for a massive Marshall Plan of sorts for the region because of the incredible economic degradation - an issue that will need to be resolved before much more progress towards stability is made.

Albania and Macedonia

Background

Albania and Macedonia share the common curse of having been claimed by multiple groups-- more so than the average Balkan nation. Ever since the Treaty of Berlin in 1878 entrenched this problem in Macedonia, the nation has struggled to present a unified front. Similarly Albania was not swept by the tides of nationalism until very late precisely because there were at least three religious, ethnic or nationalist groups in competition to define Albania. Throughout the last half of the twentieth century, through the efforts of groups like the IMRO, Macedonia finally achieved independence in 1991. Albania and Macedonia were both able to quietly build up their own political, economic and cultural institutions. The resurgence of Serbian nationalism, however, worried them both because they were each a melting pot

full of Muslims, Catholics and Orthodox Christians as well as ethnic Albanians, Serbs and Croats. Currently, Albania and Macedonia face a number of issues.

Current Issues

As a result of age-old simmering tensions, Macedonia is facing a rebellion and guerilla war from ethnic Albanians in its nation. It has to deal with both these rebels and the needs of many of its citizens who view them merely as extremists and terrorists. In addition, it is not clear what NATO's role should be in keeping peace in Macedonia, which is right next to Kosovo.

Both the Albanian and Macedonian economies were rocked by the collapse of Yugoslavia. Currently Macedonia is the poorest Balkan nation and struggles with political and economic corruption including money laundering and a major drug trade. Both countries struggle with high unemployment, dilapidated infrastructure, powerful organized crime networks with links to high government officials, and disruptive political opponents. In Macedonia unemployment at one-third of the workforce remains the most critical economic problem. The black market economy is estimated at around 40% of Macedonia's GDP. Albania's economy is aided by remittances from abroad of \$400-\$600 million annually, mostly from Greece and Italy; this helps offset the sizable trade deficit. The Albanian Government calls for the protection of the rights of ethnic Albanians in neighboring countries, and the peaceful resolution of interethnic disputes; some ethnic Albanian groups in neighboring countries advocate for a "greater Albania," but the idea has little appeal among Albanian nationals. (CIA World Fact Book)

Bulgaria and Romania

Background

Before World War I, Bulgaria was one of the more powerful Balkan states. After World War II, however, it was decimated. It, along with Romania, soon became a satellite nation to the mighty Soviet Union. For fifty years, very little progress politically or economically was made. Communist domination ended in 1990, when Bulgaria held its first multiparty election since World War II and began the contentious process of moving toward political democracy and a market economy while combating inflation, unemployment, corruption, and crime.

Current Issues

Today, reforms and democratization keep Bulgaria (and somewhat Romania) on a path toward eventual integration into the EU. Bulgaria and Romania joined NATO in 2004. Bulgaria in particular has been working to decrease rivalries between ethnic Albanians and Serbs within its borders. Both countries are working to lay the foundations of a liberal, market-based economy with strong democratic institutions. Bulgaria is ahead on this front as well, after reformist leader Ivan Kostov took numerous steps towards free market reform. Furthermore, Bulgaria, Romania and Turkey have signed a historic agreement solidifying a free trade zone between the three nations. Romania has, however, continued to slip towards autocracy as it has allied itself with Belarus and Russia, neither of which are strong democracies themselves. Both nations aspire to gain EU membership.

Greece

Background

Greece, more than any other Balkan nation, has been firmly allied with the West since the end of World War II. As noted earlier, the 50's marked a time when the allies used the Marshall Plan to build up the economy and infrastructure of Greece. Throughout the 60's and into the early 70's, however, a military junta ruled Greece. Only in the 80's did Greek democratic and economic institutions begin to flourish.

Current Issues

For many years, both Greece and Turkey have bitterly struggled over who was to control the island of Cyprus. This issue has not been resolved and Cyprus still remains divided north and south. Although only the internationally recognized Greek Cypriot-controlled "Republic of Cyprus" joined the EU on 1 May 2004, every Cypriot carrying a Cyprus passport will have the status of a European citizen.

Greece was one of the 15 original founders of the European Union, which formed from the earlier European Community. Greece is continuing to work towards a stronger more egalitarian economic structure to overcome the poverty and lower-class troubles facing its society. Greece is a major beneficiary of EU aid, equal to about 3.3% of GDP. The Greek economy grew by 4.0% in 2003 and grew even faster in 2004, the year that Athens hosted the 2004 Olympic Games. Remaining challenges include the reduction of the public debt, inflation, and unemployment; and further restructuring of the economy, including privatizing several state enterprises, undertaking pension and other reforms, and minimizing bureaucratic inefficiencies (CIA World Fact Book).

Ongoing Challenges

NATO and the United Nations face the same essential difficulties and questions in the Balkans. They are both struggling to define their role in the face of failures both in the Balkans--the 'safe zones' for example --and abroad, especially in the UN's case. While they have achieved temporary success, both organizations must address how many peacekeepers they are going to continue to leave in the Balkans, where they will be stationed and who will bear the brunt of the burden--the US, the European Union or someone else. NATO has the continued question of whether to deploy peacekeeping forces to Macedonia before violence fully explodes or whether to wait. All of these decisions come in light of the reality that NATO and the UN will have to be present in the Balkans for at least another decade to fully secure peace.

The United States and the Balkans Over the last decade our foreign policy has been anything but clearly defined towards the Balkans. During the early years of the Milosevic regime, Clinton supported Yugoslav integrity instead of the aspirations of the Croats, Muslims or Bosnians. Eventually, that position was entirely reversed. During the Kosovo situation it is obvious where we stood, since we were the driving force behind the NATO intervention. Early in his presidency, President Bush has signaled yet another change by leaning towards the withdrawal of many American peacekeepers in the region. Our allies have been adamantly opposed to this, telling us that the job cannot be done without our full support. In general, this was part of President Bush's early disengagement foreign policy worldwide. The situation has received little attention since American foreign policy has shifted its emphasis toward the Middle East and Central Asia.

Russia and the Balkans

Not only does Russia have a sentimental connection with its Slavic brothers in the Balkans, but ever since the nineteenth and twentieth centuries, Russia has been historically close to the Balkans, and especially the Serbs. Because the Soviet Union viewed the Balkans as part of its sphere of influence, Russia does now. In addition, throughout the crises of Croatia, Bosnia and Kosovo, Russia was always leaning towards the interests of Serbia. Today Russian relations with the Balkans represent a wild card of sorts.

Milosevic and the International War Crimes Tribunal

As for Slobodan Milosevic and the rest of his cohorts, many of them now face justice before the International War Crimes Tribunal in the Hague, Netherlands. As the New York Times indicated in 2004, "the new democratic authorities in Belgrade have been under international pressure to cooperate more actively with the tribunal..." Indeed, the US like other Western nations has made foreign aid contingent on cooperation with this tribunal--although the U.S. itself refuses to fully submit to the ICC. Now, Yugoslavia has begun to turn over 'war criminals' indicted by the tribunal--some have begun voluntarily turning themselves in like former Bosnian mayor Blagoje Simic, who is accused of ethnic cleansing.

Slobodan Milosevic, on the other hand, has remained defiant, acting primarily as his own lawyer and denouncing the court as merely the "justice of victors--not true justice."

Charges have been brought against the following former Yugoslavian officials: Slobodan Milosevic, Milan Milutinovic, Dragoljub Ojdanic, Nikola Sainovic and Vljako Stojiljkovic on the basis of individual criminal responsibility and superior criminal responsibility with: one count of violations of the laws or customs of war (Article 3 - murder), and four counts of crimes against humanity (Article 5 – deportation; murder; persecutions on political, racial or religious grounds; other inhumane acts). Currently the defense is presenting its case and the trial may continue for a few more years.

Final Thoughts and Random Wisdom

Before I conclude I would like to offer a few final tips for handling questions related to the Balkans. First, remember that the Balkans is a very complex region with many convoluted problems. Do not assume that your judge understands much of what is going on in terms of the intricate and confusing rivalries and political maneuvers. Thus, you must both explain succinctly and, at the same time, simplify the issues. Be careful not to oversimplify, however, or you will dumb down your analysis and fail to capture the interest of the judge at all. Second, try to learn the pronunciations of Balkan leaders and people. Listening to the news regularly is the easiest way to do this.

Bibliography

- "Belgrade urges NATO action as death toll rises." The New York Times. 19 February 2001.
- "Bulgaria, Romania, Turkey to build zone." The Journal of Commerce. 15 March 1999.
- CIA World Fact Book 2004. Accessed online: October 2004. <http://www.cia.gov/cia/publications/factbook/index.html>
- Chomsky, Noam. The New Military Humanism: Lessons from Kosovo. ME: Common Courage, 1999.
- Dietrich, Orlow. The Nazi's in the Balkans. Pittsburgh: University of Pittsburgh Press, 1968.
- Djilas, Milovan." Rise and Fall. New York: Harcourt Brace Jovanovich, Inc., 1985.
- Erlanger, Steven. "Yugoslav Citizen surrenders to War Crimes Tribunal." The New York Times. 12 March 2001.
- "Greece touts FM's visit to Turkey as a sign of good relations." The Middle East Times. 29 March 2001. Little, Alan and Laura Silber. Death of Nation: Yugoslavia. 3rd ed. New York: Penguin Books, 1997. "Macedonian Mire." The Financial Times of London. 7 March 2001.
- O'Conner, Mike. "Bosnian Economy Still at Mercy of Political Leaders." The New York Times. 23 November 1998.
- Pond, Elizabeth. "Can Bulgaria Beat the Balkan Curse?" Wall Street Journal. 21 April 1999.
- Ristelhueber, Rene. A History of the Balkan Peoples. New York: Twayne Publishers, 1971.
- "Rumsfeld, in Kosovo, praises role of U.S. Forces." The International Herald Tribune. 6 June 2001.
- Sanger, David. "A Marshall Plan, on the Cheap?" The New York Times. 13 June 1999.
- "Secret 'Peace Talks' Rock Macedonia." The New York Times. 23 May 2001.
- Shenk, Gerald. "Adding Fuel to the Fire." Sojourners Magazine. May-June 1999: 9-10.
- Stanley, Alessandra. "Greece promises anti-terrorism efforts after slaying of Attache." New York Times. 9 June 2000.
- Stavrianos, L.S. The Balkans Since 1453. 3rd ed. New York: Holt, Rinehart and Winston, 1961.
- "U.S. opposes Macedonia declaring 'State of War.'" The New York Times. 6 June 2001.

Japan

Lily Wang and Adam Torson

Introduction

Unlike most nations that one might see in a forensics round, Japan experiences neither domestic upheaval nor international consternation. Its politics and economics are relatively stable, and its military and securities involvement in the global arena is limited. Nonetheless, Japan often makes appearances as a topic, and with good reason. It is one of the leading economies in the world, a regional economic keystone, and one of the largest lenders to poor nations and international organizations. It is also a crucial US ally in the volatile region of Northeast Asia. With China and North Korea as neighbors, Japan plays a critical role in the future of security in that area. Yet as stable as Japan is when compared to, say, Rwanda, this island nation still experiences its share of problems. The leading political party is crumbling, and an economy that has been on the up since World War II is suddenly pulling its brakes. In order to speak knowledgeably about Japan, it is important to understand not only the current state of affairs but also the cultural and historical forces that drive these recent developments.

The Complete History of Japan...Abridged

In such a homogenous culture as Japan's, a shared sense of history is a powerful guiding force on current events, because for the most part there is a single perspective from which the Japanese act. This section will be a brief overview of Japanese history.

During Japan's early history, the Japanese people were organized into clans and no central political authority existed. In the 7th century, Japan instituted laws modeled on Confucianism and centralized power under the emperor. Over the next century, Japan's government evolved with clearly defined hierarchy, elaborate laws, and a centralized state. **The government was administered by appointed officials, much like Japan's modern government is largely run by unelected civil servants. For the most part, this bureaucratic state did not change over time.**

By the mid-12th century, the office of the emperor became a mostly ceremonial position. Power fell into the hands of a few noble families, most notably the Fujiwara family which, powerful as it was, could not maintain control over all of Japan. To keep their property safe when neither the emperor nor the Fujiwara had control over the government, the aristocrats hired samurai to protect their estates. From here Japan developed a feudal system similar to medieval Europe's. The samurai followed Bushido, or a code of honor. In exchange for his services, the samurai was given an estate. As the emperor and the Fujiwara lost power, civil war broke out between the powerful Taira and Minamoto clans. After over thirty years of fighting, Minamoto Yoritomo forced the emperor to make him shogun, or general. Many shoguns followed, creating a society largely ruled by these shoguns. Yoritomo also implemented a devolved, province-based government as an alternative to the inefficient central government. Over the next few years, as shoguns gained power, government became largely devolved to local levels. **Even today, Japan has strong local authorities that, while inferior to the central government, handle almost all aspects of daily life and regional policies.**

As the samurai class grew and available land decreased in size, discontent began to fill Japan. By the early 1300s, the potential for violence has reached a height. When Emperor Go -Daigo attempted to revolt against the shogunate, civil war broke out anew. Go-Daigo won the war, but he still lost the empire, for he failed to regain any real power. Another shogunate was set in place, which lasted for the next two and a half centuries.

It was during this same turbulent era that Japan first made contact with Portuguese traders and Jesuit missionaries. These Westerners brought to Japan the knowledge of firearms, an introduction that

dramatically changed the nature of Japanese warfare. This new technology allowed a lord of the shogunate to rally a peasant military and finally centralize power in Japan and dismantle the feudal system. With the arrival of the Spanish and their Franciscan missionaries, followed by the Dutch and the English, Japan began to shut itself off from the world completely, restricting all contact save trade.

Meanwhile, as Japan experienced tranquility after years of in fighting, the samurai class became less needed and evolved into an urban upper class. **The samurai Bushido are still key characteristics of Japanese culture: obedience to superiors, piety toward parents, self-control, frugality, and hard work.** Domestic tranquility also led to an unprecedented era of economic growth. The unfortunate downside to growth is an uneven distribution of wealth, a widened wealth gap, and unrest among the peasants.

The shogunate soon found itself between a rock and a hard place. The shoguns had maintained power for two centuries by secluding Japan from all outside influences, but at the end of the 18th century Western pressure to open up became greater than ever. In 1853 Commodore Matthew Perry of the US Army led a fleet to Japan, forcing Japan to open up economic and diplomatic ties with the US. Soon France, Great Britain, and Russia demanded the same. The Japanese people were angered by the shoguns' weak stand against the foreign invasion, and in 1868 an uprising against the shoguns ended their rule and began the period known as the Meiji Restoration, named after the Meiji emperor. The Meiji reformers split into two factions. One faction was in favor of maintaining as much of the old social and political order as possible. The other faction demanded radical change. The radicals won in the end, abolishing feudalism and undertaking sweeping reforms to modernize Japan, create a Western-styled constitution, and strengthen the nation so that it could stand up to the West. **Along with political reforms, Japan industrialized and militarized.**

Industrialization occurred from the top down. The government established major industries, built infrastructure, supplied capital, and invested in entrepreneurship by sending students to Western universities and by bringing foreigners to help build Japanese industries. From then on, the Japanese government has always played a critical role in governing all aspects of Japanese economics. Eventually, Japan partially privatized the economy by selling off industries to those favored by the government.

These powerful financial figures consolidated pieces of the economy into huge monopolistic financial institutions known as zaibatsu. Only a few people controlled the entire economy.

Militarization allowed Japan to not only withstand the West's imperialistic overtures but also to become imperialistic in its own right. To expand territorially, Japan engaged in the 1894-1895 Sino-Japanese War in which it gained Taiwan and the 1904 Russo-Japanese War in which it gained part of the island of Sakhalin. Japan's militarism reached a height after World War I. The hawks in the government were supported by a military independent of the legislature, and soon militants overtook the civilian government. The successful invasion of Manchuria in 1931 cemented the militants' public mandate, and soon the military ruled Japan. After engaging in yet another Sino-Japanese War, the Japanese joined the Axis in World War II. Convinced that the only threat to Japanese takeover of Asia is the United States' pacific fleet, Japan launched a preemptive strike at Pearl Harbor. Unfortunately, Japan incurred an even larger threat by trying to contain this one. The United States used nuclear weapons against Hiroshima and Nagasaki, and Japan surrendered. Post-war reconstruction did not come easily. Japan had lost a fifth of its population and most of its major infrastructure. The United States directed much of the rebuilding efforts, allowing us to steer Japan away from its militaristic tendencies. The US began with a new constitution, written in 1947 and still unchanged. **The new constitution created a parliamentary democracy with a bill of rights, demoted the emperor from divine ruler to symbol of the state, and renounced war for all times.**

Over time, Japan became the US's strongest ally in Asia. With the US guiding economic recovery, Japanese trade ties with the US were strengthened. While the Korean War played out, Japan was the US's main staging grounds for its operations. Over the next few years, the United States played a key role in demilitarizing Japan and facilitating economic growth by breaking up the zaibatsu. By 1952, when the US ended its occupation of Japan, the nation was no longer regarded as an enemy but a friend. Since the 1950s, Japan has been on a fairly stable path to global importance. To fully understand current issues in Japanese politics and economics, we will examine contemporary events since the 1950s in detail as related to these issues.

Politics

Japanese politics is fairly straightforward and easy to speak about. The hardest part of the whole ordeal is learning how to pronounce Japanese names! Listen to BBC news sometime—the Brits usually get the pronunciation right, and the extra effort is worth not having a judge snicker at a wrong pronunciation. But onto more substantive issues!

Japan is a parliamentary democracy, in which legislative power is vested solely in the Diet, the parliament. The Diet's upper House of Councilors has 252 members, of whom 100 are elected by proportional representation from a national constituency and 152 are elected from 47 prefectures, which are geopolitical divisions similar to states or provinces. The Diet's lower House of Representatives has 480 members, of whom 300 are elected by simple majority vote in single-member districts and 180 are elected by proportional representation from a list of candidates drafted by the political parties. Unlike the House of Councilors, the House of Representatives can be dissolved any time by the prime minister or the members of the House.

Japan has multi-party politics. Unlike the US, which has a legislature divided into two parties, Japan's Diet is made up of many parties. To get anything done, a party has to either garner a majority in the Diet or form a coalition with other parties. The majority party or coalition creates the executive cabinet, headed by the Prime Minister and composed of many ministries. The cabinet is directly responsible to the Diet. Japanese party politics is rarely issues based. Consequently, it is not of great importance to learn the party platforms of the major parties in the Diet. **However, it is important to understand the interaction between the Diet and the executive cabinet, especially the relationship between the ruling party or coalition and the prime minister.** It may also be useful to keep up with significant people in the executive cabinet.

Let's Get This Party Started

One party runs the show in Japan, and that is the Liberal Democratic Party. The LDP became the dominant party after World War II, when the conservative Liberal Party and Democratic Party merged. **The LDP has no particular ideology, but it supports economic development and close ties with the US. Recently it has emphasized administrative reform and economic liberalization.** While this all sounds good, the LDP is not a pretty party. It has a long, sordid history of factionalism and corruption. As the party splintered, politicians found the only way to survive ever more expensive elections was to get involved in dubious financial dealings. Over time, as corruption worsened, the LDP slowly lost its majority in the Diet and was forced to compromise with smaller parties to form a ruling coalition. The LDP is currently in coalition with the New Conservative and the New Komeito parties.

When the LDP's coalition was unable to initiate the reforms and economic growth that voters desired, it broke up as well. In 1998, LDP politician Keizo Obuchi took the reins of the party and began a new coalition with the Liberal Party. But before he could make any significant reforms, Obuchi suffered a stroke in April 2000 and lapsed into a coma. His successor was Yoshiro Mori—not the brightest light bulb in the box when it came to politics. After several political gaffs and unsuccessful attempts to revive

the economy, Mori's approval rating plummeted to below 10%, and his party voted him out of power in April 2001.

To shake off its dinosaur image, the LDP selected a reformist to be Japan's next and current prime minister. Junichiro Koizumi, formerly a health and welfare minister, was voted into office against the wishes of the LDP old guard, a sign of growing frustration from not only the public but also the younger wave of LDP politicians with the corruption and inactivity that plagued the party. Meanwhile, the LDP interests are indistinguishable from the interests of its sponsors: companies and industries that pay LDP members to make life easy for them. With little regulation, LDP members often engage in corrupt practices, buffered from electoral loss by huge war chest funds from the companies they help. Koizumi may be attempting to reform, but the LDP is still in control.

Multi-Party Shenanigans

Japan's politics may be more stable if the LDP found itself facing only one or two opposing party. However, in Japan's multi-party system, chaos is the name of the game. Most parties have very narrow platforms and command only a few seats in the Diet. However, the more small parties there are, the harder it is for a single large party to garner a clear, voting majority. That means parties like the LDP, which has lost its absolute majority, has to compromise its ideology to entice other parties to join it in a coalition. **The more parties that the coalition tries to capture, the fuzzier its agenda becomes—and the harder it is to pass policy.**

While opposition parties may not come up in rounds, it never hurts to know something about the parties that could replace the LDP should it fall. For decades, the leading opposition party was the Social Democratic Party of Japan (SDPJ), which had a leftist platform advocating—of course—socialism and military pacifism. For reasons of political efficacy, the SDPJ stopped promoting socialism during the late 1980s. The Diet also sees its share of the Japan Communist Party, which advocates a peaceful transition to socialism and unarmed neutrality. The Komeito party is largely centrist, and the Democratic Socialist Party is a rightwing splinter of the SDPJ. More recently, the opposition movement sprang from the Japan New Party, which advocated governmental reform. In 1994, the Japan New Party joined the New Frontier Party in coalition with several other reform-minded parties. When the NFP broke up in 1997, one splinter, the Liberal Party, eventually joined the 1999 LDP coalition. The Liberal Party favors conservative policy, including economic liberalization and limits on the reach of government. Another splinter, the Democratic Party, is centrist and wants to decentralize power. The New Liberal Club is really just that—a club of conservative LDP politicians pretending they're not LDP. And the New Party Sakigake is the Japanese equivalent of the Green Party; its politicians want administrative reform and protection of the environment. Confused? So are Japanese voters. **The original purpose of the multi-party system was to ensure representation for minorities; the unfortunate cost was factionalism and chaos.**

To simplify the system, the Diet undertook electoral reforms in 1994. The electoral reforms limited individual politicians' fundraising activities; established the current mix of single-member electoral districts and proportional representation; and gave the party, rather than factions, power over the choice of political candidates. So far, factions have circumvented this by simply forming new parties rather than remaining factions within old parties. But even as Japanese politics shift borders left and right, the leaders within the government remain largely the same.

Over time, Japanese voter turn out has decreased. This hardly signals voter apathy. Rather, the opposition to the LDP, while many in number, has failed to present a coherent alternative to the dinosaur. Currently, the main opposition parties, the Democratic Party and the Liberal Party, have been grumbling about Koizumi's performance and have even threatened to initiate a vote of no confidence against Koizumi. However, they have held back because there's no one in line to replace Koizumi. Koizumi has tried to take advantage of the situation by holding on to the option of leaving the LDP and forming a new

government with members of the ruling coalition and with opposition parties. In fact, many pundits note that the opposition's best candidate is Koizumi himself. But while this might have been likely when Koizumi enjoyed an 80% popularity rating at the beginning of his term, now that his popularity is less than half that, such a defection is less likely to occur.

LDP: Losing Da People

While the LDP has been in power, Japan has developed a peculiar public-private system.

Bureaucrats and LDP politicians would rise through seniority to the top positions in government then retire into comfortable, high-pay jobs in the private sector. In providing these jobs, private companies are assured friendly relations with the government—and ease in hiding their more distasteful activities. LDP politicians also win the favor of their constituents by dishing out pork barrels by the...well, barrelful. Japan is littered with construction projects such as bridges, airports, and roads named for prominent politicians and used by no one. Is it any wonder that the government is in debt?

The LDP isn't going to reform any time soon. As long as it continues receiving benefits from its constituents and can remain in power, there's no incentive to make any changes. It has captured the favors of almost every interest group, and it especially commands the trust and votes of farmers, who enjoy market protection due to LDP policies. What's more, the judiciary rarely speaks up about wrongdoings by members of the Diet.

Japan's recent financial crisis has made it more difficult for the LDP to buy support with political favors. Because the LDP cannot placate the public, the Japanese are becoming more vocal about change after years of apathy. After Mori's dismal performance, the Japanese at first raved about Koizumi. Voters, about half of whom now claim to be independent, expressed their discontent by voting out the LDP. Shintaro Ishihara, a well-known reformist, was recently elected governor of Japan and may be a threat to Koizumi for his position as prime minister. Koizumi, meanwhile, is in a catch-22. He has proposed structural and regulatory reforms, privatization, liberalization, repairs for the bank system, and decreases in the deficit—but if he tries to shove reforms through the Diet, the LDP may lose its political support structure and rebel against him. If he does not accomplish reforms, however, the voters will reject him and the LDP. Either way, the LDP is likely doomed.

Koizumi himself is in trouble. In January 2002, he sacked Foreign Minister Makiko Tanaka. While Tanaka was largely unsuccessful in her duties and sowed conflict within the administration, her dismissal appeared to the public as the LDP's attempt to quash Tanaka for her defiance of the bureaucrats. The Tanaka saga does not end there. In June 2002, Muneo Suzuki, a prominent member of the LDP known to have constant scuffles with Tanaka, was arrested for accepting bribes. The arrest struck yet another blow to Koizumi as Japanese voters took this to be a sign that virtuous Tanaka had been wronged by the LDP. Amid other scandals plaguing the LDP, Koizumi's popularity plummeted—and so did his power. **The LDP will not be able to save itself. It is too corrupt to reform, and Koizumi is now too powerless to push the LDP to reform.**

But it is not hopeless. Just like Mexico, Japan is a nation whose leading party has been in power too long to want anything else but stay in power. But like Mexico, Japan will not put up with the LDP's sluggish and dirty ways forever. Eventually, the Japanese voters will no longer attempt to escape from their problems—it'll get a lot worse before it gets better, but once the Japanese voters finally face their problems, the LDP will be the real losers. To escape this fate, the LDP must take steps to reform, to fix the economy, and to get back in touch with voters.

Economics

Japan is currently the world's second largest economy and a member of the Group of Seven (G-7), or, if you count Russia, G-8. Since World War II, the Japanese economy has experienced rapid growth.

However, while the Japanese economy is still one of the most competitive in the world market, recently Japan has been plagued by recession, banking problems, and increased international concern. Since many extemp topics on Japan either deal with economics directly or are issues in which economics play a large role, it is important to have a solid understanding of Japan's economic affairs.

What Went Right

Japan experienced spectacular growth between the years of 1955 and 1973. During the height of this era, Japan's gross domestic product was increasing 12% each year. During these years the economy quintupled in size, and by the end of this era Japan had the third largest economy in the world. Several factors contributed to this growth.

First, a bureaucracy composed of the Ministry of International Trade and Industry (MITI), the Ministry of Finance (MOF), and the Bank of Japan (BOJ) directs all aspects of the Japanese economy. These institutions supported high-tech industries through tax breaks, import-export licenses, and subsidies. These industries not only supplied domestic markets but also proved to be highly competitive in a global market.

Second, Japan's businesses have a high rate of savings and investment. They were not interested in short term profits but instead sought long-term returns by getting a jump on research and development. The same can be said for Japanese consumers, for whom tax incentives and increased prosperity made saving more attractive than buying. The government and businesses can draw on these savings to further invest in the economy.

Third, corporations not only train workers but also ensure lifetime employment, guaranteeing a steady supply of loyal employees. In turn, the Japanese workforce is highly motivated and well educated.

Fourth, since Japan has no military, its budget can be allocated elsewhere. While this may seem trivial, considering that military spending consumes about one-sixth of the US budget, the money saved by Japan is a considerable sum. Unfortunately, the economy goes in cycles—no level of economic growth can be sustained indefinitely. And some of the causes for Japan's success are also reasons for Japan's decline.

What Went Wrong

The immediate cause of Japan's 1973 economic stumble was an oil shock that ended the era of high growth. While the oil shock may have triggered an economic decline, the stage had already been set for Japan's economic slowdown. Japan had completed industrial development, a completion usually accompanied by a slowdown in growth. What's more, when the US ended the fixed exchange rate system in 1971, the yen rose in value and exports of Japanese goods slowed. But not only did these underlying factors contribute to the short-term economic setback of 1973, a more complex problem began to plague Japan's economy.

Before World War II, Japan's economy was not unlike the United States'. Employees shifted jobs often, and bankruptcies forced weaker companies to collapse. The chaos of capitalism existed because the government did little regulating of the marketplace. To gear up the economy for war, Japan modeled its economy after Hitler's Germany and Stalin's Soviet Union, with lifetime employment, seniority pay and promotion, policies that favored banks over markets, and coordination between government and corporations.

The new system allowed Japan at war to organize its economy, but this system was never dismantled after the war. The system channeled investments into government-favored industries, but bureaucrats had so much power that accountability flew out the window.

Since the 1950s, the Japanese government has continued to sponsor many of Japan's industries. While subsidies and tax incentives have made many industries thrive, these same government handouts have allowed inefficient industries to continue crawling along, creating waste, overcapacity, and overpricing. **Thus Japan has created a dual economy in which export sectors, forced to compete with foreign nations, are highly efficient while domestic sectors, supported by the government's protectionist policies, floundered with inefficiencies.**

What's more, the bulky zaibatsu of the past evolved in the 1950s to monopolistic coalitions of businesses known as the keiretsu. Where a single family controlled the zaibatsu, a single bank finances the activities of the keiretsu. These "enterprise groups" linked several companies from each major industrial sector, all funded by a major bank. By controlling production from raw material to finished goods, the keiretsu allows weak companies to remain competitive, at least on domestic markets. But even while these weak companies were able to survive, the Japanese economy became ever more inefficient and sick. By the late 1980s Japan's inefficiency has reached a height. Japan needed to invest 35% of its GDP just to get the same growth as a more efficient economy would have received from 25% GDP investment. Unfortunately, the trouble was just beginning.

The Bubble Bursts

Japan's most recent economic problems began in 1985, when the yen rose in value suddenly. As in 1971, the appreciation of the yen slowed Japanese export considerably, thus contracting the economy. In order to stave off economic recession, the Japanese government increased public spending and lowered interest rates. As a direct consequence of this policy, Japanese stocks became overvalued. Rampant speculation forced the MOF to raise interest rates in 1990, and this burst the Japanese economic bubble. Between 1988 and 1992, Japanese stocks lost about 70% of their value. **Because Japanese banks had made loan after loan to business investors during the economic boom, when these businesses went bankrupt or were forced to downsize, the banks were left with bad loans, or loans that can't be repaid.**

The government responded to this recession with a Keynesian approach, increasing spending and cutting interest rates. During the mid-1990s, this seemed to improve the economy slightly. When growth rebounded in 1995 and 1996, the government reversed its policy, contracting spending and raising taxes in order to balance the budget. Normally, this would not have significantly harmed the economy. But in 1997, the collapse of Thailand's economy sparked a global financial crisis. Had Japan's economy been stronger, it might have survived the Asian flu. Instead, Japan suffered yet another recession, putting more companies out of business and forcing more borrowers to default on their loans. The financial malaise that now plagued Japan was blamed on the MOF, which had been inactive in deregulating the economy and enforcing accountability.

Since then, Japan has engaged in a series of reforms. In 1997 the MOF announced a "Big Bang" plan to deregulate banking, but the bang turned out to be a whimper. Banking is still fraught with bureaucracy, incompetence, and corruption. The Diet again tried to spark the economy by increasing government spending, but even today these massive stimulus packages have failed to revitalize the stagnant economy. Moreover, the government has about reached its limits. It owes money to creditors, money that was used as fiscal stimulus but failed to have any effect. With a growing inability to produce economic growth, the government has to let growth be fueled by external entities, meaning Japan has to increase its trade surplus—make more money that spend it on the international market. Yet Japan has had a trade surplus for decades, and nations are not willing to let this slide any more. With both sources of capital—the government and foreign nations—drying up, Japan's economy has nowhere to go.

Unfortunately, little public pressure exists to reform the system. With the advantage of financial freedom, individuals are more likely to try to escape the nation's problems than to force the government to confront them. What's more, as Japan liberalizes, firms begin pursuing their own solutions to what they view as a

microeconomic problem—making it harder to institute reform on a macroeconomic scale. In the past, the lack of resources to pursue individual solutions made state-sponsored economic solutions necessary for survival, and the citizens made their voices heard. Now, with less dependence on the government, individuals and businesses have become almost apathetic to large-scale economic reform.

Leonard J. Schoppa, associate professor of government and foreign affairs at the University of Virginia, argues that the Japanese are more willing to exit the economic system than to voice their disapproval to the government. He draws an interesting analogy using the exit-or-voice mechanism: Public school systems...typically pay little attention when parents start taking their children out and moving them to other districts or private schools. Those parents who leave tend to be those with the highest expectations, so their departure actually relieves harried bureaucrats of the hassle of responding. Over time, however, these organizations descend into mediocrity. As more and more parents with high expectations leave, schools are left with only the most complacent. Exit continues until the problems become so bad that radical action is required: perhaps a state takeover or even the introduction of a voucher system.” **As individual investors and businesses exit Japan’s economic system and seek fertile grounds on the international market, the government feels no incentive to reform because it has lost touch with market demands. Banking on the Banks**

Many Japanese economy topics focus specifically on the banking sector, and there’s a good reason why. If there’s a disease in Japan’s economic system, failing banks are the first symptoms, and more likely than not corrupt banks are the viruses that started all these shenanigans. During Japan’s economic boom, savings built up in Japanese banks. Unable to spend all the money efficiently, the banks splurged on risky loans and investments without researching the companies in which they invested. The government even encouraged the banks to stick with these companies even when they went bankrupt—all for the sake of maintaining economic stability. **The Japanese government plays a significant—and unhealthy—role in banking: it controls about a quarter of all banking assets, directs loans to preferred businesses, and otherwise makes it hard for capitalism to function.**

Companies that the government likes—usually ones that donate large sums of money to politicians—are often not the most stable businesses. Yet when the government controls banking assets, loans are often given to these bad businesses regardless of their stability. It would be as if the US federal government took over Chase Manhattan and made loans to Enron—after the company went bankrupt. The “Big Bang” was supposed to address this very problem. Yet instead of taking banking out of the hands of politicians, these reforms only masked the problem. The government has created the illusion that it is addressing banking corruption, but in reality the problems are as serious as ever.

The banking problem actually worsens Japan’s overall economics situation. Currently, Japanese companies have huge surplus capacity, which means that they produce more than they can sell. Only structural reforms injecting competition into the market can eliminate this surplus capacity, but banks keep on propping up these weak companies—making structural reform unnecessary, at least from the business perspective. Businesses with surpluses are lowering prices in an attempt to move products out of inventory, but the collective lowering of prices by companies across the board has only made it harder for any one company to turn a profit.

Why Does This Matter?

“Who cares?” is a very valid question at this point. If you can’t make your judge feel that this is an important topic, then most likely your speech will be out of sight, out of mind. Fortunately, it’s pretty simple to give an impact to Japanese economy speeches. If Japan doesn’t fix its economic system, the world may witness an economic collapse not too different from the one Weimar Germany experienced. Given Japan’s role as a keystone of world trade, such a collapse would spread quickly to other nations in

Southeast Asia and hit American and European investors hard as well. With Japanese manufacturers and investors doing business heavily in the US, the US has the most to lose after Japan itself.

Don't be surprised if Hitler is next to knock at the door—just as Germany's poverty during the Great Depression facilitated the rise of Hitler, Japan's economic collapse may lead to the reign of a xenophobic demagogue like Ishihara—the governor of Tokyo, remember? Such a leader may revive the imperialistic spirit, threatening conflict with China, both Koreas, and even the US. One thing is clear: Japan better fix its economic system now before it's too late.

You've Got Problems? We Have Answers.

Japan has lost its sense of accountability when it comes to the economy, but it's not too late. Several steps can be taken to fix Japan's ailing economy. Of course, any economic reform must be accompanied by political reform. **The LDP has been slow to fess up to its involvement and even slower to fix the situation, inspiring Koizumi's campaign slogan, "Change the LDP, Change Japan."**

First, the government needs to get serious about reform. As long as Japan's politics and economics are tied, corruption will always undercut economic growth. Unfortunately, it isn't only corruption that holds back reform. The essential changes that must be made would most likely result in bankruptcies, job insecurity, and difficult shifts in gender roles—at least in the short term, and politicians are avoiding these changes like the plague. Koizumi has made important campaign promises toward these reforms, but he lacks the support of the LDP. It's time for Japanese voters to voice their discontent and stand with Koizumi—the threat of another electoral loss may push LDP politicians toward reform.

Second, Japan needs to use its economic resources responsibly. Had investments been made in efficient sectors to begin with, Japan would not have such a large problem with bank debts. Now the sectors that benefited most from unwise investments are too busy paying off their debts to invest themselves, leaving an even bleaker.

Third, Japan has to resolve the issue of bad loans. One way to do this is to simply let forgive borrowers' debts. While this isn't the most likable medicine, especially for banks that will lose money through debt forgiveness, the Japanese economy is being fettered by companies who are too busy financing their debt to actually make money. Koizumi has proposed a plan to force banks to get rid of their nonperforming loans—a necessary step, but one that even Koizumi admits would most likely lead to bankruptcies, unemployment, and a prolonged recession.

Another way to abate the plague of debt is to destroy Japan's Postal Savings Bank. This bank is essentially a puppet for the government; individuals deposit their money, and the government grants them credit in any way it sees fit. The Postal Savings Bank has more assets than the entire US banking system, and privatization would allow this asset to be used without having bits and pieces sacrificed to politicians and pork barrels.

Fourth, banks should investigate borrowers before dishing out dough. The reason why Japanese banks are in hot water in the first place is that these loans were made to irresponsible companies. At the same time, banks also must become more independent from the LDP politicians that literally tell them which loans to grant to whom. Privatization in fact as well as in name will only reduce corruption and increase competition.

Fifth, Japan needs to focus on its labor force. With a smaller work force projected over the next few years as the population ages, it becomes important for Japan to attract marginalized groups—like women with children—into the work force. An interesting conundrum faces the Japanese economy as it stands today: women who choose work over family contributes to the immediate labor force, but they also contribute to the nation's shrinking birth rate. Farther down the road, Japan will be stuck with an even

smaller birthrate. At the same time, women who choose family over work are taking valuable labor and entrepreneurial resources out of the market today. The only solution is for Japan to facilitate work and family.

The overarching solution to Japan's banking problem is to end the post-World War II economic system where the government sponsored Japanese industries in order to boost competition. Now it's time for Japanese companies to fend for themselves by becoming fit for business.

Going Global

Japan has the world's third largest export sector, after the US and Germany. For the most part, Japanese trade ties are limited to those with the US, EU, and nations of Southeast Asia. Because of Japan's geography, unsuitable for mining and agriculture, Japan imports raw materials and food while it exports manufactured goods. In recent years, Japanese production has moved outside Japan's borders because both a strong yen and resistance from foreign consumers have made export more difficult. Japan reached the status of economic giant for three reasons. First, Japan's post-war boom gave it prestige in Asian markets. Second, Japan quickly developed strong and loyal trade ties with its neighbors.

And third, its vast amount of capital allowed it to overwhelm American and European competition in the region. However, as the post-war system causes the economy itself to crumble, Japan is losing its prestige and clout in the region. Neighboring nations turn away from a Japan escaping its problems and turn towards a China confronting its. Americans and Europeans are elbowing their way into Asia as Japan falters. Japan can hardly even afford to make loans to regional borrowers as it is too busy to fix its banking system at home. For Japan, Southeast Asia is no longer its playground.

Social Issues

While you will probably find few articles about Japanese social issues in your files, the key to answering that rare question on social issues lays in domestic extemp. **Despite large cultural differences between Japan and the United States, answering questions on Japanese social issues should be very similar to answering questions on US social issues.** Japan is more group-oriented and socially conservative, and it values cooperation more than competition. But because the US and Japan are about equal in terms of economic development, social resources, and political values, you can apply much analysis about US social issues to Japan. So suck up to your DX teammates now!

The Japanese Country Western Song

For the most part, Japan is the country that every politician wants to govern. There are very few social problems to contend with. Those that do exist mostly arise from the recent series of economic recessions. Cutbacks in Japanese companies have cost many Japanese their jobs. Lifetime job security, which had been guaranteed to about 30% of the population, is slowly fading. Young workers entering the labor market find themselves unable to get jobs. As a result, homelessness is increasing as many unemployed individuals, especially middle-aged and older men, feel too shameful to face their families.

A second consequence of economic hardship is increasing crime. Recession coupled with a younger population eager to obtain material goods result in numerous violent and property crimes. Young girls turn to prostitution in order to earn enough money to buy fashionable clothes or other wants. Organized crime by the Japanese mafia, the yakuza, is still prevalent.

One final social concern is that of women's rights. The 1947 constitution gave women the right to vote, secure jobs, and divorce, but afterwards Japanese society was still dominated by men. In modern society, more women attend colleges and universities, and job discrimination is forbidden. However, societal roles and pressures still force many women to remain home as wife and mother.

The Silver Lining

Japan has some of the most comprehensive social services of the industrialized world—part of the reason why its economic system is so burdened. It provides a basic income for those unable to earn a living, guarantees health and medical coverage, unemployment benefits, and social security, offers aid to the elderly, the handicapped, and children, and maintains sanitation and environmental standards necessary to prevent outbreaks of disease. The problem with such an extensive social services program actually arises from the nature of the Japanese population. Like the US, Japan as a nation is getting older. With more people requiring pensions, the current labor force is becoming increasingly burdened. What's more, Japan has the unique problem that birth rate over time is actually decreasing. With fewer future workers, this aging problem will only get worse. Unfortunately, it is an already taxed government that will have to take care of the problem.

Security and Foreign Policy

Japan's approach to international affairs is named the Yoshida Doctrine after the prime minister that developed it. **The Yoshida Doctrine emphasized economic growth, security ties with the US, and limited isolationism regarding international political affairs.** Japan may not involve itself politically, but it is an active member in humanitarian programs—the World Health Organization (WHO), the UN Educational, Scientific, and Cultural Organization (UNESCO), and many other UN agencies, while applying to be a permanent member of the UN Security Council. Japan has also been a major source of developmental aid, especially to Asian nations.

The Little Military That Couldn't

Japan has severely limited defensive capabilities. After World War II, when Japanese soldiers and pilots brutalized the US and its Asian allies, no one wanted Japan to have the same military capabilities that it had before. In Article 9 of the post-war constitution drafted by the US, Japan renounced the maintenance of military forces. Over time, Japan's National Police Reserve evolved into the Japanese Self-Defense Forces (SDF). As the name suggests, this pseudo-military—which includes army, navy, air force, and coast guard—is limited to defensive purposes and cannot initiate conflict. It cannot be deployed outside of Japan, which limits Japan's contributions to international military actions such as UN peacekeeping missions. In fact, Japan's own constitution limits the nation's participation in UN military operations. Consequently, Japan makes most of its contributions through monetary means, by offering significant funding to make up for its military absence. Will Japan's defense situation change any time soon? Most likely it won't. To create a true military force, Japan needs to revise Article 9 of its constitution—a process so intimidating and complex that no revision has been made to the constitution in its fifty-plus years of existence. Instead of a constitutional redrafting, Japan might want to consider legislation that allows it to examine individual deployment situations and allow limited SDF deployment.

Japan and the US: The Soft Voice and the Big Stick

Japan engages in a bilateral security arrangement with the US, in which the primary interest for both parties is to preserve the status quo in East Asia, which Yukio Okamoto, special adviser to Koizumi's cabinet and chairman of Koizumi's Task Force on Foreign Relations, states is “detering the use of force as a means of altering political borders.” This security arrangement is asymmetrical. The US provides military defense for Japan, but this means that Japan, without a military, is basically getting a free ride for security. Japan gives the US logistical support for operations in the region.

While this sounds all good, Japan and the US have very different approaches to foreign relations. The US has recently become more unilateral, while Japan has remained pacifist. Some argue that Japanese pacifism actually holds back US militarism, but recent events prove otherwise. The Japanese defied US policy by signing the Ottawa land mine treaty, the Comprehensive Test Ban Treaty, and the Kyoto Protocol; they cannot understand why the US would not do the same, and why the US withdrew from the Antiballistic Missile Treaty. By the same token, the US worries that Japan might be too pacifist. Before the War on Terrorism, Japan has been absent from the realm of international military action, limiting its

contributions to economic means. A good example is the Persian Gulf War, when Japan funded operations but never participated.

Unfortunately, ideological disagreements will hurt Japan the most. The US is Japan's sole ally, whereas the US has many allies besides Japan. Naturally, Japan focuses almost all of its foreign policy efforts on maintaining friendly relations with the US, compromising when necessary, making concessions when unavoidable. On the flip side of the coin, the US feels no need to make similar efforts to placate Japan when it can simply call on its other friends. When answering a question on Japan-US relations, make it clear that Japan would be willing to do almost anything to maintain friendly relations with the US. After September 11, Japanese lawmakers launched a massive policy campaign to become more actively involved in aiding the US. While North Atlantic Treaty Organization (NATO) members could simply invoke the NATO charter and participate in collective self-defense in support of the US, Japan had no such mechanism with which to become involved in the War on Terrorism. To show the US its effective support, Japan passed the Antiterrorism Measures Special Law of 2001, which allowed SDF deployment specifically in antiterrorism efforts. The law expired in two years, but the gesture should show Japan's willingness to help the US.

Regional Leader or Outcast?

Japan has long enjoyed friendly trade relations with most of Asia. However, these economic friendships are undercut by tensions originating from World War II. China and Korea were especially hurt by Japanese aggression during the war, and they still feel that Japan has not adequately atoned for its past sins. Japan's slow rebuilding of the military is hardly helping, and when Koizumi visited the Yasukuni Shrine, which commemorates Japanese soldiers, on August 13, 2001, China and South Korea were incensed. Thus Japan, one of the most stable nations in the region, may not be able to do much to aid regional security. With this in mind, let's look at major security concerns facing Japan in the region.

Japan's closest and largest neighbor is China. Officially, Japan does not support forced reunification of China and Taiwan. US naval ships are already in the region, and should China attempt aggressive action against Taiwan, Japan will offer logistical support to the US. Because of Japan's proximity to its coast, China will not risk an unprovoked attack. Japan favors negotiation, and the US backs it up on this matter. China also offers an economic threat to Japan. While Japan's economy has been floundering, China's economy has gone up leaps and bounds. China has also taken a leadership role in forming a free trade area between member nations of the Association of South-East Asian Nations (ASEAN), while Japan still protects many of its industries from competition. Add to this China and Japan's historic enmity, Japan will attempt to challenge China for leadership in Southeast Asia. Whether Japan will be successful is dubious.

The largest security threat to Japan right now is the Korean Peninsula. While neither nation is likely to attack Japan directly, escalation here may trigger instability throughout Asia. What's more, North Korea has a stock of Nodong missiles and longer-range missiles able to strike every major Japanese city. But just as a China-Taiwan war would trigger US response, an attack by North Korea against either South Korea or Japan would result in immediate action, again with Japanese logistical support. Japan's role in Southeast Asia is much like Britain's role in the European Union: it has strong ties to the United States and thus has the opportunity to prevent regional isolation. However, Koizumi hasn't reached out to the rest of Asia, and the development of the SDF has only made matters worse between Japan and other Asian nations. At the same time, Japan is also shying away from freer regional trade—it continues to protect its weakest industries from regional competitors.

Nonetheless, Japan is critical to the future of Asia. It is a valuable interpreter of what Akio Watanabe, professor emeritus of the University of Tokyo, calls "the Asian mind." Despite its own economic problems, it is also crucial to the economic development of the region. And it plays a local intermediary

to the West on matters of regional security. All in all, Japan has a role to play as leader of Southeast Asia, if only it were willing to take that role.

Global Giant or World Wimp?

Japan is rarely seen as a hegemonic power—at least not a military one. As such, it usually holds friendlier relations with many nations than the US does. Unfortunately, Japan is often viewed as ethnocentric and homogenous, and Japan does not often use what power it has to its advantage. In the coming years, Japan still has a shot to be an international leader. Russia is currently pushing into Asia to increase its sphere of influence in the world. This gives Japan a chance to befriend its northern neighbor after a history of enmity. Russia may have recently stepped closer to the West with its junior membership to NATO, but Japan stands a greater chance to reach out to the superpower as a less threatening representative of the West. Surprisingly enough, Japan's greatest contribution to international stability comes from its potential to help calm the Middle East maelstrom. Japan has close ties to Arab governments, Islamic oilproducing states, and the nations of Central Asia because it has more flexible views on human rights and lacks strong ties to Israel. Unlike the United States, Japan shares the view most industrialized nations hold that poverty is the primary cause of terrorism and political violence. Japan also can avoid the US's inconsistent commitment to human rights and unwillingness to confront its allies about their human rights standards. Given this, Japan may play a critical role in future Middle East conflicts.

The Challenges Continue

In 2009, Japan will continue to be the subject of political and economic turmoil. The inefficacy of the LDP has not been supplanted by a coherent alternative or coalition government. The state of Japanese politics is very much in flux. On the economics side, Japan has been hit hard by the 2008-2009 global recession. While certain industries have continued moderate success (Toyota is, as of this writing, the world's largest car company), most have floundered. For an economy so dependent on exports, the financial collapse and the sharp reduction in international consumption has impacted the Japanese economy in a severely negative fashion. This is hardly a time for Japan to lack strong political leadership, but that is precisely the case. How Japan handles the crisis remains to be seen, but if anyone can rise from the ashes and claim a leadership role through these troubled times, it may well sow the seeds of future stability for the nation.

Conclusion

In the coming years, Japan will doubtlessly play a critical role in the world not only economically but also politically and perhaps even militarily. As Japan changes the image associated with the concept of "superpower," Japan topics will become even more common in extemp. Familiarizing yourself with issues facing Japan will also help you with topics concerning any Asian nation or regional concern. Good luck in all your rounds, and remember to have fun—after all, a nation that developed Nintendo, anime, and sushi can't be boring!

Bibliography

- "Corruption, construction, conservatism." *The Economist* April 18, 2002.
- "In search of an opposition." *The Economist* April 11, 2002.
- Jansen, Marius B. *The Making of Modern Japan*. Cambridge, MA: Belknap, 2000.
- Kurlantzick, Joshua. "Is East Asia Integrating?" *The Washington Quarterly* Autumn 2001.
- "Lionheart to the rescue?" *The Economist* April 18, 2002.
- Okamoto, Yukio. "Japan and the United States: The Essential Alliance." *The Washington Quarterly* Spring 2002.
- Overholt, William H. "Japan's Economy, at War With Itself." *Foreign Affairs* January-February 2002.
- Roberson, John R. *Japan Meets the World: The Birth of a Superpower*. Brookfield, CT: Millbrook, 1998.

- Schoppa, Leonard J. "Japan, the Reluctant Reformer." *Foreign Affairs* September-October 2001.
- Watanabe, Akio. "First Among Equals." *The Washington Quarterly* Summer 2001.

Eastern Europe

Mark Royce, Joshua Bone, and Paul Storm

Introduction

Eastern European nations are generally grouped together because they share a common political history. These nations typically were dominated by the U.S.S.R. during the Cold War, and became independent countries following the collapse of communism at the beginning of the 1990s. Geographically, these countries are east of Germany and west of Russia. Religiously, Eastern Europeans are generally either Western or Orthodox Christian, although there are many sub-groups within these general labels. The final and most important characteristic of any Eastern European country is the brave choice that it must make concerning its future, which we'll discuss in just a moment.

For the purposes of this chapter, Eastern Europe refers to:

Belarus	Bulgaria	Czech Republic	Estonia
Greece	Cyprus	Hungary	Latvia
Lithuania	Moldova	Poland	Slovakia
Slovenia	Ukraine		

We will examine the common issues facing most of these nations, as well as the ones that are or have made headlines in the past.

Before jumping into a more detailed discussion of Eastern Europe, it is important to first establish some basics. Eastern Europe is a region of growing geopolitical importance; it is becoming more critical to international issues ranging from America's relations with its European allies to how best to revitalize economies long dependent on outdated and inefficient economic systems. Eastern Europe is not as powerful internationally as its neighbors to the West. No Eastern European nation, for example, has a permanent seat on the UN Security Council, while Western Europe holds two out of the five. No Eastern European country is particularly powerful in any individual respect.

Political Corruption

On the whole, political corruption is systemic in Eastern Europe. Bribery continues to undermine democratically elected governments as they attempt to transition from Soviet-era totalitarianism to democracy, freedom, and the rule of law. The business environment leaves much to be desired: Businesses in Eastern Europe often have to deal with antiquated means of production, excessive government regulations, and, in those nations that have recently joined the European Union, liberalized trading laws that hurt domestic producers. The influence of organized crime has become an increasingly difficult problem for governments to address. Exercising media freedom is a problem in many places. Politically, these nations range from imperfect democracy (most of them) to pseudo dictatorship (Ukraine) to complete dictatorship (Belarus). None of these nations has the same level of true and respected political and economic freedom enjoyed by Western Europe, where the grass really is greener.

Environment

Environmental degradation is a serious problem in Eastern Europe, especially air pollution caused by dirty fossil fuel industries that haven't even been loosely, if at all, regulated. Russia's recent history includes an inability afford to properly maintain its nuclear arsenal, allowing weaponry to funnel into Eastern Europe.

Future Risks and Choices

Eastern Europe doesn't have great deposits of natural resources like oil or natural gas, nor are these nations battling militant Islam, though some fear that a combination of corrupt governments and increased immigration into Eastern Europe from the Middle

East may make the region more of a terrorist hotspot in the future. As some parts of

Eastern Europe become more and more integrated with the European Union and others with Russia, the importance of Eastern Europe to the rest of the world dramatically increases. Eastern Europe, of course, is most important to Eastern Europeans, and they have now a bold choice before them, a choice that different nations are making in different ways: the must choose one of three different doors of destiny.

Eastern Europe's Choices

Door #1: Westernization

One option is integration with the Western community, which is composed of Western Europe and North America. These nations initially banded together in opposition to the Eastern Soviet bloc, but now provide examples to developing Eastern European countries of free political cultures, advanced, decentralized economies, and great degrees of personal freedom. These are the most affluent nations in the world, and they hold the keys to the powerful international institutions (UN, WTO, IMF) that are on the world stage today. Many Eastern European countries suffered under Soviet domination and awaited the day when the Soviet Union would crumble and they could integrate with the Western world, thus enjoying its free political and economic life. That day is here. The Soviet Union is no more.

Recent European Union expansion has shown the international community that Eastern Europe's integration with the West is two-sided. On the one hand, these nations are clearly willing to accept EU political and economic mandates that will likely push Eastern Europe toward democracy and capitalism. On the other hand, many Eastern European nations worry that specific elements of the EU agenda and the EU legal, economic, and governmental structure will subsume their interests in favor of the interests of Western Europe. After gaining EU membership, Poland almost single-handedly defeated the proposed EU Constitution by demanding that the constitution provide smaller European states with the same representation that larger states would get in the European Parliament. Some of the specific impacts of EU membership and expansion will be discussed in much greater length later.

Finally, many Eastern European nations recently joined the NATO alliance, which is a somewhat ironic step when one considers that NATO was originally organized to oppose the Eastern Soviet bloc. The role that NATO can play in Eastern Europe is peacekeeper. Critics of NATO argue that that the alliance has lost its purpose, and that NATO membership offers little to Eastern Europe.

In terms of the United States, many nations in Eastern Europe continue to view the United States much more favorably than do some states in Western Europe. Many in Eastern Europe, and especially those who currently serve in Eastern European governments, continue to view the United States as a liberator. For this reason, former Defense Secretary Donald Rumsfeld declared famously that there is now "Old Europe," which consists of the powers in Western Europe, and a strong and vibrant "New Europe" to the East, which is much more supportive of American foreign policy. Poland and several other Eastern European states have publicly supported the War in Iraq and the War on Terrorism generally, though some privately wish that NATO and other international organizations were allowed to play a larger role in rebuilding Afghanistan and Iraq. Some nations in Eastern Europe, specifically Poland, have also decided to pull their troops out of Iraq in the face of broad opposition within Europe to the war and the strength of the Iraqi insurgency.

Door #2: Russification

Behind Door Number Two is closer integration with Russia. The U.S.S.R. long dominated the political and economic life of its satellite nations in Eastern Europe. Though it may seem strange that any Eastern

European would want to have anything to do with Russia, people are often captive to history and it is hard sometimes to renounce even an oppressive past life for the sake of joining some other group of people that you have never had anything to do with. Many Eastern Europeans have all kinds of links with the Russian world, and thus they see the power in the Kremlin as their standard bearer, the key to the past.

It appeared until recently that, although Russia was not quite as openly seeking to expand its power as, say, China, Moscow would still have been more than happy to direct the affairs of nations over which, until rather recently, it had control. However, Russia has more recently begun taking a conciliatory tone toward EU and NATO expansion, and may become a member of one or both organizations in the near future. Moscow seems to understand that, with the exception of a series of economically and politically backward states directly to Russia's east (Ukraine and Romania come to mind) most of Eastern Europe is inevitably moving toward integration with the West.

Door #3: Physician, Heal Thyself

Eastern Europeans, sandwiched between two versions of Europe, can simply renounce both, and give the keys to their destiny not to some other group of people but hold it themselves. This would be the nationalistic choice. We'll examine the dynamics and intricacies of each of these three choices later in this chapter, but for now know that most of these nations have chosen alliance with the West.

World War I

Before World War I broke out in Europe, four nations composed the majority of the land now called Eastern Europe:

Austria-Hungary Russia Romania Greece

The remaining territory was ruled by various Balkan nations (more on them in the Balkans chapter) and the Ottoman Empire also had significant influence in this area. It was in the general region occupied by these nations that the first shots of World War I were heard.

Austria-Hungary was an empire ruled by a monarch that occupied the bulk of Eastern Europe at the beginning of the 20th century, with its capital in Vienna. Of a country of approximately 50 million people, 23 million were Slavic, 12 million Germanic, and 10 million Magyar. These ethnic groups were always more interested in independence than strengthening the throne. This trend was consistent with the nationalism that had swept across Europe during the 1800's. Nationalism is an extreme form of patriotism, connoting a fierce loyalty to one's own group. These nationalistic trends worked to undermine Austria-Hungary, as well as Russia and Ottoman Turkey, because disparate groups were ruled in an authoritarian manner by a government seen as aloof, distant, or incompetent.

In 1908, Austria-Hungary added Bosnia and Herzegovina to its empire. World War I began in 1914 (sparked off by the assassination of Arch Duke Franz Ferdinand in Sarajevo), and the fallout out the conflict would dramatically change the political and social geography of Eastern Europe.

The postwar arrangements had significant impact on the future of Eastern Europe. Austria- Hungary was carved up into Austria, Hungary, and Czechoslovakia. Romania and Yugoslavia also gained territory from Austria-Hungary. Poland was reconstituted primarily from lost Russian land. Russia also had to recognize the independence of Lithuania, Latvia, and Estonia--the three Baltic countries. The Ottoman Empire was defeated, and France and Great Britain divided up much of its territory in the Middle East between themselves. The modern landscape of Eastern Europe was beginning to emerge. The problem with these new arrangements, however, was that mistakes were often made in reference to the groups involved. The Allies tried to cater to the ambitions of national groups, but claims overlapped in many instances. Many nations of Europe had been devastated economically. The new nations of Austria and Hungary were not

economically feasible states, and couldn't support themselves. Although the Central Powers were defeated, the postwar arrangements did little to solve Europe's political, economic, and ethnic difficulties, setting the stage for yet another world war.

World War II

The second world war also brought great change to Eastern Europe. In the precursor to outright military conflict, Hitler's Germany annexed the Sudetenland, a predominantly German-speaking portion of Czechoslovakia. In a move to appease Hitler and forestall German aggression, the plainly illegal expansion was permitted as a fait accompli at a conference of major powers in Munich. In 1939, Germany invaded Poland from the West, and Russia invaded Poland from the East. Most of Eastern Europe was brought under the control of the Nazi state in relatively short order, once Hitler's armies turned on the Soviet Union the Eastern Front became the sight of enormously costly and bloody battles which ultimately were integral to the outcome of World War II.

In the early days of the war, Germany worked to deport local Jewish populations out of Eastern Europe, most notably to Palestine, which many Jews recognized as an ancestral homeland. While this forced deportation was often cruel and brutal, it paled in comparison to what was to come next. Germany's attempted implementation of the "Final Solution" to "the Jewish Problem" resulted in the deaths of some six million Jews, mostly from Eastern Europe, and some four million others (including Romas, the mentally and physically handicapped, homosexuals, and other socially marginalized groups). Eastern European cities like Auschwitz and Dachau evoke images of horror to this day. Many of the perpetrators of what was arguably the worst crime in recorded history stood trial and were executed after the war, many in tribunals erected by Eastern European nations. Nonetheless, the holocaust created a lasting scar on Eastern European history and culture.

Despite its pledge at Yalta to allow democratic elections in Eastern Europe once the war was over, the Soviet Union quickly came to dominate Eastern Europe in the post-war period. Soviet control would shape Eastern Europe for nearly half a century.

The Cold War

The Cold War was the struggle between the United States and the Soviet Union in which each tried to expand its influence using any method short of direct military confrontation. What made the Cold War so frightening was the prospect of a nuclear exchange between the two powers. In the years following World War II, both sides had developed a formidable nuclear arsenal (though the United States' was stronger and probably more reliable) capable of destroying all life on Earth several times over. As is often true in wars, the people hit the hardest are the ones in the middle: in this case, Eastern Europeans. Eastern European nations came to be known as Soviet satellites, because the Soviet Union occupied them or forcefully dominated their political systems.

Soviet domination of Eastern Europe during the Cold War led predictably to economic stagnation and harsh political oppression. Attempts to reject Soviet influence, for example in Hungary in 1956 or Czechoslovakia in 1968, were met with brutal repression. As Winston Churchill had warned, an "iron curtain," had "descended across the continent." Locked into an adversarial relationship with the West, most of Eastern Europe became members of the Warsaw Pact, a mutual defense agreement among the Soviet Union and its satellites meant to counter the influence of NATO.

By the 1980s, the Soviet system was under severe strain. The reformist efforts of Mikhail Gorbachev opened the door for a small measure of economic liberalization and political freedom. With the architecture of Soviet domination crumbling, many in Eastern Europe took bold steps to separate themselves from the Russian government. Where refugees had clandestinely escaped to Western Europe

in search of greater freedom and economic opportunity, they now openly immigrated for the same purpose. The fall of the Berlin Wall symbolized the end of Soviet repression in Eastern Europe.

Contemporary Issues/Application

European Union Expansion

In the decades since World War II, European nations have pursued greater economic and political integration in an attempt to forestall the possibility of another major power war on the continent, and strengthen their economic position vis-à-vis the rest of the world. The contemporary manifestation of this process is the European Union, which now promotes largely unfettered trade within Europe, manages a common European currency, and gives voice to European concerns in international trade agreements. The prospect of EU membership holds great appeal for Eastern European nations. Simply put, Eastern European nations want to join the European Union to have a greater voice in world affairs, reap economic benefits, catalyze political maturity, and help guarantee their security. Many Western European nations also want to mandate that Eastern European nations improve their border security and tighten immigration restrictions in order to curb the number of people who are fleeing Eastern Europe and Asia into Western Europe. It is, therefore, at least partly in the mutual interest of both East and West to continue EU expansion.

Most would argue that Eastern Europe's integration with the West increases the likelihood that Eastern Europe will continue to liberalize its markets and guarantee individual freedoms. Furthermore, many believe that membership in the EU will foster increased economic competition because the EU will mandate that Eastern Europe relax its trade barriers, and that this competition will force Eastern Europe to modernize its means of production. Some also claim that membership in the EU will provide Eastern Europe with the kind of regional protection that is necessary in this ever-changing world. Finally, EU membership could provide a disincentive for nationalist and extremist politicians to take power, even democratically, in member states because integration with other markets forces governments to maintain close relations with one another.

NATO Expansion

The European Union is not alone in undertaking policies of expansion toward Eastern European nations. The North Atlantic Treaty Organization (NATO) is doing the same. Founded after WWII to bring the free Western nations into a mutual defense alliance to oppose the Soviet Union, NATO has for many years been a vital part of the foreign and defense policies of its members. The benchmark of NATO is Article 5 of its charter, which states that an attack on a single NATO nation constitutes an attack on all of them.

NATO is worthy of several pages in and of itself, but as far as expansion to Eastern Europe goes there are a few things to keep in mind. First of all, NATO was founded in order to deter an attack by the Soviet Union upon its members. It fulfilled its aim. Now that the Cold War is over, many feel that NATO is an outdated organization that should be phased out. Yet NATO has remained in existence more than a decade after its enemy was defeated. Why? The reason is that Western leaders have envisioned how NATO can rather easily be converted into a political organization that would serve as a shield for Western interests, by integrating likeminded countries into the Western system by bringing peace and stability to new areas.

Politics in Eastern Europe

Up to this point, Europe has been explained in terms of "East" and "West." During the Cold War, this division was easier to use than it is today: One literally could draw a line between the free world and the communist bloc. Not so anymore. Eight countries made up the central communist area in Europe. Now 27-30 nations occupy the same land area. Thus, balkanization, or the splintering of once large nations, is the defining characteristic of the post-communist world. As a result, there are many versions of Europe,

not simply an East and a West. Just be conscious of the fact that, although it is perfectly acceptable to talk about Western and Eastern Europe as if they were separate entities, there are no political monoliths as there were during the Cold War, primarily because, with ideology no longer the driving force in international relations, people have begun to put greater emphasis on their cultural identities.

Ukraine

Ukraine is an important country, the most significant of the former Soviet block nations because of its size and position. The primary difficulties of Ukraine stem from its strong cultural divisions between East and West. Western Ukrainians speak Ukrainian and have generally looked to the West. Many of them are members of the Uniate church, which is Orthodox Christian by ritual but recognizes the authority of the Vatican. Eastern Ukrainians have generally spoken Russian.

Because the country is split almost in half between those that are culturally Western and those that are culturally Russian, Ukrainian foreign policy has always been a tricky business. Ukraine has, in virtually all of recent memory, been ruled by the Soviet Union. When Ukraine broke away from the Soviet Union in 1991, many military and political issues remained unresolved between the two countries. Some worried that these issues, if unresolved, might lead to violence between the two countries. Fortunately that didn't happen for several reasons. First of all, the cultural links between Ukrainians and Russians kept them from exhibiting much aggression toward each other. Second, Crimea, which had sought independence from Russia and then Ukraine, backed down under Ukrainian pressure. One potential landmine had been averted. The final reason was the election of the pro-Russian presidential contender Leonid D. Kuchma to that office in 1994. While ruling out an out-right merger with Russia, Kuchma, who overwhelmingly won the Eastern regions of Ukraine, proved to be someone the Kremlin could do business with.

Current Events

Ukraine's current president, Viktor Yushchenko, made headlines several times since 2004. First, during the elections of that year, he became seriously ill in early September. Yushchenko claimed that he had been poisoned by government agents. After the illness, his face was greatly disfigured: jaundiced, bloated, and pockmarked. Tests confirmed that the changes in Yushchenko's face were due to chloracne, which can be the result of dioxin poisoning. In June 2008, David Zhvania, a former political ally of Yushchenko and an ex-minister in the cabinet of Yulia Tymoshenko, claimed that Yushchenko had not been poisoned in 2004 and that laboratory results in the case had been falsified.

Serious allegations against Yushchenko surfaced in September 2005 when former president Leonid Kravchuk accused an exiled Russian tycoon, Boris Berezovsky, of financing Yushchenko's presidential election campaign, and provided copies of documents showing money transfers from companies he said were controlled by Berezovsky to companies controlled by Yushchenko's official backers. Berezovsky confirmed that he met Yushchenko's representatives in London before the election, and that the money was transferred from his companies, but he refused to confirm or deny that the money was used in Yushchenko's campaign.³⁷

Then on April 2nd, 2007, Yushchenko signed an order to dissolve the parliament and call early elections. Some consider the dissolution order illegal because none of the conditions in the Constitution of Ukraine for the president to dissolve the legislature had been met. Yushchenko's detractors argued that he was attempting to usurp the functions of the Constitutional Court by claiming constitutional violations by the parliament as a pretext for his action; the parliament appealed the Constitutional Court itself and promised to abide by its ruling. In the meantime, the parliament continued to meet and banned the financing of any new election pending the Constitutional Court's decision. Competing protests took place and the crisis escalated.

³⁷ Financing of election campaigns by foreign citizens is illegal in Ukraine.

Having failed to form a new alliance to preserve the pro-Western coalition with his Orange Revolution³⁸ partner Yulia Tymoshenko, Yushchenko again dissolved the parliament on October 9th, 2008 and announced parliamentary elections would be held on December 7th. They were later postponed to an unknown date. Yushchenko said, "I am convinced, deeply convinced that the democratic coalition was ruined by one thing alone -- human ambition. The ambition of one person." Political groups contested the election decree and politicians vowed to challenge it in the courts.

After a coalition formed in mid-December between the Our Ukraine–People's Self-Defense Bloc (OU-PSD), the Bloc of Yulia Tymoshenko (BYuT), and the Lytvyn Bloc (LB), Yushchenko told journalists: "The fact is that the so-called coalition was formed on basis of political corruption, this coalition will be able to work only if the Communist Party will join it. Speaking about such a type of coalition, it is even more shameful." Victor Yushchenko also stated that Yulia Tymoshenko's desire to keep her job as Prime Minister was the main motive for creating the coalition and that he wanted to expel the OU-PSD lawmakers who supported the creation of the coalition from the list of members of parliament.

Belarus

"Europe's last dictator" is Aleksandr Lukashenko. Lukashenko uses malfeasance and intimidation to stay in power. He is isolationist and anti-American. Luckily, the former trait moderates the impact of the later. Lukashenko was recently able to end presidential term-limits, essentially allowing him to remain president as long as he wants because of his penchant for blatant ballot-rigging and other illegitimate tactics. What's worse is the Kremlin continues to support him. In September of 2001, President Putin gave the order that Russian media were to give no air time to the opposition candidate, Vladimir Goncharick because one of Lukashenko's promises was a merger with Russia. Russia doesn't really want to merge with Belarus, but it is an opportunity for Moscow to extend its sphere of influence in Eastern Europe.

Moldova

Moldova is one of the least fortunate of all European countries. The economy is the poorest in Europe. Its parliamentary democracy is imperfect, to say the least. Infection rates for deadly diseases such as AIDS are high. As if these problems weren't enough, a region called Trans-Dniester is seeking independence. Also known as Transdnistria, this region of Moldova runs as if it were an independent country, though its government's real power consists of little more than a militia waving its guns in the air.

Moldova went on a downward path after it gained independence from the Soviets. Some people hoped it would integrate with Romania because of common ethnicity. This didn't happen, but the fears among

³⁸The Orange Revolution was a series of protests and political events that took place in Ukraine from late November 2004 to January 2005, in the immediate aftermath of the run-off vote of the 2004 Ukrainian presidential election which was marred by massive corruption, voter intimidation and direct electoral fraud. The protests were prompted by reports from several domestic and foreign election monitors as well as the widespread public perception that the results of the run-off vote of November 21, 2004 between leading candidates Viktor Yushchenko and Viktor Yanukovich were rigged by the authorities in favor of Yanukovich. The nationwide protests succeeded when the results of the original run-off were annulled, and a revote was ordered by Ukraine's Supreme Court for 26 December 2004. Under intense scrutiny by domestic and international observers, the second run-off was declared to be "fair and free". The final results showed a clear victory for Yushchenko, who received about 52 percent of the vote, compared to Yanukovich's 44 percent. Yushchenko was declared the official winner and with his inauguration on 23 January 2005 in Kiev, the Orange Revolution peacefully reached its successful conclusion.

Russians that dwelled in Eastern Moldova that it could lead to a secessionist movement, culminating in the emergence of the Trans-Dniester Republic. The Russian army helped build this mini-state. The urge to merge with Romania died down once people saw that Romania wasn't much better off than Moldova and because of Russian intervention on the part of the secessionists. Although Moldova did join the Commonwealth of Independent States (CIS) and its relations with Russia have improved, its overall prospects are still pretty bleak. As a sign of how bad things have gotten, and how much worse they could get, in 2001, Moldova became the first former-Communist state to elect a Communist president.

Greece/Turkey Conflict

The conflict between Greece and Turkey goes back thousands of years, ever since

Agamemnon gathered the captains of Golden Age Greece to make war on Troy, which is recounted in the Illiad. Greece and Turkey have long been rivals for economic and political power in the Eastern Mediterranean. Greece has considered itself a historical spear of Christianity against Muslim Turkey. But the really hot issues between them have their beginning in the Turkish invasion of Cyprus.

Cyprus is an island just south of Turkey in the Mediterranean Sea, which for a long time was ruled by the British. Its people have never called themselves Cypriots, but rather Greeks and Turks, for the island is divided between these two national groups. In 1974, Turkey invaded the island, stating that it wanted to support the Turks living there. The ramification of this invasion was to spit Cyprus into two entities: Turkish Cyprus and Greek Cyprus. The Turkish Cypriots live in the northeastern part of the island, whereas the Greek Cypriots live in the more southwestern sections.

The current difficulties of Cyprus were seriously exacerbated by this show of Turkish aggression, even though these two national groups had been at odds for years. Cyprus is universally (with the exception of Turkey) recognized as an independent country. Cyprus is now a candidate for EU membership, but how exactly it could be admitted to the Union is a highly contentious issue. Some feel that admitting a divided island is no problem. "Something is better than nothing." Others see admitting a divided Cyprus as involving the Union too deeply in a local dispute. The Cypriot people are currently attempting to determine whether dividing their nation would be the best way of reconciling the dispute, but a UN-sponsored peace plan which would divide the province failed in the face of Greek Cypriot opposition. Today, violence continues in Cyprus, though some positive signs have emerged. For one thing, for the first time in years, people are now able to travel from the Greek Cyprus to Turkish Cyprus. For another, the EU is offering aid to Turkish Cyprus in an attempt to revitalize the devastated economy of the region. Continue to watch Cyprus for signs of further progress.

Iran and Iraq

Lily Wang, Andrew Swan, and Adam Torson

NOTE: The situation in these two nations changes every day. It is vital to treat this chapter as background and not contemporary analysis.

Introduction

Books have been written about both Iran and Iraq. Needless to say, these are two of the most troubled nations in the world today. For the past century, the people of Iran and Iraq have been embroiled in wars, oppression, and poverty. Unfortunately, for most Iranians and Iraqis, that isn't about to change any time soon. What's more, both nations have had the distinction of being named part of the "Axis of Evil," though one supposes that Iraq no longer makes the list.

What else can go wrong for Iran and Iraq? A lot. That's what makes this region of the world so interesting.

The History of Iran

Let us not begin with ancient Sumeria—everything you need to know about the birth of civilization has most likely been covered in your high school history class. However, it is necessary to delve beyond the 20th century to understand the development of Islamic society and the cultural forces behind recent developments. Arab Muslims conquered the Persian Empire, what is now Iran, in 636 and maintained rule for two centuries. The Arab Islamic empire was ruled by caliphs, but by the mid-11th century the caliphs' power had waned and independent kingdoms arose in Iran. In the 11th century, the Seljuk Turks, Sunni Muslims, consolidated power as they defeated local rulers, and the Seljuks ruled until the Mongol invasions of the 13th century. The Mongols were not nice people. They destroyed Iran's major cities, crippled Iran's economy, and slaughtered the Iranian people. But the Mongols have one lasting legacy—they planted the seeds for an Islamic state. Ghazan Khan, a Mongol ruler, converted to Islam and restored Islam as the official state religion in 1295. And progressive as Mr. Khan was, he also initiated policies to restore Iran's economy.

But if there's one thing Iranian history sees often, it is that progress to any degree is often followed by an immediate reversal. The two steps back after Khan's one step forward came in the form of Turkish conqueror Tamerlane, who laid waste to Iran anew and undid Khan's attempt at rebuilding. During the 15th century, Iran was ruled by Turkish families and tribes, notably the Safavids. One Safavid, Ismail I, proclaimed himself shah, or king, and established Shi'ite Islam as the official religion of Iran. With Iranians quickly converting to Shi'ite Islam, Ismail was able to mobilize a huge army against the Sunni Muslim Ottomans. Intermittent wars over 150 years shaped Iran's identity as a Shi'ite country. The Safavids declined in power during the mid-17th century. Shahs became more corrupt, living in luxury while heavily taxing the populace. Shah Sultan Hosain even tried to force Afghans living under his reign to convert from Sunni to Shi'ite Islam—a great start for Iran-Afghanistan relations. The Afghans rebelled, executed the shah in 1722, and ended Safavid rule. The resulting power vacuum led to almost a century of chaos.

In 1794, Agha Mohammad Khan reunited an Iran in shambles and thus began the Qajar dynasty. His nephew, Fath Ali Shah, succeeded him and went to war against Russia—a war Iran lost, giving up much of its territory in the Caucasus. A second war in 1820 forced Iran to cede present-day Armenia and Azerbaijan to Russia. Russia continued to expand its sphere of influence in the region, which worried Britain as Russia approached the borders of Britain's empire in India. Iran was located right between Russia and British India, and both powers used Iran as a buffer zone protecting their own territory, and

both continually encroached into Iranian territory to expand their own influences. Britain even incorporated Herat, an Iranian city, into Afghanistan, a nation it had earlier created to extend the buffer zone eastward. Soon, foreign powers dominated Iran's economy as well. **Even today, the Iranian people are distrustful of outside powers.**

At the beginning of the 20th century, the Iranians got the funny idea that the only effective way to stem the tides of corruption and foreign intervention was to make the shah accountable to a written code of law. In 1905, this idea sparked the beginning of the Constitutional Revolution. After a year of demonstrations and strikes, Muzaffar al-Din Shah, ruler at the time, was forced to allow the creation of a constitution. **This constitution created a parliament, the Majlis, limited royal power, and outlined legislative processes.** Britain and Russia were concerned that an independent parliament would make Iran less pliable to their needs, and in 1907 they divided Iran into spheres where each power would be sovereign. Russia persuaded Mohammad Ali Shah, Muzaffar's successor, to dissolve the Majlis. Mohammad Ali's attempt failed, and constitutionalist forces deposed him and exiled him to Russia. His son Ahmad Shah promised to protect the constitution and was placed on the throne. A 1910 attempt by Mohammad Ali to invade Iran with Russian support failed. Britain continued to play a role in Iran even after the Majlis had been restored. In 1901 a British investor received an exclusive 60-year concession to explore for oil in Iran. Thirteen years later the British government purchased a majority share of the Anglo-Persian Oil Company (AIOC), allowing it to control what would soon be Iran's most lucrative industry.

Soon the world was embroiled in war, and although Iran proclaimed neutrality during World War I, both Russia and Britain used Iranian land as a staging ground to attack the Ottoman Empire, which was allied with Germany. The government's inability to protect the nation's neutrality led to several autonomy movements after the war. When Britain tried to get Iran to concede political, economic, and military control, the Iranians were not too happy. The treaty handing control to Britain never made it to the Majlis. Just when foreign influence was about to become oppressive, here enters Iran's very own dictator, Reza Khan. Reza Khan used the military force he led, the Cossack Brigade, to execute a 1921 coup against the Iranian government. He ruled with an iron fist, quelling rebellions, deposing the shah, and making himself Reza Shah Pahlavi. Reza Shah was a benevolent dictator, if you could ignore the harshness with which he quashed his opposition. He modernized Iran, building industries, developing infrastructure, and improving social services. However, a despot could only keep his people happy for so long before they realize that their lives were still rotten.

When World War II rolled along, Reza Shah and Iran were caught between a rock and a hard place. Reza Shah had rebuffed British and Soviet influences by seeking assistance from other European countries—notably Germany. When he refused to send German patriots from Iran, Britain and the USSR attacked Iran and exiled Reza Shah.

After Reza Shah had been deposed, Iran slowly evolved into a constitutional government. Reza Shah's son, Mohammad Reza Shah Pahlavi, returned to the throne as a constitutional monarch. By this time, the government has become more political in nature. Parties developed, and elections for the Majlis became more competitive. The central political issue was British involvement in Iranian oil. Reformists resented the conservative support for Britain and advocated the nationalization of the oil fields.

Conservatives feared such a move would jeopardize relations with Britain. In the mid-1940s, Mohammad Mosaddeq, a politician in the Majlis, became the chief advocate of nationalization. He had three basic goals: free Iran from foreign intervention, protect Iran from despotism, and implement social reforms. Mosaddeq did not like party politics, but he agreed to head the National Front, a coalition supporting nationalization of oil. After the assassination of a conservative prime minister who was against nationalization, the British blockaded Iranian oil—causing Iran's national income to fall short of

expectations and of the budgets of Mosaddeq's social programs. Because most international lending agencies feared Britain's clout, Mosaddeq could not find financial help anywhere. During the Cold War, the US sided with Britain on the issue of oil nationalization. The US believed that Mosaddeq's government was a destabilizing factor that could be exploited by the USSR if Britain weren't there to steady the keel. The CIA worked with the shah and conservative officials to execute a coup against Mosaddeq. In August 1953, Mosaddeq was arrested, the shah restored to his throne, and Iranian oil split between the British, the Dutch, the French, and the Americans.

Not surprisingly, Mohammad Reza Shah Pahlavi took after his father politically—he restored despotic rule, instituted the Savak, a secret police, and dissolved the Majlis. At least Pahlavi also brought back his father's modernization efforts. He called the process of industrialization and economic improvements a "White Revolution" to counter the influences of Communism.

The shah never gained the trust of his people. It wasn't simply that he was a dictator—Mosaddeq was incredibly popular, and the shah could never hide his collaboration in the CIA-engineered coup. When the shah allowed the US to station military personnel in Iran, the Iranians' fear of outside influences heightened their distrust of the shah. They rallied behind Ruhollah Khomeini, an ayatollah, or Shi'ite scholar. When Khomeini was arrested in 1962 for criticizing the regime, his popularity only increased. His second arrest in 1963 led to days of rioting, and when the shah exiled him to Turkey and then Iraq in 1964, his disciples in Iran formed an increasingly powerful anti-shah movement.

Ironically enough, it was the secular professional and middle classes—created as a result of the shah and his father's policies—that resented the shah the most. They were frustrated by the lack of political participation, and they united with the clergy and religious groups through mutual distrust of the shah. By the 1970s, both groups were ready to cooperate in order to take down the shah, and thus began the Islamic Revolution. A pro-Khomeini demonstration in Qum in 1978 turned violent, and 70 people died before the riots dissipated.

From exile, Khomeini called for his followers to follow Islamic mourning rituals and commemorate the victims 40 days after their deaths. The demonstration at the 40-day mark once again turned violent, and a cycle of violence and mourning overtook the nation. The shah had to invoke martial law to even begin keeping the peace, and this move led to nation-wide strikes in major industries, including oil. By October, these strikes had congealed into a single revolution. At the shah's request, Iraq kicked Khomeini out. However, this enabled Khomeini to find a home as well as access to mass media in France. When it became apparent that the shah could not survive the Islamic Revolution, he left the country—giving Khomeini a triumphant return in 1979.

Khomeini established a theocracy and Iran became an Islamic republic. After the shah left, Khomeini formed a provisional government with Mehdi Bazargan at the helm. The solidarity between secular and religious factions quickly fell apart as soon as politics entered the picture. Without a leader as charismatic as Khomeini, the secular parties were soon overwhelmed by the main religious party, the Islamic Republic Party (IRP). The secular politicians were probably members of the moderate Liberation Movement of Iran, to which Bazargan belonged, and the radical—some would say socialist—Mojahedin-e Khalq (MK).

In December 1979 Iranian voters adopted a new constitution. In the new political structure, Khomeini held the position of faqih, or supreme spiritual leader, and had the highest authority in the nation. Do not confuse faqih with ayatollah. Iran has many ayatollahs, or Islamic scholars, but there is only one faqih. In 1980, Abolhassan Bani-Sadr became the first president of Iran. While Iran redefined itself politically, militarily it was entangled in yet another sordid affair. Since the shah was almost synonymous with US intervention in Iran, the Islamic Revolution did not reign in anger against the US. When the shah was

granted entry into the US in 1979, a group of students stormed the US embassy in Iran and took 66 American hostages. The US immediately froze Iranian assets abroad and imposed sanctions against Iran. However, the hostage crisis lasted for 15 more months. Khomeini supported the students, and their actions were borne of the belief that the US should release the shah for trial in Iran and that the US should return billions of dollars that the shah supposedly hoarded abroad.

Finally, the situation ended when Algeria negotiated an exchange of the hostages for a trial in The Hague. After the incident, the US adopted the foreign policy of “We Hate Iran.” Protests staged during the crisis forced Bazargan out of office, but Bani-Sadr and the Majlis could not settle on a new prime minister. Finally Mohammad Ali Rajai, an IRP member, was chosen for the position, creating fierce class between the prime minister and the president. Eventually the Majlis got rid of Bani-Sadr, that troublemaker, and Rajai became president. Too bad political battles never stay just political. In 1981, the MK took armed action against the IRP government. The MK took out 70 IRP leaders by bombing the party headquarters and later assassinated both Rajai and his prime minister. In response the IRP government arrested and executed thousands of suspected MK members. The IRP won its turf war against the MK, leaving the Liberation Movement of Iran as the only opposition party. With little opposition, the IRP lost its focus and began to fracture into smaller factions, eventually dissolving in 1987.

As if a foreign relations fiasco with the US and political turmoil weren’t enough, in 1980 Iraq launched a surprise attack on Iran. Iraq feared that Iran might incite the Shi’ite population in Iraq to rise up against the Iraqi government. The war lasted for eight years, and only UN intervention made the cease-fire possible. **The Iranian economy, especially the infrastructure-heavy oil industry, was crippled by the invasion. The war, however, did unite the nation and encourage the development of smaller industries making wartime goods.**

Since the war, Iran has implemented two five-year plans to rebuild the economy. Efforts have been hampered by the United States’ continual sanctions. Politicians who want active government involvement in the rebuilding effort dominate the executive branch, but the Majlis has opposed such policy, fearing it would marginalize the lower class.

Currently, Ayatollah Seyed Ali Khomeini, a founder of the IRP, a member of the Majlis, and former president, serves as faqih. Mohammed Khatami, a reformist, formerly the minister of Islamic guidance and culture, and—ironically enough—a long-time friend of Khomeini, serves as president. Khatami has won two presidential elections by a landslide, pressing for political and media freedom. In light of Iran’s efforts to democratize, the US began to reinitiate relations. However, unsurprisingly, those efforts were compromised when President George W. Bush decided to label Iran as part of the “Axis of Evil.” More on that later.

Iran’s Politics

Political Institutions and Structures

Iran doesn’t have a good track record as a constitutional government. The constitution created in 1906 was largely ignored until it was rewritten in 1979. The new constitution for the Islamic Republic of Iran was approved by popular referendum, and it established a theological foundation for government. **The office of velayat-e faqih was established to protect the nation’s Islamic roots. The faqih makes sure laws adhere to Islamic principles but rarely involves himself in daily life.** Each faqih is selected by a council of senior clergy. The secular portion of the government is headed by a president, and amendments following the 1979 constitution eliminated the position of prime minister. The president serves four-year terms and can appoint any number of vice presidents, which, as you know, makes bureaucracy so easy to deal with. Cabinet members selected by the president must be confirmed by the Majlis, and the faqih is allowed to dismiss a president that is impeached by the Majlis.

Speaking of the Majlis, it is a 290-member single-chamber parliament. Only five members in the entire Majlis represent non-Muslim religious minorities. Each member serves a four-year term. The Majlis mainly has the power to approve legislation initiated by the executive branch and occasionally propose legislation of its own. It can dismiss cabinet members through votes of no confidence. A noteworthy institution of Iranian government is the twelve-member Council of Guardians, who makes sure all legislation adhere to Islamic law and who approves all candidates for elections. Much controversy was raised over the past few years as the Council of Guardians disqualified many liberal, reformist candidates from parliamentary elections. Because of the conflict of interest facing the increasingly liberal Majlis and the adamantly conservative Council of Guardians, the Expediency Council was created to resolve conflicts between the two bodies.

Besides a highly structured executive and legislative system, Iran also has a strong judiciary, comprised of a five-member Supreme Court of Justice and lower courts. This body can initiate legislation concerning criminal and civil offenses. Besides criminal and civil courts, Iran also has a revolutionary court that tries individuals for antirevolutionary behavior. Iranian courts often give out very harsh sentences, including capital punishment.

Khatami, Khatami, He's Our Man

Mohammad Khatami is the best and worst thing to have happened to Iranian democracy. Like most democratizing and liberalizing leaders, Khatami espouses ideology that he can't necessarily put into policy because of active opposition from the legislature. The problem is that Khatami has a popular mandate to reform the Islamic republic, but he lacks control of the officials who must allow that reform. As long as the conservatives control Iran's political institutions, Khatami has to compromise his vision of a democratic Iran. Part of the reason why a popular mandate to reform doesn't translate into more reformists in the Majlis is that the Council of Guardians disqualifies candidates from elections as it sees fit. In the last presidential election, 800 potential candidates had been eliminated, leaving Khatami as the only reformist on the ticket. The same ballot censorship in parliamentary elections has a two-fold effect. First, not many reformists are elected into the Majlis, so Khatami faces fierce opposition from conservative factions that abhor change and secularism. Second, voters must settle on Khatami's gradualist approaches even when they make little or no progress at all—it's not like they have much of a choice. The voters' frustration is demonstrated by diminishing voter turnout rates.

Khatami has been cautious while in office. As a result, he hasn't implemented any dramatic or long-lasting changes to Iran's theological government. He hasn't sufficiently strengthened the rule of law, and he stood by while a judiciary that was not bound to the law jailed dozens of his supporters. Even his announcement of reelection was lackluster at best. As Geneive Abdo, former Tehran correspondent for the London Guardian and Nieman fellow at Harvard, summarizes, "The reform-dominated national Parliament is ineffective; the powers of the presidency have been so diluted that Khatami has repeatedly complained publicly that he lacks sufficient authority to govern; and the city councils never absorbed the power that should have trickled down from the central government."

However, over the past years Iran has gradually changed for the better. The populace has seized upon what little political freedoms they have gained. Public discussion of political issues, which had been suppressed in the years following the Islamic Revolution, is now commonplace. The press enjoys greater liberty and continues to spread democratic ideas.

Christopher de Bellaigue, the Iran correspondent for *The Economist*, gave five indications of the conservatives' waning power in *The Washington Quarterly* a year ago: "(1) Only one of Khatami's opponents in the June 2001 election was a cleric, evidence that even conservatives have come to recognize the clergy's declining prestige; (2) Khatami's opponents' campaign literature contained some distinctly liberal ideas; (3) moderate conservatives no longer keep quiet when radical clerics question the

utility of democracy, because they know that such talk is enormously harmful to the conservative cause in general; (4) several judges have resigned to protest what they perceive as political judgments delivered by their colleagues; and (5) appeals courts have overturned harsh sentences handed down to leading reformists.” All the same, de Bellaigue urges caution in examining these signs of change. The conservatives may be abandoning the hardcore Islamic ideals of the past, but they certainly are not embracing radical reform. But also keep in mind that gradual reform would probably be more lasting than any dramatic shifts in policy. At any rate, that is the only type of reform that the theocracy would allow. Khamenei will not rally his power to depose as popular a president as Khomeini, but he will continue to veto more liberal legislation and screen out radical elements from positions in government—he will allow change because popular sentiment has made it inevitable, but he will control it as much as possible.

Enter Mahmoud Ahmadinejad

In 2005 Iranians elected Mahmoud Ahmadinejad as their president. His term has been somewhat less than progressive in comparison to his immediate precursor. Particularly, he has angered the West by maintaining clandestine support for certain terrorist organizations, notably Hizballah and Hamas. Iran has also maintained support for certain hostile elements in Iraq in an attempt to destabilize that country and derail its democratic efforts. Perhaps more seriously, he has maintained Iran’s right to develop nuclear power for civilian use, and most believe has continued an effort to develop a nuclear weapon. He has also made waves with controversial claims that the holocaust is a myth. He remains one of the more vexing figures for US foreign policy.

Iran’s Economy

US sanctions upon Iran have been fiercely contested by the international community. Iran’s economy is largely dependent on oil revenues, which make up about 60% of the nation’s gross domestic product. Due to government efforts to industrialize, by the 1970s the Iranian economy was competitive with most of the world’s major economies. However, after the Islamic Revolution, capital flight and war with Iraq slowed modernization and seriously damaged the economy. During the 1990s, the government attempted to stimulate economic growth by privatizing some industries. The problem is that Iran’s economy is largely inefficient. Only a limited number of students are admitted to Iranian universities, and only a fraction of the graduates can find jobs. State-owned industries are over-staffed and poorly run, yet absorb over half of the budget. Labor laws are too complex to manage work forces efficiently.

To regain economic momentum, Iran needs to turn out central planners and liberalize its economy.

This means privatizing inefficient industries and eventually all industries; privatization should begin with the banking and insurance sectors, in which reforms are already under way. Undoubtedly this would be painful at first, increasing unemployment as businesses lose government sponsorship. Nonetheless, Iran’s economy is dragging its feet, and this is the only way out of long-term stagnation.

Iran’s Security and Foreign Policy

As the War on Terrorism drags on longer and longer, issues of Iranian security may pop up in many contexts. While it is unlikely that the United States will directly attack Iran, Iran does play a critical role because of its geopolitical significance. Mahmood Sariolghalam, associate professor at the School of Economics and Political Science of the Shahid Beheshti University of Iran, identifies three facets of Iranian foreign policy. **When engaging in relations with other nations, its foreign policy can be Iranian, Islamic, or Western.**

Defense

Iran has no military, which is a pretty gutsy move considering its position between the Israeli-Palestinian melee and Iraq, which continues to pose a threat to the entire region. Iran is also not a part of any multinational security arrangement. Iran’s security policy mainly involves careful case-by-case risk analysis and strict adherence to the ideology of the Islamic Revolution. The best course when it comes to

not only defense but also almost all policy realms is for the politicians to get over the Revolution, but it simply won't happen any time soon.

Afghanistan

Iran's proximity to Afghanistan makes it one possible sponsor for the ravaged nation's efforts at rebuilding, and Iran's unique advantage to Western powers in this arena is that, as an Islamic Republic, it shares cultural roots with the people of Afghanistan. In fact, common experiences during the British and Russian colonial eras tie Afghanistan to Iran more than any other nation. As such, Iran can use its voice to help Afghanistan achieve a modicum of stability. Granted, Iran is not the best role model, but Iran's relatively peaceful transition from Islamic fundamentalism to liberal democracy—with a few remaining obstacles—should be an instructive example for the new government of Afghanistan. Both nations face the same challenge of dismantling a pervasive ultra-conservative theocracy and of establishing a maintainable democracy. What's more, Iran could use Afghanistan as a means of improving relations with the US. Iran has

played an active role in stopping narcotics trafficking in the region, and the resurgence of opium production in Afghanistan, sure to happen with the Taliban gone, would give Iran the opportunity to not only help out a neighbor but also cooperate with the US on an issue that both nations can agree on.

The United States

For the most part, conservatives have not exerted their influence when it comes to foreign relations. Nonetheless, their efforts to stem reform in the domestic arena have affected the United States' approach to relations with Iran. Several factors have led to a recent dissolution of relations between the US and Iran.

First, the recent spotlight on terrorism has overshadowed Iran's efforts at reform. While most European nations believe that Iranian terrorism has, for the most part, ceased, US officials still view Iran with skepticism. In June 2001, a federal grand jury charged the Iranian government with the bombing of the Khobar Towers in Saudi Arabia. The US continues to maintain that Iran is a sponsor of weapons proliferation and illegal arms trades.

Second, after a period of relatively friendly relations under the Clinton administration and the possibility of an end to economic sanctions, the change in administration in the US has dashed all hopes of renewing trade ties between Iran and the US. The US also continues to pressure the World Bank to cease lending to Tehran. The Obama administration has started to pursue a somewhat more open relationship with Iran, but its positions on Iraq, Israel, and nuclear technology make that a difficult proposition.

Third, the administration continues to practice blanket fingerprinting of all Iranians that enter the country. The presumption of guilt has not only caused several diplomatic incidences but also undermine any attempt for the US to gain Iran's trust. Puneet Talwar, serving as staff on the Senate Foreign Relations Committee, summarizes the conundrum of Iran-US relations: "Washington tells Iran, 'let's talk, and when we talk we can discuss sanctions.' Tehran replies, 'you lift sanctions, and we'll think about talking.' Meanwhile, neither side believes that the other will reciprocate its moves. **The US's hard-line approach towards Iran has been seen as dictatorial, one of the primary reasons why Khamenei continues to oppose closer relations.** From the US perspective, it is Iran that is acting unreasonably standoffish; to the Iranians and Khamenei in particular, it is the US that tries to force its views upon a weaker nation. Thus, Iran's precondition to friendlier relations is for the US to respect its "dignity and honor." To most Iranians, this means ending sanctions, settling outstanding legal claims, and allow Iran to participate in oil transit from the Caspian region. **Iran is especially sensitive on matters of national sovereignty, so it is up to the US to establish friendly relations.**

One such way to achieve this may be to withhold diplomatic contact while allowing business relations to begin. Iran is not unfriendly to capitalism, although the Islamic old guard may be wary of certain aspects of Western culture. At the same time, the US should recognize Iran's attempts to liberalize and democratize. Iran becomes frustrated when its progress goes unnoticed and the US unceasingly criticizes it. This frustration blocks effective communication between the two nations and makes it more difficult for the US to guide Iran's evolution. It becomes difficult to persuade Iran to improve its political, economic, and human rights standards when Iran views the US as ambiguous and hypocritical towards its own activities. Both nations must find a middle ground.

Contemporary Issues – Israel, Hizballah, and Nuclear Weapons

Iran is one of the major state sponsors of Hizballah, a group dedicated to the establishment of Islamist governments in several Middle Eastern nations, notably Lebanon and Palestine. Hizballah has carried out terrorist attacks against Israel, including the rocket attacks that sparked Israel's 2006 invasion of Lebanon, and Iran's support of it is largely linked to their hostility towards Israel. Support of any terrorist organization is obviously a sticking point for US-Iranian relations.

Israel is also troubled by Iran's continuing pursuit of nuclear weapons. Many postulate that because an Iranian bomb poses an existential threat to Israel, the Israeli military may well utilize airstrikes if Iran's acquisition of the bomb appears imminent. That said, recent evidence indicates that Iran's nuclear aspirations have been on hold for at least two years. That is certainly good news.

Iraq Introduction

I start with background information on Iraq including its history and structure. After you understand more about Iraq, you can apply this knowledge to my analysis of the events of Operation Iraqi Freedom.

The History of Iraq

Early Iraq history can be summarized by conquests, Persians, conquests, Islamic Arabs, more conquests, and Ottoman Turks. The history of modern Iraq begins with the end of Ottoman rule during the 19th century. Midhat Pasha, one of the Ottoman Empire's most effective rulers, modernized Iraq. From 1869 to 1872, he improved transportation, sanitation, and education. During this time, Britain and Germany competed for commercial power in the region, which lent itself to oil exploration and transportation. The links between modern Iran and Iraq began during this time under the Anglo-Persian Oil Company, later the Anglo-Iranian Oil Company. During World War I, the Ottoman Empire was allied with Germany. To defend its oil interests, Britain attacked and occupied southern Iraq, pushing gradually northward until it controlled nearly all of Iraq.

At the end of the war, the League of Nations entrusted Britain with control of Iraq, and it soon created a provisional government to manage the country. The Iraqi people elected a king, Faisal al-Husein, who consolidated power by winning the support of Iraqi military officers in the Ottoman army and Sunni businessmen and religious leaders in major Iraqi cities. He gained political power in the Shi'ite regions of Iraq by allowing a large amount of sovereignty to tribal leaders of the Shi'ite and Kurds.

With much socioeconomic and ethnic diversity, most Iraqis favored pan-Arabism, or the union of all Arab lands into a single state. The intelligentsia and upper class entered the pan-Arabic movement through diplomacy with British approval, while the lower class, or efendiyya, did the same by developing a revolutionary and anti-British ideology. Britain allowed its ruling mandate to become a treaty of alliance instead; Iraq would defer to Britain on matters concerning British interest, and Britain would provide Iraq military assistance and aid. Britain created the Iraqi national army, which soon became the ruling elite's primary tool of controlling the populace. In 1924 a permanent government was established, giving the king primary but not absolute power. Elections for parliament were held in 1925, and in 1930 Britain supported Iraq's ascension into the League of Nations. In 1932, Britain granted Iraq full independence,

and Iraq joined the League of Nations as a sovereign state. In 1936, under the rule of King Ghazi, Faisal's son, Iraq signed a treaty of nonaggression with Saudi Arabia, the first real move towards pan-Arabism. Then things began to fall apart. In 1936, the army executed a coup d'état against the pan-Arab Sunni government. The coup was orchestrated by a Kurdish general and a Shi'ite politician. The moderate coalition government that followed was accepted by the king. In 1939, when Ghazi died from a car accident, his three-year-old son Faisal II became king under a regency. At the onset of World War II, Iraq followed its alliance with Britain and broke off relations with Germany. However, during the war, the pro-British government under General Nuri as-Said was replaced by Rashid Ali al-Gailani, a fiercely anti-British nationalist. Yet another military revolt took place, this time resulting in a pro-German government headed by Gailani. When the British sent troops to Iraq, Gailani mobilized the Iraqi military and began war. Less than a month later, Iraq surrendered, and Britain regained control over Iraq. Said returned to head a pro-British government. After Iraq became allied with Britain, it became the first Islamic nation to declare war against Germany. Its leadership role of Arab nations during the war unified the Middle East, and at the end of the war Iraq joined with other Arab states to form the Arab league.

In 1947 Said advocated a new federal Arab state, wanting to join Transjordan—modern day Jordan—with Iraq. The two nations didn't join but instead formed a treaty of kinship and alliance, promising mutual military and diplomatic aid. When Israel declared independence in 1948, Transjordan and Iraq invaded. Unfortunately, over the next few decades, Arab nations never quite learn the number one lesson of Middle East politics: don't mess with Israel. After Iraqi and Jordanian troops were thoroughly defeated, an armistice was signed and fighting ceased. In February 1955 Iraq signed the Baghdad Pact, establishing mutual security with Turkey. Britain joined in April, and Pakistan and Iran soon became members as well. Soon the five nations created the Middle East Treaty Organization. All this brotherly love couldn't last, and once again crisis embroiled the Middle East. In July 1956 Jordan accused Israel of building up an army near Jerusalem, and Iraq sent troops to the Jordanian border.

Simultaneously, Iraq voiced its support for Egypt's move to nationalize the Suez Canal, a move that was highly contested by Britain and France. In 1958, Faisal II and King of Jordan Hussein I united their two countries as the Arab Union of Jordan and Iraq—quite an imaginative name. Nuri as-Said was named premier of the Arab Union. The Arab Union was formed to counteract the United Arab Republic, a federation of Egypt and Syria. The UAR, which disliked the pro-Western stance of the Arab Union, incited Iraqi people to overthrow the government. As we've already seen, the Iraqi people can't refuse a good coup d'état, and in July, General Abdul Karim Kassem took over the country proclaimed a republic. Kassem dissolved the Arab Union and made overtures to the UAR, but he maintained ties to the West by continuing the flow of oil. They say what goes around comes around, and in 1963, Kassem was overthrown by yet another military coup, this time perpetrated by military officers of the Baath Party. Abdul Salam Arif was named president, and he took steps to reestablish ties with the West. In 1966, Arif died in a helicopter accident and was replaced by his brother Abdul Rahman Arif. In July 1968 more Baath officers overthrew Arif's government, and Ahmed Hassan al-Bakr was appointed head of the Revolutionary Command Council, which was the country's executive, legislative, and judicial body.

Over al-Bakr's reign, Iraq became increasingly hostile towards the West and befriended the USSR. From 1972 to 1975, Iraq nationalized the oil industry. In 1979 Bakr was succeeded by General Saddam Hussein. In 1990, Iraq renewed its territorial dispute with Kuwait. During the '60s, when Britain ended its protectorate over Kuwait, Iraq claimed the territory. British troops entered Kuwait, and the UN ignored Iraq's demand that it forces Britain to leave. On August 2, 1990, Iraq invaded Kuwait, which it claimed was hurting Iraq's economy by overproducing petroleum. The UN denounced this action and implemented sanctions against Iraq. In January 1991, Iraq's deadline for withdrawal from Kuwait, the US led a multinational coalition in air strikes against Iraq. The Persian Gulf War ended after six weeks of fighting, when Iraq had been totally defeated. In the process, thousands of Iraqis were killed and much of

its war infrastructure had been destroyed. In 1994, Saddam signed a decree recognizing Kuwait's sovereignty. For information after March 19, 2003, please see section on Operation Iraqi Freedom.

Structure of Saddam Hussein's Iraq

Until the recent war, the Revolutionary Command Council controlled all aspects of politics in Iraq. The body had eight to ten members, usually members of the armed forces and high officials in the Baath party. A two-thirds majority of the RCC was needed to pass legislation. Another body of Iraqi government was the Regional Leadership, which consists of about twenty senior party officials who had various responsibilities throughout the government. The RCC and RL cooperated on policy matters, but most of the decisions were made by Saddam alone. Saddam Hussein was officially the president of Iraq, and he had been the prime minister for most of his term as president. Saddam appointed all officials and approved Iraq's budget. There was no term limit for his position. In addition to the RCC, legislation was handled by the National Assembly, a 250-member parliament that was popularly elected every four years. Members of the National Assembly had to show absolute loyalty to the principles of the Baath revolution. The legislature ratified or rejected RCC legislation—it basically acts as a rubber stamp for the RCC and puts on the appearance of democracy.

Saddam Hussein

Saddam Hussein has survived three wars, numerous uprisings, and constant attack from the international community. Ofra Bengio, author of *Saddam's Word*, comments that Saddam's survival is derived from three sources: "his ruthless personality, his foes' blunders, and his lethally effective mastery of the pillars of authority in Iraq." It's often been said that Saddam lacks an understanding of the outside world—part of the reason why his country has been enmeshed in so much conflict. Yet Saddam knows all he needs to know: how to manipulate the Iraqi populace to continue supporting him. He has been able to spin the sanctions from punishment for his own trespasses to crimes perpetrated by the West upon the Iraqi people. Reports from the Associated Press suggest that even after the declared "end of hostilities," Saddam Hussein has placed sizeable bounties on the heads of U.S. soldiers in Iraq.

Not only did Saddam take advantage of his own people, his enemies simply couldn't seem to get their acts together. Even now, the United States seems to have been ineffective at ousting Saddam, as you will see later. Internally, the Iraqi opposition groups were too fragmented to ever mount effective resistance against Saddam.

Furthermore, Saddam gutted the political system so that the only person with any real power was himself. He avoided the military coups that plague Iraqi history by taking strong military personnel out of power, planting loyalists—like members of his family—throughout the security structure, and keeping the military busy with one war after another. Along with their father, Uday and Qusay Hussein were dangerous leaders, before they were killed during the war. The June 2, 2003 edition of *Time Magazine* calls Uday and Qusay "Saddam's nastiest biological weapons." Indeed, the two, especially Uday, were notoriously violent and sadistic. Stories abound of rapes, torture, and executions carried out on orders of these two sons.

Iraq's Economy

What can be said? Simply put, Iraq's economy is worse than most third world countries'. The fact that the Iraqi economy is so terrible can be attributed to many causes, but can be most directly blamed on three factors, poor fiscal management, sanctions, and national reliance on a single, primary export. Perhaps the greatest reason Iraq's economy is in such terribly shaped is due to extremely wasteful spending by the Hussein Administration and other negative fiscal decisions. With more than a dozen lavish presidential palaces, literally thousands of cars (including Porsche, Ferrari, Mercedes-Benz, BMW, Lexus, and Infiniti), private aircraft and watercraft and expansive bunkers throughout the nation, Saddam Hussein cost the Iraqi people billions of dollars. While it is true he did not pull a salary per se, he nonetheless

proved to be an economic detriment to the Iraqi economy. The financial impact of Saddam's luxurious lifestyle was best seen by his insidious tendency to cut education, healthcare, and transportation spending to pad his own, private coffers. What's more, however, is that the Iraqi budget was designed in an extraordinarily inefficient manner. Lack of focus on the future continually made it necessary to cut spending on those in the nation who needed it most.

Secondly, sanctions imposed by the United Nations undoubtedly harmed the Iraqi economy. When aggregate demand for Iraqi oil is drastically cut as a result of sanctions, total revenue collected by the nationalized oil industry in Iraq likewise falls. It's pretty simple, really. Finally, Iraq has historically been extremely reliant on a single export—crude petroleum. This reliance on a product that is extremely price-unreliable poses a unique challenge, namely subjecting Iraq to fluctuating world oil markets (even when that market is shunning Iraqi oil).

NOTE TO EXTEMPERS: Due to Iraq's rapidly changing economy, please regularly research current economic trends in Iraq to ensure that your economic analysis is appropriate.

The Kurds

The Kurds are an ethnic group separate from the Sunni Arabs that dominate Iraq. Unlike most of Iraq's population, the Kurdish population is relatively secular. About 15-20% of Iraq's population is Kurdish, and they live in the highlands of northern Iraq. The Kurds have little political voice in government, and most of them live in abject poverty. Since 1961, the Kurds have been in revolt. In 1970, Iraq allowed the Kurds to form an autonomous region, but by 1974 this agreement dissolved as fighting erupted between Kurdish nationalists and the Iraqi military. Iran supported the Kurds in this conflict, but when Iraq and Iran ended their border disputes in 1974 aid to the Kurds ceased. During the Persian Gulf War, Saddam toughened his crackdown against the Kurds. Thousands of refugees fled to surrounding nations, and the US, Britain, and France entered Iraq to establish a Kurdish enclave safe from Iraqi attacks. The international coalition set up a no-fly zone over Kurdish territory to prevent Iraqi air strikes against Kurdish settlements. Saddam Hussein is known to have killed several thousand Kurds in the early 1990s using chemical weapons.

In post war Iraq, the inclusion of the Kurdish minority in the national government has been somewhat tenuous. To date, the Kurds have enjoyed relative autonomy in northern Iraq. Nonetheless, important issues remain unresolved. Examples include the role of Kurds and Kurdish territory in the distribution of national oil revenues and the precise relationship between Kurdish regional government and the central government in Baghdad.

The United States and War

Over the years, the hawks as well as other officials had maintained a policy of containment, hoping to control Saddam as well as Iraq's weapons development programs. Containment involved UN inspections, economic, military, and diplomatic constraints on Iraq, and humanitarian exemptions to these limits. For the most part, this approach worked. Recently, containment had begun to crumble. Inspections had been thwarted by Saddam, who simply hid his arsenals at storage facilities that the UN doesn't inspect or doesn't know about. Despite humanitarian efforts, the Iraqi populace continues to waste away—and Saddam has successfully turned the blame on the West. Iraqi oil is being smuggled out the country even now, circumventing the former oil-for-food limitation. Iraq has bypassed sanctions, importing parts for weaponry.

One of the reasons why containment failed is because sanctions do not command multilateral support. Too many countries are willing to trade with Iraq despite sanctions. France, Russia, and China don't support "smart sanctions" which would loosen Iraqi export restrictions while strengthening import ones. Other nations, such as Jordan, Saudi Arabia, and Turkey, continued illegal trade with Iraq. What the

United States was really after was an end to Saddam Hussein's regime. We really had no beef with Iraq—just the guy that controlled it. After the events of September 11, long-time hawks refined their plans for Iraq to fit the times. Many advocates of war with Iraq claimed that any efforts made against global terrorism cannot ignore Iraq.

Before the war, Kenneth M. Pollack, Senior Fellow and Deputy Director for National Security Studies at the Council on Foreign Relations, notes that the hawks are right about two things: “A nuclear armed Saddam would be a disaster waiting to happen and at this point it would be easier to get rid of him than to stop him from reconstituting his weapons program.” But Pollack adds that an armed intervention with support from local opposition would not work in Iraq, as it worked in Afghanistan. Unlike in Afghanistan, the military power is weighed almost exclusively in favor of Saddam. There is no Iraqi equivalent of the Northern Alliance, nor is the Iraqi opposition unified enough to create such a force. Even during the Persian Gulf War, when Saddam was at his weakest, the popular movements never amounted to much. The Iraqi opposition is too weak, and Saddam Hussein's regime is too strong.

Phase One: Operation Iraqi Freedom

The early days of the invasion of Iraq were enormously successful. The dominant military capabilities of the United States quickly dispensed with opposition from the Iraqi army, and Baghdad was swiftly taken by allied forces. Memorable images of Iraqi citizens tearing down statues of Saddam Hussein. But as well as the initial push to Baghdad went, that is how poorly things quickly turned.

Phase Two: From Occupation to Civil War

The post-war effort in Iraq was crippled by exceedingly poor planning (or lack of any planning at all, according to some). The Iraqi military was disbanded, leaving tens of thousands of Iraqi men jobless and angry. Deep “DeBathification” essentially fired the vast majority of what civil service there was in Iraq, bringing all public services to a grinding halt. Secretary of Defense Donald Rumsfeld had pushed for an extremely small invasion force (original requests from Gen. Tommy Franks has been in the hundreds of thousand, where only some thirty or forty thousand troops ended up as part of the initial assault). This meant that there were not nearly enough troops to provide for security on the ground in Baghdad and elsewhere. Looting was common, power was sporadic, and sanitation was virtually non-existent.

Sunni insurgents and foreign fighters continued to attack both the American military and civilians, particularly Shi'ite religious sites. American tactics were adjusted slowly at first to the ad hoc tactics used by insurgents like roadside bombs and rocket-propelled grenades, and American casualties were relatively high (low historically for efforts of this type, but high for recent US military actions). As America's transitional authorities appeared increasingly incapable of even turning the lights on, let alone providing security, Iraqis turned in increasing numbers to various sectarian militias for protection. When repeated attacks on Shia civilians and holy sites persisted, Iraq's internal conflict quickly degraded into a civil war. US forces and transitional authorities were caught in the middle, trying to fight the insurgency, terrorists, and keep the peace all at the same time. In the midst of all of this, various high profile incidents, including prisoner abuse at Abu Ghraib, mass round-ups of Iraqi civilians, and abuse of Iraqi nationals by private military firms like Blackwater, undermined the good will American's had enjoyed just after the invasion and fueled the flames of international bodies who argued that civilians were bearing the brunt of the catastrophe in Iraq. The country appeared worse off than it had been under Saddam Hussein.

Phase Three: Population Security

With the Iraq war increasingly unpopular in the United States and the approval ratings of President Bush plummeting, a drastic change in strategy was called for. Ambassador Paul Bremer and various military leaders had failed to cope with the rapidly changing situation on the ground. General David Petraeus, former commander of the 101st Airborne Division, was tapped to lead American efforts and implement a drastic change of strategy. Gen. Petraeus was and is considered one of the world's experts on the type of war America faced in Iraq.

The strategy Petraeus implemented is known as “the surge.” Its essential premise was to drastically increase the number of troops in Iraq. The objective was to carry out what is known as a “population security” strategy, whereby US forces protect civilian populations from violence, and help them to rebuild civil society so that the nation is eventually capable of standing on its own. This means not only killing insurgents but providing jobs, building roads and schools, rebuilding the nation’s economic infrastructure, and encouraging local democracy to flourish. At the same time, the US worked to swiftly rebuild the Iraqi police and military forces and began to hand over operations to those units as they became operational. The plan was a phenomenal success. General Petraeus was able to manage the tensions between violent sectarian militias and drastically reduce violence. Though it has been slow going to date, the first freely elected Iraqi government was given official control of the country and has begun to implement those essential constitutional measures that are integral to its future as a nation. While the situation is far from over – Iraq is still economically underdeveloped and vulnerable to a regression into violence – President Obama has agreed to remove all combat forces from Iraq within a year. This timeline was negotiated with the Iraqi government, and will leave US troops in country to conduct anti-terrorist operations and to continue to train and support the Iraqi military.

Conclusion

There is no doubt that Iran and Iraq will remain central to global politics for years to come. While tensions in the region remain high, encouraging signs from both Iran and Iraq have made American’s hopeful that peace and stability might be in the future of that oh-so-troubled part of the world.

Suggestions for Further Research

- Bengio, Ofra. “How Does Saddam Hold On?” *Foreign Affairs* July August 2000.
- Byman, Daniel. “A Farewell to Arms Inspections.” *Foreign Affairs* January February 2000.
- Cleveland, William L. *A History of the Modern Middle East*. Second edition. Boulder, CO: Westview Press, 2000.
- Esposito, John L. “Religion and Politics in the Middle East.” *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.
- Gerner, Deborah J., and Philip A. Schrodt. “Middle Eastern Politics.” *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.
- Goldschmidt, Arthur, Jr. “The Historical Context.” *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.
- Isherwood, Michael W. “U.S. Strategic Options for Iraq: Easier Said than Done.” *The Washington Quarterly* Spring 2002.
- Manners, Ian R., and Barbara McKean Parmenter. “The Middle East: A Geographic Preface.” *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.
- Pollack, Kenneth M. “Next Stop Baghdad?” *Foreign Affairs* March April 2001.
- Sariolghalam, Mahmood. “Justice for All.” *The Washington Quarterly* Summer 2001.
- Talwar, Puneet. “Iran in the Balance.” *Foreign Affairs* July August 2001.
- Tétreault, Mary Ann. “International Relations.” *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.
- Tripp, Charles. *A History of Iraq*. Cambridge, UK: Cambridge University Press, 2000.
- Tuma, Elias H. “The Economics of the Middle East.” *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.

Bibliography

- Abdo, Geneive. "Iran's Generation of Outsiders." *The Washington Quarterly* Autumn 2001.
- Bengio, Ofra. "How Does Saddam Hold On?" *Foreign Affairs* July August 2000.
- Byman, Daniel. "A Farewell to Arms Inspections." *Foreign Affairs* January February 2000.
- Cleveland, William L. *A History of the Modern Middle East*. Second edition. Boulder, CO: Westview Press, 2000.
- De Bellaigue, Christopher. "Iran's Last Chance for Reform?" *The Washington Quarterly* Autumn 2001.
- Esposito, John L. "Religion and Politics in the Middle East." *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.
- Gerner, Deborah J., and Philip A. Schrodt. "Middle Eastern Politics." *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.
- Goldschmidt, Arthur, Jr. "The Historical Context." *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.
- Isherwood, Michael W. "U.S. Strategic Options for Iraq: Easier Said than Done." *The Washington Quarterly* Spring 2002.
- Manners, Ian R., and Barbara McKean Parmenter. "The Middle East: A Geographic Preface." *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.
- Pollack, Kenneth M. "Next Stop Baghdad?" *Foreign Affairs* March April 2001.
- Sariolghalam, Mahmood. "Justice for All." *The Washington Quarterly* Summer 2001.
- Talwar, Puneet. "Iran in the Balance." *Foreign Affairs* July August 2001.
- Tétreault, Mary Ann. "International Relations." *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.
- Tripp, Charles. *A History of Iraq*. Cambridge, UK: Cambridge University Press, 2000.
- Tuma, Elias H. "The Economics of the Middle East." *Understanding the Contemporary Middle East*. Ed. Deborah Gerner. Boulder, CO: Lynne Rienner Publishers, Inc., 2000.

Topics in Domestic Affairs

United States Government and Politics

Jay Cox, Andrew Swan, and Grant Hagstrom

Introduction

Politics is defined as the art of government. Its study covers everything from comparing alternative Social Security plans to examining relationships between Washington insiders to evaluating the fairness of an election process. At first glance, this study seems impossibly broad. After all, as Aristotle once said, "*Man is by nature a political animal.*" The United States, in accord with this notion, has witnessed a continuous expansion of its public sector, to the point where it influences, if not encompasses, most aspects of our lives. As the import of governmental decisions grows, so too does the scope and complication of the political realm. Many political scientists have devoted their lives to its study and still failed to predict Presidential election results accurately or to agree on the best welfare policy. So how can a public speaker or debater be expected to answer the same kinds of questions?

The key, as always, is knowledge. Background information is critical, because it helps to contextualize your analysis and demonstrate greater depth of understanding. With this in mind, the first three sections of this chapter give background information and concepts on each of the 3 major categories of political questions:

- Parties
- Governmental Structure and Influences
- Elections

Politics is a Party

Of the two great parties, I should say that one has the best cause, and the other contains the best men. -- Ralph Waldo Emerson

Political parties are the engines that make an election-based political system run. They recruit and choose candidates to run for office, run these candidates against opponents from other parties, and strive to organize and control the activities of government officials under the party name. The United States has gone through several party systems during its history; since the Civil War, though, the Democratic and Republican parties have dominated, although the platforms and ideologies of both parties have changed dramatically since that time. The existence of parties allows voters to associate individual office-seekers with recognizable sets of views, and to hold legislators responsible for their choices more effectively by linking an individual to the actions of a larger group. Additionally, parties contribute by mobilizing their supporters to back candidates with time and money and by encouraging people to get to the polls on Election Day. Through these functions, they play an important role in making the election process accessible to the average American. Understanding the relationship between a politician and his or her party is vital. Legislators rarely make decisions on their own; rather, their views are shaped by, among other things, the overall objectives of their party.

Thus, what proposals make the agenda and what representatives support them often depends on the wishes of these overarching national organizations. Having a basic understanding of each party's goals and its support base lets a public speaker understand how the Democrats and Republicans reach decisions – and, as a result, how the political realm is affected by these decisions.

A relatively stable set of core values defines the character of each of the two major parties. Although both priorities and views tend to shift and evolve over time, these broad considerations give a basic characterization of their outlook.

The Republicans

The Republican Party, also known as the Grand Old Party or GOP, generally favors government action to promote social norms but only minimal government intervention in the economic sphere.

The strongest Republican support tends to come from:

- Southern and Midwestern states
- older people rather than younger generations
- men to a greater extent than from women
- wealthier groups more so than poorer ones

Historically, the GOP has made reducing taxes one of its most important campaign issues. For example, during President George H.W. Bush's first term, along almost strictly partisan lines, the Republican majority in Congress passed an across the board tax cut totaling almost \$80 billion per year as part of a bill that also sought to reduce the so-called "marriage penalty" in the tax law and to reduce taxes on inheritance. The bill was later vetoed by President Clinton. To finance these tax cuts, Republicans typically advocate reductions in social transfer programs, such as Medicaid and welfare.

Another classic plank of the GOP platform is support for national defense spending. Republicans have backed pay and benefits increases for military personnel and continue to work for the development of a missile defense system designed to protect the United States from attacks by terrorists or rogue nations. The end of the Cold War led to a decline in popular support of expanded defense spending, costing the Republicans some backing in this area. The party has stuck to its guns, however, and in the post-9/11 era, defense spending seems to be gaining traction once again.

In terms of social programs, the Republican party line favors devolution, the movement of administrative responsibility from the federal government to the states. Movements to decentralize control of education, by allowing states greater discretion over how they spend federal funds and through state run voucher plans, and to give states the power to determine levels of welfare benefits have been championed by GOP members of Congress. The Republicans point to the successes of governors in improving conditions within their state as evidence favoring devolution, citing the work of George W. Bush on the school system in Texas, John Engler's reforms of benefits administration services in Michigan, and George Pataki's attack on systemic inefficiencies within New York's health care system. On any policy question, a solid generalization of the Republican view is "when in doubt, spread it out."

The Democrats

The Democratic Party focuses on promoting economic equality and opportunity while championing social freedom.

The support for the party comes mainly from:

- urban areas, especially in the northeast
- younger, working class and poor Americans
- people at the extremes of education, either with advanced degrees or without a high school diploma
- women and minority groups, especially African-Americans

Democrats have formed and maintained this support base by establishing and protecting the vast majority of social welfare programs presently in place, including welfare programs, affirmative action, Medicare and Medicaid, and Social Security, as well as efforts improve access to health care and education for all. Recently, some analysts claim, the Democrats have moved away from this base and towards a more centrist position. The permanence of this movement, or even its existence, is hardly certain at this point; overall, the Democratic Party continues to maintain its traditional role.

A public speaker can use general information about party platforms to predict what actions the party will take as well as to assess likely popular responses. For example, knowing that Republicans typically support military spending increases, one could establish a link between higher popular concern over national defense and rising support for Republican candidates for office. A clear conception of the party line on key issues allows a debater or public speaker to simplify, clarify, and explain the two sides, and likely outcomes, of many political clashes, either electoral or legislative.

Other Parties

The activity of other, minor political parties continues to attract attention, even though no third party candidate has won a national election in two decades. In the 1990's, the Reform Party, formed by Texas billionaire Ross Perot, garnered a lion's share of this publicity. Perot made a much-publicized run at the White House in 1992, receiving a greater percentage of the vote than any third-party candidate in over 80 years; he repeated his attempt in 1996, with considerably less success. Yet in 1998, third party politics got a major boost with the election of Jesse Ventura to the Minnesota governorship. Ventura, a former pro wrestler now associated with the Reform Party, brought national attention with his improbable victory, although more for his background than his ideas.

At this point, the Reform Party, while enjoying a small but dedicated following, lacks a solid national structure and, more importantly, a cohesive set of views. The party's unity was damaged even further by the addition of Pat Buchanan, a religious conservative best known for his repeated failed attempts to win the Republican presidential nomination. As the 2000 election approaches, the Reform Party seems unlikely to make any kind of national impact. Other minor parties, including Libertarian and Socialist parties, maintain their share of loyal backers, but show few signs of expanding to a point where they could win even state-level races. Individual figures define many other minor parties: The Green Party, for example, is synonymous with Ralph Nader, a prominent environmental activist as well as its founder and perpetual presidential candidate. None of these parties seem prepared to make any kind of splash in the near future.

The long term prospects of third parties do not seem much brighter. Historically, the only third party successes have come with wholesale realignments of the political system. The Republican Party, for example, began as a third party focused on an opposition to the spread of slavery, and developed into a mainstream party only as the Whig Party's internal organization and external backing rapidly imploded. The infrastructure required to run a modern political campaign effectively will likely prevent a fledgling organization from fielding a viable candidate for major national office.

The most likely scenario of long term third party involvement includes the continued presence of alternative candidates in key races, occasionally having a considerable impact on its outcome, yet unable to take the next step and actually win higher offices. The majority of these candidates will likely remain individuals, running with existing name recognition, easily distinguishable personal characteristics, or substantial independent wealth. The best chance for an actual third party in the foreseeable future will come if the Democrat's movement toward the center continues, leaving room for a new party embracing the interests of poor and working-class Americans. The prospects of such a party developing, however, remain very slim.

Beyond changes within the individual parties, the greatest transformation in party politics currently underway involves what is known as a de-alignment. Party membership is on the decline. More and more, voters refuse to define their political identity as Democrats or Republicans. They may support one party in some races while backing the other party in others.

With straight-ticket voting down, the personal characteristics, qualifications, and image of individual candidates becomes an even more important determinant of election results. Parties must try harder to find attractive office seekers to attract members of the ever-growing body of swing voters. De-alignment has also reduced the ability of party leaders to get out the vote and to control the actions of party representatives. De-alignment may simply be a passing fad, but present trends suggest that the importance of political parties may continue to decline in coming years. If this trend continues, voting on strictly partisan lines within Congress may also decrease, and with party leaders losing their ability to keep members in line, the types of legislation in Congress could change. This analysis can be incorporated into discussions of a wide variety of issues where a direct clash between Democratic and Republican viewpoints had created a stalemate in the past.

Governmental Structure and Influences: Separation of Powers

Power is the fundamental concept in the analysis of political affairs in the same way that energy is the fundamental concept in physics. -- Bertrand Russell

In a purely systemic conception of politics, elected political leaders alone have control over crucial choices (i.e., the President and Congress, with input from their advisors and staffs, determine public policy). In reality, the situation is hardly that clear cut. A seemingly infinite number of different groups, organizations, and individuals wield some form of power within our political system.

An evaluation of who has power in a given situation is central to addressing any pragmatically oriented political topic. By determining who can influence a decision, and the interests they seek to promote, a debater or public speaker can develop a simple but valuable assessment of the probable outcome of the decision as well as an understanding of how it will be reached.

Analyzing power relationships and balances is also useful in answering some questions asking for recommendations. Public speakers or debaters would be well-advised to evaluate an initiative's chances of success given the relative influence held by its supporters, or weighing conflicting pressures on the national political agenda.

So who actually holds political power? It depends on the subject in question, but most of the important players in the political power game fall into one of the following groups.

The President (and Advisors)

One would naturally expect that the American President, as the head of state of the most powerful nation in the world, would wield a lion's share of the power over political affairs within the United States. But while the President holds an unparalleled amount of influence in international negotiations and the management of world affairs, he is able to exercise less control over domestic matters than most of his foreign counterparts.

The specific powers granted to the President are enumerated in the Constitution, and reviewing these powers is a good place for any debater or public speaker to start in examining the scope of Presidential power. The Constitution also establishes a system of checks and balances within our government that prevents the chief executive from exercising much unilateral authority. For example:

- The President can negotiate treaties, but they must be approved by the Senate before taking effect.
- He is the Commander-in-Chief of the Armed Forces, but only Congress can declare war.
- He does not have the ability to directly propose legislation, since a bill must originate in either the House or the Senate.
- He may veto a bill, but Congress may override the veto

In addition to the powers granted to him by the Constitution, much of the President's influence comes from his capacity to alter the opinions and actions of those around him. As the most recognizable political figure in the country and the focus of constant media attention, the President has an unmatched ability to project his views upon the rest of the nation, both political elites and common people. If a president enjoys high public approval ratings, he can go a long way towards shaping the views of his supporters. Accordingly, other political figures (especially members of Congress) will find it advantageous to ally themselves with popular Presidents. Of course, the same Congressmen will often try to distance themselves from a President who does not enjoy popular support.

The people most responsible for shaping the President's own opinions are his advisors. Policy areas have become so specialized that no one, especially someone with a President's demanding schedule, can understand the intricacies of all of them. So the President usually takes his cues from a core of specialized advisors, including the Cabinet, the Chief of Staff, the Press Secretary, and a host of others. Many Cabinet officials, for example Secretary of State Henry Kissinger under President Nixon and Treasury Secretary Robert Rubin under President Clinton, have amassed large amounts of independent influence over policy decisions, largely through this advisory role.

Congress

Like the President, Congress holds a set of powers delegated to it by the Constitution. These include:

- the power to tax
- the power to coin money
- the ability to regulate both foreign trade and interstate commerce
- the right to declare war

Because almost all forms of legislation must originate in either the House or the Senate, Congress plays the greatest direct role in shaping the path of public policy. Moreover, certain individuals and groups within Congress also possess significant independent authority:

Speaker of the House

As the second person in line for the presidency, behind only the Vice-President, and often the de facto voice of his party within Congress, the Speaker of the House can command one of the most high profile positions in politics. The power of the position depends greatly on who is filling it.

Committees

In both the House and Senate, members are assigned to subgroups focusing on specific types of legislation. These committees and subcommittees revise and edit proposed bills that come to them, and ultimately determine what legislation they wish to send to the floor. Committee appointments are very important to Congressmen, since their ability to pursue the interests of their constituents depends largely on their place on a relevant committee. Especially coveted are positions as committee chairmen, usually reserved for senior members. Committee chairs have considerable individual power over the fate of bills within their policy area, and often work closely with interest groups and bureaucratic agencies associated with it. The makeup of an individual committee, then, has a major effect on the legislative process, determining what bills will be voted upon by Congress as a whole. Indeed the Rules Committees are especially important because they have final jurisdiction over the items placed on a House's agenda.

The Supreme Court

Often overlooked as a source of political influence, the Court plays a unique role in the legislative process. Made up of 9 Justices appointed for life terms, selected by the President and approved by the Senate, it holds the ultimate power within the United States judiciary system. The Supreme Court is an appellate court (only under rare circumstance does it have original jurisdiction), hearing only the cases it selects among those that are appealed after lower courts rule on them. It has final jurisdiction over all cases it hears, and its rulings must be followed by all lower courts (both federal and state).

The heart of the Court's influence lies in its power of judicial review, its ability to declare a law passed by the state or federal government unconstitutional. This power has its origin in the 1803 case *Marbury v. Madison*. In that case, the Court ruled that a law passed by Congress, which gave the Court the ability to issue "writs of mandamus" compelling actions by government officials, was unconstitutional; consequently, the Court refused to send such a writ of mandamus to then Secretary of State James Madison.

The only way to override the Supreme Court (other than the Supreme Court itself overturning a prior decision) is to pass a constitutional amendment.

Constitutional issues continue to play a pivotal role in political debates over school vouchers (concerns over the separation of church and state), gun control (the right to bear arms under the 2nd Amendment), and campaign finance reform (the 1976 *Buckley v. Valeo* ruling eliminated some types of spending caps on 1st Amendment grounds). The Court will have a great deal of influence over how these debates play out, both explicitly through the decisions it makes and implicitly through what actions political leaders expect it to take.

The Bureaucracy

As the size and range of government functions expanded over the years, the need for new regulatory agencies to control these new functions emerged. Today, each bureaucratic agency fills a very specific role, and is typically staffed by people chosen for their expertise in the field involved. Bureaucrats often have considerable discretionary authority over policy initiatives within their areas. The Environmental Protection Agency, or EPA, for example, controls how compliance with anti-pollution statutes is measured and assesses penalties for environmental violations. The bureaucracy gains this power through laws passed by Congress, which often feature a broad mission statement and leave specific policy details to "the experts."

This devolution of decision making enables those best equipped in terms of knowledge to determine the course of government actions, yet at the same time opens up some troubling dangers. The fact that so much control can rest in the hands of a group neither chosen by nor accountable to the people seems a bit undemocratic. But perhaps more importantly, since Congress allocates funding to agencies based on the scope of their activities, bureaucrats have a constant incentive to make decisions expanding the power of their agencies. This idea provides an easy rule for predicting whether such an agency will support a policy or not: *Does the policy increase or decrease the agency's clout?*

Bureaucratic organizations also often work in close connection with the congressional subcommittees and interest groups relevant to their field. Together, these three form issues specific "**Iron Triangles**" that play a dominant role in the development and implementation of legislation.

Interest Groups

As one leg of the Iron Triangle, interest groups typically are comprised of people who share an interest that they wish to protect or advance with the help of the government. They represent private organizations

attempting to influence the course of public policy. Over recent years, the number of these groups has skyrocketed: Seventy percent of their Washington offices have been established since 1960. Their influence also appears to be on the rise, based both on their expanding role in financing and advertising in the election process and on the fact that they are increasingly viewed as part of the Washington establishment as "insiders" in the political scene. K Street, the Washington locale where many of their offices are located, rivals Capitol Hill as a hotbed of political activity. Most are now run by paid professional lobbyists rather than individuals committed to the cause in question.

A commonly discussed subset of interest groups is political action committees, or PACs. Any interest group that directly supports the campaigning efforts of an individual or a party is considered a PAC. Today, with almost all interest groups taking an active role in the election process, the two terms are used almost interchangeably.

Interest groups fall into two categories:

Issue based advocates

These groups focus their lobbying efforts on one particular issue or set of issues. Examples of issue based groups include the National Abortion Rights Advocacy League (NARAL) supporting abortion rights, or the Sierra Club promoting environmental protection efforts. Issue based groups typically work for public goods, programs that at least hypothetically benefit all members of society, and as a result are more ideologically driven on average than other groups. In many cases, competing lobbies exist on opposite sides of a given issue. More often than not, the side with the stronger lobby will come out ahead when Congress passes legislation.

General advocacy interests

Linked to a specific group or organization rather than a specific policy area, general advocates pursue the aims of that group regardless of what issues they involve. Such groups support the interests of African-Americans (the National Association for the Advancement of Colored People, or NAACP), of women (the National Organization for Women, NOW), of evangelical Christians (the Christian Coalition), of laborers (AFL-CIO), of the agricultural industry (United Farm Workers, or UFW), and of almost every other organization with a stake in governmental decisions.

Many of these groups are extremely powerful, based purely on their bases of money and popular support, often strengthened further by prolonged ties with one of the major parties. For example, the Christian Coalition has greatly increased its power by establishing itself as a cohesive voting block which the Republican party needs to win elections. Other groups have considerable influence simply because there is no organized lobby arguing against them. While many pro-business initiatives have troublesome costs, these costs are usually distributed across a large number of people who are not set up to fight back effectively against the might of industry lobbies. Farm subsidies, for example, almost never will be cut because, while farmers' organizations argue strongly in favor of them, no interest group specifically opposes them.

The power held by interest groups varies greatly from group to group, and a group's influence on a particular debate also depends on its commitment to lobbying. The more influential groups, though, can guide or even control the direction of policy. By looking at the relative strength of relevant interest groups, one can form a reasonable prediction of how officials will respond.

The Media

News sources, from television broadcasts to newspaper reports to journal articles, influence the direction of politics in two crucial ways. First, the media serves as "**the great mentioner**," shaping what issues the public thinks are important and, consequently, what issues find their way onto the agenda of Congress

and other government agencies. The same applies to candidates within electoral contests, who must fight for media recognition to establish themselves as viable contenders. The second major role of the media is in defining the boundaries for policy debates. While news stories rarely change a person's set opinions, they frequently establish a range of viewpoints that are considered acceptable alternatives for consideration. Where the media sets the borders of acceptability has a great deal of impact on final decisions, since these tend to gravitate toward the middle of the acceptable range.

The People (Believe it or Not!)

With all these other groups vying for control within the political process, it seems like there would be none left over for the average citizen. But as improvements in polling technology make it easier to determine what people think, the government is paying more attention. Whether greater public control of policy is a good thing remains an open question, but this transformation means that what the polls say could actually lead to what Congress and the President do. By explaining this growing correlation, public speakers and debaters can give new relevance to poll data, and then incorporate its message into policy predictions.

Elections

It is an error to assume that a candidate wins because a majority of the electorate shares his views on public questions or approves of his past actions. -- V.O. Key

The American election process never really ends. By the time a Presidential election cycle closes, candidates are already positioning themselves for the Congressional race in two years, not to mention the next race for the White House in four. And that is just at the national level. Almost every day, some state or local election is being contested somewhere in the United States. Thus, while many people tend to focus in on electoral issues around the time of key races, questions regarding elections are omnipresent.

Electoral Systems

The first key to answering these questions is understanding the basic setup of the American electoral system. Most elections in the United States operate under what is known as a “**first past the post**” system in which each candidate runs for one particular office. The candidate getting the greatest number of votes wins that office, and the other candidates, whether they received one vote or one vote less than the winner, go home empty handed. **On a national level, this method is used in the election of Senators and members of the House of Representatives.**

The President, on the other hand, is elected using a system called the electoral college. Under this system, each state holds a certain number of electoral votes, equal to the total number of Senators and Representatives the state has. The candidate receiving a plurality (the most of any candidate, but not necessarily a majority) of popular votes within a state wins that state’s electoral votes, and a candidate winning over fifty percent of the total electoral votes tallied nationwide becomes President.

The electoral college system creates the possibility that the person getting the most popular votes in an election will not win. In 1824, for example, John Quincy Adams became President even though more people around the country voted for Andrew Jackson. Then in 2000, George W. Bush became President even after Al Gore won the popular vote.

This background information will often prove vital in analyzing proposed changes to the electoral system, as well as predicting what results such changes might produce. Typical election questions address three core topics:

- Voter Turnout
- Campaign Contributions

- Overall Political Outcomes

Voter Turnout

More so than the citizens of any Western industrialized democracy except Switzerland, Americans do not choose to vote. In the 1992, 1996, and 2000 elections, only about half of voting age adults cast ballots for the Presidency. Voter turnout in 2004 and 2008 was markedly higher. This figure drops to less than a third for midterm Congressional elections. Average American voter turnout is almost 50% lower than turnouts in Germany, France, Japan, and Great Britain, where typical participation rates in elections for the head of state fall between 75 and 80 percent. The issue of non-participation is increasingly a hot political topic.

There are two main reasons why low turnout rates should be cause for concern. One deals with interpretations of what causes voter apathy, reaching the conclusion that people do not go to the polls as a result of problems within our political system. For example, low turnouts have been blamed on a widespread lack of political efficacy, on a growing sense among potential voters that they cannot understand politics enough to make intelligent choices or, even if they could, that their votes cannot affect electoral outcomes. Lack of efficacy is often blamed on the inattentiveness of politicians to their constituents, causing these constituents to conclude that they are not really part of the political system.

Other possible problems with our government linked to low turnout include: 1) the idea that no political parties, and consequently no candidates, exist that represent the beliefs of many subgroups of eligible voters, especially as the Democratic party moves to the right and away from its traditional block of working-class and poor support; 2) the sense that working "outside the system" is the only way to enact real political change, since Washington insiders are too unwilling to rock the boat; and 3) the notion that the way politicians run their campaigns, especially the growing focus on negative advertising, turns people away from the political sphere. Under any of these views, low turnout is a symptom of larger problems, and therefore a cause for concern even if it does not in and of itself harm the political process.

A second possible negative effect of low turnout deals with direct negative effects of non-participation. Because voting rates are not equal across all sectors of the population, voter apathy can impact election results. A 1995 survey by Harvard political scientists Sidney Verba and Kay Schlozman concluded that whites are more likely than African-Americans to vote, participate in political campaigns, give money to parties or candidates, or contact their representatives. African-Americans, in turn, are more likely to engage in these forms of political activity than Hispanics.

Imbalances in turnout exist along other lines as well. Participation rates tend to increase with age, education, and wealth. These imbalances then directly affect results. For example, several studies now project that the Republican Party would actually have lost House and Senate seats in the 1994 midterm Congressional elections if all voting age Americans had gone to the polls. Obviously, a skewed voting block brought on by low turnout represents a key failing of American democracy.

So what can be done about the turnout problem? A number of remedies have been proposed:

Make it easier to register to vote

America's turnout rate among registered voters is actually well above the anemic totals cited earlier. Over 75 % of registered voters have cast ballots in each of the last three Presidential elections, higher than the corresponding rates in Japan and Great Britain. This raises the question whether low turnout stems from overly strict registration laws. Registration requirements were first instituted during the first two decades of the 20th century to curb rampant electoral corruption. The trend of requiring voters to register well in advance of election dates and difficulties (perceived or real) in the registration procedure have led to the unwanted effect of discouraging voting. The 1993 Motor-Voter Bill took one step towards making it

easier to register, allowing people to register by mail, when they renew their driver's license or when they apply for public assistance benefits (such as welfare checks). Several states, most notably Minnesota, went one step further in 1998 state races by allowing people to register on the day of the election, a policy which may have contributed to the surprise victory of former pro wrestler Jesse "The Body" Ventura in that state's gubernatorial race. An adoption of such systems on a national level, or further efforts to simplify the registration process, could lead to increased turnout.

Make election day a national holiday

This solution focuses on attacking the problem of people not having time to vote. By giving people the day off from work, this proposal would give many people working in jobs with long hours and with family or other commitments an opportunity to go to the polls that they would not otherwise have had. This plan could also reduce imbalances in turnout rates between different income levels, allowing nine-to-five laborers the same access to voting time as their bosses. Additionally, it could combat the popular perception that the government does not care about who votes, indicating that politicians are willing to make a sacrifice (giving workers the day off) to encourage participation. One twist on this plan, to avoid the loss of another work day, is to move national elections to existing holidays, for example Veteran's Day or Memorial Day.

Change electoral procedures

By far the most radical of proposed changes, this option involves modifying the way votes are counted to ensure that everyone feels they can make their opinion heard within the electoral system. These plans seek to expand the range of viewpoints with which a candidate has a chance at being elected, as well as to avoid the problems of having someone win an election with fifty-one percent of the vote and leave the other forty-nine percent without a voice in government. One specific suggestion of this type involves adopting a system of proportional representation, the type of electoral system used in Great Britain and Canada. Under this plan, the number of seats a party holds is determined by the percentage of the vote it receives, so that even a party getting just one or two percent of the vote would be represented in Congress.

Many public speaking or debate topics involve solutions to turnout problems. But beyond these targeted topics, information regarding who votes and why could prove useful in predicting electoral outcomes, party alignment shifts, and the odds that various policy alternatives will be implemented.

Public speakers should remember that, when looking at public opinion, politicians only care about the portion of the public that will vote to re-elect them. Thus, who can be counted upon to vote should play a major role in predicting the behavior of legislators.

Campaign Contributions

"People always say it's not the money, it's the principle," former Nebraska Senator Bob Kerrey commented during the mad dash for cash before the 1996 elections, "but when you hear people say that, you know it's the money." In the minds of many Americans, political campaigns have become inexorably linked to massive donations and constant quests to raise more and spend more. In 2008, candidates for national offices took in (and paid out) over \$1.7 billion. According to a Center of Responsive Politics study, the average Senate candidate spent about \$4.8 million. And statistics show that the rush to spend is not a futile one.

Over the past four election cycles, candidates who outspent their opponents consistently have won approximately 90% of the races. The correlation between money and winning is certainly not a guarantee, as evidenced by the success of Wisconsin Senator Russell Feingold's re-election bid despite the fact that he was outspent more than 2-to-1 by his Republican challenger. But money clearly talks in the election process.

The seemingly out of control escalation of campaign spending has led some to the fallacious conclusion that no restrictions on campaign fundraising exist. In fact, since 1974 an extensive system of laws has governed how candidates can raise and spend money. With growing concerns over political corruption following the Watergate scandal, Congress passed the **Campaign and Election Reform Act**. This landmark piece of legislation had four main effects:

- limited individual donations to candidates to \$20,000
- required full disclosure of who was responsible for such donations
- banned corporate contributions to specific campaigns
- set spending limits

Yet as soon as these stringent limitations were on the books, campaign managers and party leaders began finding innovative ways to circumvent them. The most significant of the loopholes they found came through what are now known as soft money contributions. The 1974 Reform Act dealt only with so-called "hard money," money given directly to the campaigns of individual candidates.

Donors could still give unlimited amounts of money to political parties, to be spent on "party building activities." Parties then funneled this money into the campaign coffers of their candidates. While this diversion of party money toes the boundaries of the law, the practice has become an accepted form of campaign fundraising over the past quarter century.

Additionally, corporations and other organizations, now prevented from giving directly to candidates, have found other ways to support campaigns. Political Action Committees, or PACs, for example, often put out advertisements for candidates they back. These organizations are free to accept unlimited donations from almost all sources, so businesses can still target money to support individuals running for office. Industry groups have also started to band together and directly fund advertising for candidates whose policy goals they support, getting around direct limits.

Another blow against limitations to campaign finance regulation came in the Supreme Court's 1976 ruling in *Buckley v. Valeo*. In this ruling, the Court struck down the spending caps established in the 1974 bill as violations of the First Amendment right to free expression. The *Buckley* decision, however, stopped short of barring all spending caps. More recently, Congress passed the Bipartisan Campaign Reform Act of 2002, also known as the McCain-Feingold Act, in an attempt to address these issues of "soft money."

All in all, the breakdown of the strict campaign financing limits is hardly surprising. Based on pervasive public tolerance of electoral corruption, politicians and parties continue to brazenly challenge financing restrictions. The extent to which they circumvent such laws is made even greater by a number of **factors that continue to drive up the amount candidates must spend to compete for office**. With development of **new media** technologies, for example, candidates must play a game of quick responses. They prepare advertising material they may never use, have prerecorded responses to possible developments ready to air instantly, and shell out top dollars for specialized freelance election consultants. Perhaps more openly, with the United States positioned as the world's lone superpower, the rest of the world increasingly wants to influence American politics. Japanese individuals and businesses, for example, spent a cumulative \$400 million on the 1996 Presidential election. With these forces driving up spending, and a popular acceptance of using finance loopholes, campaign fundraising continues to increase despite existing regulations.

The problem with escalating spending figures is that they force politicians to cater to moneyed organizations and individuals if they want to be viable candidates. Because 1/3 of 1% of the population gives over 1/3 of all political donations, a 1999 report by Public Campaign (a public service think tank)

suggests the majority of the population that is unable to give financial contributions to campaigns cannot make its voice heard to the same degree that wealthier people can. Average Americans have less ability to help the candidate of their choice run and win. Consequently, the average citizen who holds no promise of financial support for the next election often has his interests ignored by lawmakers. While the extent to which this kind of thinking influences lawmakers is uncertain, any influence it has can hardly be in the best interests of democracy.

Several political figures have launched high profile attempts to curb finance abuses. In August of 1998, the House actually voted on and passed a comprehensive reform law which also included a limit on PAC and industry sponsored advertising and expansions of disclosure requirements. The bill was subsequently voted down in the Senate, at the same time as major fundraising scandals rocked both major political parties.

Two major roadblocks have stopped further reform efforts, one ideological and one merely a matter of convenience for legislators. Concerns regarding the limitation of free donations and free spending as restrictions on liberty provide a reasonable, if not solid, constitutional case against more laws. Yet perhaps more importantly in the minds of some Congressmen, incumbents normally enjoy a considerable fundraising edge over challengers, a factor that contributes to the 94% success rate of those seeking re-election to Congress in 1996 and 1998. Thus, those on the inside have an incentive to keep the system the way it is, because the status quo works in their favor. In general, Democrats have been more active proponents of campaign reform than Republicans, largely because Republicans typically enjoy often considerable fundraising advantages under the current system. Yet the 1998 bill enjoyed solid bipartisan support in the House, with 51 Republicans defying party leadership and voting for it; its success, though fleeting, was an encouraging sign for future reform prospects.

Most of the ideas for reform now being tossed around follow the same general outline as McCain-Feingold – restrictions of soft money and elimination of campaign loopholes, benefits to candidates who limit their own spending or fundraising, and efforts to root out anonymous and foreign donors. Other suggestions focus on increased public financing of campaigns; creating systems in which the government would provide matching funds to all candidates who pass a certain fundraising threshold (and possibly also agree to spending caps); plans for free, equal airtime for all candidates, or even designs for political campaigns funded almost entirely through tax dollars, combined with drastic cuts in overall spending.

Each of these initiatives has some major hurdles to overcome. Voters, to this point, have shown very few signs that they care enough about campaign finance reform to vote against a candidate that abused the system or for a candidate that stuck his neck out for change. Until people show they care about this issue where it counts, at the ballot box, reformers will be hard pressed to pass any meaningful campaign legislation.

Overall Political Outcomes

Political scientists who devote months to studying individual races cannot provide 100% accuracy in their predictions. Newscasters routinely make mistakes in their early calls on poll returns. A faulty forecast even graced the front pages of newspapers the day after an election, as they proclaimed that Thomas Dewey had defeated Harry Truman in the 1948 Presidential race. Indeed, asking a public speaker to predict election results can be daunting, but several factors can be considered.

Money

As we saw in the last section, money often means victory in political races. If a candidate has a fundraising edge, and seems likely to keep it, he has an early advantage.

Campaigning Techniques

As politics enters the information age, campaigners are racing to keep up, and some candidates can use the transition to their advantage, exploiting new polling techniques, internet advertising, and social media. A candidate with a notable advantage in this area has a better chance of victory. The same applies to candidates who engage in successful grassroots campaigning, who demonstrate charisma in relating to constituents, or who show other signs of having a better run campaign than their opponents.

Ability to bring in moderates or non-voters

Because most national races are relatively tight, a candidate's success or failure will depend on his ability to attract unexpected voters. A candidate can gain an edge by attracting swing voters, or even traditional supporters of the other party, as Ronald Reagan did with the so-called "Reagan Democrats." Of course, a candidate can't overlook the votes among groups that traditionally back his party, as David Dinkins did in New York City mayoral races in the late 1980s and early 1990s. Additionally, female candidates sometimes can attract more support among women voters than other candidates of the same party or with similar views; the same logic applies to African-American, Asian-American, and Hispanic candidates.

Control of Issues

The issue-oriented side of a race will almost always boil down to a set of 2-4 central topics, such as education, health care, or taxes. All candidates are stronger on some issues than others. A candidate's ability to focus policy debates on strengths rather than weaknesses will go a long way towards determining his ultimate success.

Experience and Legislative Record

Especially early in races or in primaries, a candidate with more past media exposure or more high profile past positions generally has an advantage. Later in a race, candidates with solid voting records on the issues that become focal points within the campaign will have an edge over those with weaker records.

Party Support

In the primaries, the backing of the elite within a political party is vital to a candidate's ability to win the nomination. In the final race, the united support of a party's power base is essential. Candidates without the undivided support of their party, such as William Howard Taft in 1912 and George McGovern in 1972, typically flounder.

This list is certainly not exclusive. Many other factors unique to specific contests can have a profound effect on their outcomes. Yet evaluating these general principles can provide a snapshot look at where a race stands, and generally provide key information that a debater or public speaker needs to think about.

Two Closing Tips

These words of wisdom apply generally to all topics in forensics, yet are especially important with political topics, where it is easy to get caught up in the problems described.

Be Respectful

No matter what you think about our nation's leaders, they are still our nation's leaders, and judges may not take kindly to your mentioning them in a patronizing manner. Refer to "Speaker Hastert," not "Denny." A good rule of thumb is to adopt the same professional tone you would expect from Stone Phillips or a New York Times article.

The same logic applies to judgments of actions. While it is perfectly legitimate to disagree with their decisions, or even question the reasoning behind their conclusions, do not call respected political figures "stupid." Professionalism is vital to successful public speaking and debating, and showing respect when respect is due (or at least expected) is an important way to cultivate a professional image when discussing political issues.

Avoid value judgments

In politics rounds, it is very easy to slip into making arguments along the lines of "Barack Obama will win the 2012 election because his views on X, Y, and Z are the best ones." Before using this kind of argument, think about how a judge with different views might respond. Opinions on political subjects are often both well formed and strongly held, to the point where the rhetoric and argumentation of even the greatest orators in the country rarely manages to create any substantial changes in public opinion.

The chances that you, during one speech, will persuade a lifelong Democrat that President Bush really does have the right ideas are slim to none, so try to minimize the risk of alienating those who disagree with your opinions. Focus on, for example, the Republican party's advantages in campaign fundraising, or shifts in public opinion bringing the average voter's views closer to the Republican party platform, over value based arguments. On questions where a value judgment is unavoidable, try to adopt a moderate position or temper your views to make them universally acceptable (but still decisive). Above all, use facts and credible sources, not just your own opinions, to back up debatable assertions.

Education

Amy Moffett, Joseph Poore, and Grant Hagstrom

Introduction

Thomas Jefferson said, "If a nation expects to be ignorant and free, in a state of civilization, it expects what never was and never will be." In order to really utilize our liberty and take advantage of all the opportunities that are available to us, we must educate our citizens and make our educational system a top priority of policy. The complex issues that lie beneath this policy fall into seven basic categories:

- Funding
- Status of American Education
- Special Schools
- Levels of Government
- School Safety
- Teachers and Administration
- Classroom Integration

The analysis of these issues highlights the problems within the educational system of America and hopefully offers a solution or two, but is meant mainly to provide the speaker with the background behind much of the reasoning that goes into arguments on many controversies.

Funding

The number one issue for education reform revolves around money. While spending priorities across the nation are diverse, many argue that it is important to prioritize our future and our children through spending on education. Districts around the nation are strapped for cash and yet are trying to educate our children the best they can. In order to perform any type of reform they need the money to see it through.

Who Has Funding and Who Needs It

While the majority of educational funding comes from the federal government, they have very little control over what happens to that money. Individual states have more control, and set most of the rules for how funds are spent. Obviously, the districts must use their own resources to supplement what is given to them by the federal and state governments – meaning more affluent districts have an advantage over less affluent ones. In some cases, the Robin Hood theory is also put into practice here: money is

taken from higher-income districts and given to lower-income ones to make funding more equally distributed and give everyone a fair shake.

The Privatization Idea

Privatization takes place when a government sells assets, contracts out to a private company to deliver services, provides vouchers to individuals, or deregulates a monopoly. Public schools today often have privatized sectors, like cafeteria services or transportation and maintenance. Yet, the question still remains whether the entire school system should be given over to private entities, where they can micromanage education and run schools for-profit. Some see charter schools as steps in the direction of privatization; however, they still receive government funding. One concern with kids being part of a profit-driven system is that they become a commodity and if Johnny isn't cutting it, grade-wise, he will not get attention for a learning disability or extra help, he will simply be tossed out of the pool.

What was once the public system does indeed receive an infusion of money from another sector, but it will slowly take over all the characteristics of private schools, good and bad, and could leave unwanted children out in the cold. However, the other side of this argument is that we need drastic changes to the way we educate our children, to get better results and leave them more capable to deal with the 'real world.' As Denis Doyle of the Hudson Institute claims, "If one-quarter of the products made on an assembly line don't work when they reach the end of the line and another quarter fall off the line before the end, the solution is not to run the line longer or faster. Different production processes must be created. Put simply, the nation needs new ways to conduct the business of educating the young and entrepreneurship must be at the top of any list of reforms." Thus, the issue of privatization thrusts itself to the forefront and all sides must be considered.

Benefits or rather the promises of privatization are the first part of the equation: what will we be gaining by privatizing our schools? (School vouchers, though in the broad category of privatization measures, will be considered in their own section below.) Student achievement is a primary concern for the American people; we are constantly trying to get our kids to do better in school, especially when we see how they stack up to their peers from around the world.

When the market is introduced to schools, they will be forced to work harder and compete to keep their pupils. Thus, the ineffective and poorer schools will be compelled to close their doors until only quality schools are available. And this system doesn't just work from the parents' end of the bargain: teachers will be choosing the best schools and hired or fired based on their performance, making them work harder and leaving better teachers after poorer ones are weeded out. Some argue that teachers' pay would also increase in a competitive market. Another advantage of the market system is accountability: businesses know they must please their customers to stay in business, that they must produce results to keep making money. In the education setting, this factor encourages schools to push the students they are teaching to higher standards of excellence. While public schools now have numerous levels of bureaucracy and regulations hanging over them, a private school only has its customers to answer to and thus can do a more effective job of making changes when they are needed.

Businesses also know that they can never meet the needs of every person in the consumer market. Therefore, some businesses make tires, others make appliances, and others provide medical services. By splitting up each of these functions, instead of having one company do all of them, several things occur. First, each company specializes in one type of product and therefore produces a higher quality product than if the company had not specialized. Second, the existence of multiple companies, instead of one expands the job market. Privatization of schools may have a similar effect. Allowing certain schools to focus on education for students with special needs or talents, or particular interests, while other schools focus on the average teenager, would result in better educated students in both sectors of education and it would expand the job market for teachers. Instead of their being one teacher who teaches a class with

both types of students, privatization would result in that same teacher teaching her class, and another teacher teaching the special needs class.

Many also take the view that privatization will increase the equality and diversity of schools by allowing all families to choose the best schools. A 1976 amendment to the Emergency School Aid Act (ESAA) authorized grants to support the building of magnet schools in districts attempting to desegregate, so that all people would focus primarily on the new opportunities offered through the gifted programs rather than on the racial composition of a school. Additionally, by increasing the amount of funding for schools, students have more of a chance to test their skills on an equal playing field at school, no longer lagging behind simply because of a financial issue. An early book on the issue unequivocally declared that “government is wasteful and inefficient; it always has and it always will be.” They claimed business could do a better job with less hassle and less waste.

Despite this potential, critics charge that there are many negative aspects to the idea of privatization as well.

First, standardized testing, the current measurement of student performance, can become an all-powerful way to drive the curriculum. In an experiment done in Baltimore, an overwhelming portion of instructional time was devoted to test preparation without a significant rise in scores. Can you imagine a school that was only preparing you for the SAT? Science class and art class and debate class would be cut short in favor of studying analogies and word problems all day long. While this was not the test the Baltimore schools were studying for you get the idea. For this and other reasons, the experiment in Baltimore did not continue and the community found it unsatisfactory.

Second, privatization can create even more bureaucracy. In other experiments, the addition of the private companies only adds a new level of control, and the paperwork and hassle that come with it, rather than simply eliminating waste at the governmental level.

Third, the pursuit of equity and fairness could actually be hurt. In the Baltimore plan the schools no longer had to abide by the rules for special education children, often putting disabled children in much larger classes to cut their costs even more. These children were not even monitored to see if they were impacted by the reduction of individual attention and a plan suited to their needs. Other children with special needs could suffer just as much under a system driven by the bottom line.

Fourth, education will lose its status as a “hot topic.” The public discussion and debates that surge around the nation for how to reform schools, it is predicted, will be quieted as each company deals with challenges in their own way, silencing a discussion that offers a major benefit to the educational community.

Use of Vouchers

Another very popular subcategory of questions dealing with educational funding is that of school vouchers. Vouchers have become the source of many political battles, and as a result are one of the first things that come to mind when discussing educational reform. Whether or not to use vouchers is quite a tender subject, as many liberals recoil at the idea of using public money to subsidize private schools while popular demand for a choice in schools escalates all the same.

Choice is the number one factor favoring school vouchers, offering several important benefits. For example, parents of low-income families will gain an increased ability to send children to private schools, offering more children access to the kinds of opportunities now reserved for an elite few. With increased competition, public schools will have to improve in order to keep their students. Vouchers would also drive competition and success in private schools. Although private schools may not have the strict

regulation of public schools, they would have to effectively educate children to keep their doors open. If a private school was doing a poor job educationally then parents, who had school choice because of vouchers, would intuitively send their children somewhere else. The result is failing private schools would close.

Vouchers could promote racial and ethnic integration, by allowing marginalized groups the power of money in making their education-related decisions. Some even argue that private schools would do a better job of teaching children values, in addition to offering academic curricula thought to be better than that of public schools.

In the end, many benefits purported by the idea of privatization also come into play through vouchers – only this time the money is coming from the government and not individual consumers. And that is exactly the problem that many have with vouchers: The taxpayer’s money that was supposed to be helping to reform the current education system is instead supporting private schools. The U.S. House of Representatives Subcommittee on Elementary, Secondary, and Vocational Education declared in a piece on vouchers that “a voucher bill is based on the unfounded assumption that ‘anything is better’ than the current system. Some proposals assume that private schools, without being required to do so, will do a better job of serving disadvantaged students than public schools have done with mandates to serve such students.” The plan for competition, in essence, leaves only one player having to go by the rules: The private institutions can take the same money and follow their own made-up rules, undermining accountability. Furthermore, because of the vast differences in cost of living between states and the extremes of private school tuitions, vouchers will not necessarily cover the expenses of a private school, leaving the parent again with the absence of choice. Also, by taking away money from public schools that are not performing up to a parent’s standard, we also take away the chance to do better. There would be no way to get better aid materials, newer books and test preparation items, or an improved learning environment without greatly needed money – money taken away by vouchers. A problem with this argument against vouchers is the assumption that money is directly related to performance.

Assessing the Present Status of American Education

A good way to tell if and where we need reform is to analyze the status of American education. How we measure our achievements and how we deal with age old problems as an educational society gives further insight to what to change and how do to so. Where we are is not always a good place to be: People from every corner of the nation are telling us how to change and where to go. But it is pointless to try and read a map for change unless you know where you are.

Where We Were – How Education Evolved

In 1945, the Senate committee on Education and Labor opened hearings on a proposal for federal aid to education. The biggest claims came from poor districts that could not raise enough money on their own to adequately teach their students. The country was plagued by teacher shortages caused by the war effort, and even so teachers were not being paid enough. Education had been a growing public issue for some time. After World War I, when the army realized that many of its soldiers were illiterate, and the Great Depression, when a lack of funding led to the elimination of many schools, education was very much on the national agenda.

Bills for federal aid had usually missed their mark: deadlock had occurred because of battles over segregation, the giving of money to non-public schools, and the extent to which the federal government should get involved in the first place. Yet the end of World War II looked like a good time to make some headway amidst these disagreements.

The oncoming ‘baby boom’ (and the accompanying need of larger classrooms and more teachers) and the realization that America was entering a new era of technology that required more education spurred

Congress to ramp up federal funding of schools. Attitudes toward public support for education changed drastically when the Soviet satellite “Sputnik” became the first man made object shot into outer space, causing a sort of educational ‘red scare.’ Many argued that the incident signaled that needed to catch up to the rest of the world soon if we wanted to be technologically competitive with the Soviet Union. **Education became an issue that kept on growing and opening itself to more and more controversy – but it had finally gained national attention, and support.**

Where We Are Now - Standards of Academic Achievement

The concept of “social promotion” dictates that when children reach a certain age they should be promoted to the next grade level, regardless of academic achievement.

The thought behind this plan was that leaving disproportionately older children in a classroom with younger ones would leave them with emotional scars and prevent them from becoming productive members of society. According to this logic, it was better to move them on even if they had not mastered the material at hand. This system caused the creation of a limit to how old you can be to even remain in high school. However, keeping children with their peers and not requiring progress – or even changing strategies when no progress is evident – only leaves them farther behind in later years. Their routine failure often encourages them to drop out and, at best, leaves them unprepared to deal with college or a job. Critics point to social promotion as one reason US education lags behind that of other nations.

Tracking is a different way to measure the academic achievement of students. Schools that use tracking programs group students in classes based on their academic performance, either on an overall level or in certain subjects. Once thought of merely as a racial issue, with students from minority groups often forced into less rigorous tracks, today the use of tracking is much more widespread. In the past, the tracks were split up into four categories:

- **Academic:** for students going on to higher education.
- **Vocational:** for students preparing for local employment in a trade or vocation.
- **Commercial:** for students planning to work in office occupations.
- **General:** for students unsure of their post-graduation plans.

The choice of a student’s track was often up to the student, but guidance counselors played a defining role. The system began to stigmatize students in the bottom tracks. They were denied the same access to educational resources and quality teaching as those in the higher tracks, and many organizations saw it as a way to subjectively discriminate against minorities. Today the idea of tracking is more subtle, as students have their choice of classes and may not even know if they are being put on a certain track. On a basic level, most parents don’t want ‘special education’ stamped on their child’s forehead, but some parents may like the perks of the special education system.

Standardized testing is often considered the biggest blockbuster of American education today. Tests are *thought* to eliminate bias by asking objective questions, and thus provide a fair way to assess the overall achievement and continuing progress of groups of students.

However, the majority of standardized tests are marketed by commercial test publishers. The goal of these corporations is to make money. Consequently, the tests have been prepared for use in a broad array of educational institutions in many different settings. Teachers are forced to ‘teach the test’ rather than simply teaching students the subject matter. Also, bias remains a problem. Most of the tests are written by people whose assumptions are shaped by particular cultural and socioeconomic backgrounds. Therefore, even the wording of a question or the ethnicity of a person reading a passage can influence a student’s chances of answering the question correctly. For example, on the analogy section of the SAT a student raised in the United States might make a different comparison than a student raised in Asia. Both of them

would have legitimate answers based on their frame of reference, but because the test is crafted by authors primarily raised in the United States the Asian student would be at a disadvantage. As a result, many tests have come under fire from advocacy groups that claim they are discriminatory. The PSAT, for example, added a writing section because many thought the test was biased towards boys, who typically score better on math, not giving girls, who do better on qualitative sections, a fair shake. The Educational Testing Service, which administers the SAT, even admits that it only tests how well you can take the test, not how well you will do in college – yet many still consider it one of the most important components of the college admissions process.

Because of the high stakes nature of standardized testing, cheating among teachers and students (according to some studies) is markedly on the rise. Perhaps more fundamentally, standardized tests cannot tell us that our children are smarter, just that we can teach the tests better.

Academic achievement does not have to be an elusive carrot that public education will never attain, but the way we are currently measuring it doesn't seem the best way to go about it.

International Rankings

America is not exactly the paragon of virtue when it comes to educational excellence, especially when compared to the world at large. Scores of studies and statistics put America well down the list in studies ranking education achievement between nations, especially when it comes to math and science. Critics argue that we don't spend enough hours or days in class, we don't make our kids achieve the right standards, we don't spend enough money on education – the list goes on and on. Others have criticized the measurements used to compare national educational outcomes to one another. Others have more fundamentally questioned whether education should be conceptualized as a competition. Regardless, the distressing results to international measures of student achievement will at the very least continue to provide political fodder and concern among education policymakers.

Special Schools

Education is hard enough to consider in a public sector. But with everyone disagreeing on how things ought to be run, several alternatives to the current system are being used and debated. These types of schooling must be considered as both opposition to the public system and possible ideas for reform.

Private Schools

Since we have already covered the use of vouchers, the main focus of this section is the battle of public versus private. Proponents of private schools argue that they can teach values to today's kids in a society that is much in need of moral direction and can also offer improved academic performance. Proponents of public schools argue that they are a pillar of diversity and the only opportunity for educational advancement for the majority of America's children.

The biggest factor to remember here is funding. While only private schools can initiate reform inside themselves because they are privately funded, public schools can utilize reform on a larger scale. Private schools can also be a way to sidelight the type of reform that should be put into public schools: citing the effectiveness of uniforms or certain types of testing in a private school environment can easily become an argument for why these programs should be transferred over. Or, to point out the blunder of straying from traditionalism, note that some children have not been able to go right into higher education because of credit miscalculations, etc.

Charter Schools

In one very important sense, charter schools are like public schools: they receive the same type of public funding as normal public schools in the United States. What sets charter schools apart is that they are

academically accountable for achieving certain results and are in turn exempt from many rules that govern regular public schools.

Charter schools cannot charge tuition, must be open to all types of students, and must meet all building requirements and health codes. Yet beyond these basic requirements, schools are given a free reign to seek out new ways for students to learn. If they do not meet this objective, and fail to improve students' learning, they can be closed by the sponsoring organization – usually teachers, parents, or other community members with dreams of reforming the educational system one school at a time. These schools do not act as magnet schools, inviting students from around a comparatively large district to specialize in things such as math or the performing arts; all they do is funnel public money into a school designed by the teachers and parents, giving them much more control over the education of their children.

The danger is leaving the regulation of the governments and chancing that children may not be ready for higher education. After all, some charter schools are in grocery stores or YMCA buildings converted into classroom space. The funding for such operations still comes from the government, but plans for how to spend this money are often radically different – and not necessarily better!

Homeschooling

Homeschooling used to be just for a very small number of people, mostly those that had religious needs that could not be met at a typical school, public or private. Now however, the number of people homeschooling has skyrocketed, encompassing almost two percent of elementary and secondary students. The reason for the increase is not what you might think: more and more parents cite their dissatisfaction with the school system, both public and private, as being the number one reason to homeschool their children. Pointing to this fact, many advocates argue that the fact that many parents are taking matters into their own hands suggests a growing discontent with the poor state of American education. For those upset with the curriculum, discipline problems, or simply the slow pace or complete absence of reform, homeschooling has become a way out all across the United States.

Homeschooling can provide many benefits to children, like increased individual attention or innovative education techniques. Students schooled at home can often afford computers and other accoutrements more easily without the strain of a district budget. Of course, on the other hand, home schooling leaves some children without adequate social skills and prevents them from engaging in valuable extra-curricular activities. The risk that a parent may not be an adequate teacher also exist in homeschooling. One notion taking form in this community is assisted homeschooling, where children use the public or private schools part time for certain classes. Some parents feel this system will only corrupt children further, eliminating many of the benefits they sought in taking their children out of typical schools in the first place; others rely on at least a part-time traditional setting to meet educational needs they could not address themselves.

College

College is considered a “special school” in the sense that it is distinctly different from the K-12 education system. One of the main issues in the collegiate education system is that of gender and race. Because the very nature of a college admissions process opens colleges up to charges of bias, universities have faced a rash of troubling allegations of discrimination over recent years, ranging from alleged injustices in the admissions system to charges of wrongful treatment of students by school administrations, faculty members, and other students.

College can easily be connected to high school education, in comparing the success of students coming from different types of schools or in analyzing how effectively we are preparing children for their higher education. The notion of higher education can be expanded to include post-graduate degrees, both professional (such as an MD) or academic.. Other big issues include the abundance of college drinking (and the paucity or ineffectiveness of efforts to stop it) or the steep cost of continuing education.

Levels of Government

Nothing is worse than trying to sort through the endless government bureaucracy, the endless rules, red tape, and passing of blame so you never know who is in charge. Yet at the same time, it is very useful to know who is in charge of what, both in ‘title’ and in practice, and who in our governmental system looks after education and its policies. The division of these levels and the distribution of power is in a constant state of flux as each tries to gain more power and pass on ultimate responsibility to another level – but knowing (where the power) is, as G.I. Joe says, half the battle!

The easiest conception of how power is divided is based on increasing levels of localization. Some control of educational policy lies with the federal government; some is in the hands of individual states; and some belongs to local governments, school boards, and community organizations.

Federal Government

The **Department of Education**, or DOE, is perhaps the primary source of federal government influence. Its mission to ensure equal access to education and to promote educational excellence for all Americans. They provide numerous grants and try to offer some ideological direction for the nation as a whole, but the majority of curricular decisions are made by the states. Federal government controls count for little even when it comes to funding, since money is given to the states for use at their own discretion. The people who wield power at this level are the President, of course, the Secretary of Education, and the Congress as a whole, with the focus on certain committees specializing in education.

State Government

Most of the power exercised over teachers and students come from state governments. States, for example, determine what standardized tests a student is required to take. Students can take the Iowa Test of Basic Skills, for example, while others take tests individualized by state and used only there, such as the California Assessment Test (“CAT”) or Texas Academic Assessment Test (“TAAS”). States also control what types of information all students must learn, no matter what school they attend within the state.

Another issue that differs from state to state is teacher certification. To teach at public schools in most states, teachers must meet certain educational requirements and pass a certification test. Each state has its own test, and some do not allow teachers certified in other states to be certified automatically when they cross the border. Even taking the National Teacher’s Exam, or NTE, does little to ensure certification; you may still have to pay to take a state test. States also set up a salary scale and can even force the districts or the local schools to supplement teaching pay. While giving control of the education system to the states seems like a good idea, it essentially creates 50 different education systems. With no set standard, it is sometimes difficult for states to measure how effective their education policies are.

Another power, perhaps even more important that states have is the ability to manipulate the division of the money it distributes through its districting procedures, something the federal government cannot do. In some places, your county, town, or parish is your district. In others, districts are zoned according to other, state-determined criteria. Some states even routinely split up cities to create districts. Illinois, for example, split up elementary schools and secondary schools into separate districts, under their own jurisdiction. The governor, state superintendent of public instruction, and state legislature have the most power in this venue of government.

Local Government

This level of government might seem like it has the most power because it is the closest to you, and you can see its policies in action on a daily basis. Within a given district, the school board is generally the highest level of authority, with administrators and teachers following behind. Together, they create the

school policies with which we are all familiar. They often have regular meetings at which citizens can have direct access to those will ultimately set educational policy for local students.

The degree to which local agencies control how money is spent and what schools teach, however, is a national debate. Many have cited the importance of specialized knowledge in making such decisions, and advocated giving local groups more power; others have noted the possibility of oversight that would not occur if decisions were made at a broader level, and the chance for communities to initiate discriminatory policies. Thus the degree of local control and regulatory oversight is always a balancing act.

School Safety

Probably the biggest issue to hit education since the time of civil rights, school safety has sparked both paranoia and genuine fear among thousands of citizens. After the epidemic of school shootings that our nation has seen, it is no surprise that addressing high school and college level violence and the invasion of what we considered to be sacred territory is now a top priority for many Americans. While topics like school bus safety do come up, questions about routine maintenance are rare and a speaker is much more likely to encounter topics about the threat of real violence.

School Shootings

In 2007, a student at Virginia Tech killed over thirty people in one of the more violent shooting sprees in American history. The disturbing revelations about his life and potential warning signs shocked the nation, and the incredible severity of the emotional aftermath is immeasurable. The incident thrust the issue of school shootings back onto the national scene.

Blame is the number one issue for school violence, especially shooting. Everyone wants to blame everyone else. It is important to keep in mind that no one factor is singly responsible, nor can many suggestions be flat-out disregarded.

While questions about school violence are a relatively recent phenomenon, it is doubtful that they will go away any time soon. These questions focus on the causes of violent acts, the affects they have on schools and life in general, and possible responses, both on individual and national levels. Three factors are most widely mentioned by people trying to play the blame game.

Media Violence: Video games and movies, featuring increasingly gory depictions of violent acts, may inspire young children to “copycat crimes” or generally diminish their sense that violence is inappropriate. The families of three girls slain in the 1997 shooting in Paducah, Kentucky, sued a group of entertainment companies, but the case was dismissed. U.S. district court judge Edward Johnstone said the video game makers could not foresee what children would do and that the games are a form of media that are not generally subject to product-liability laws. Among the media influences that were cited, one that was popularly targeted for blame was “The Basketball Diaries” starring Leonardo Dicaprio. In that movie, Leo’s character goes into a drug-induced state and imagines that he is roaming the halls of his high school firing shotgun blasts. An easy target to be sure – but perhaps not the right one.

One of the biggest problems for everyone, lawmakers and students included, is a difference in perception. Nearly a third of teens say they have witnessed a violent situation, but only eight percent of parents believe that their children have been exposed to violence. Almost everyone believes that school violence has increased in recent years, because of the highly publicized repeated occurrence of school shootings, yet school-related deaths as a whole are actually down!

Guns: Another main set of targets of those trying to find an easy explanation for the rash of shootings are gun manufacturers, gun retailers, and gun owners. None of these shootings, gun control activists argue, could have happened if America had stricter laws controlling the production and sale of these deadly

weapons, or if parents did a better job of making sure their kids did not obtain access to guns. Yet while the rate of gun murder in the United States is higher than elsewhere in the world, so is the rate of non-gun murder. This fact suggests that guns are not the only problem – nor are gun control laws the only answer.

After violence has occurred, America is hot on the trail of punishment, but it seems hard to punish children, especially as the age of the assailants gets younger and younger. Kayla Roland was shot by a first grade classmate. Many would find it difficult or amoral to convict a six-year-old child of murder, much less enforce the kind of strict punishment that America feels justice deserves. Even though youth violence as a whole is declining, punishment is on the rise, partially because school shooting cases are sensationalized. After a thirteen year old student was charged with the death of one of his teachers while at school, the prosecutor wanted the child to be tried as an adult – and subjected to life in prison or even the death penalty as a young adolescent. The National Association of Attorneys General said there have been at least 14 school shooting incidents that have claimed casualties in the past seven years. A problem definitely exists when it comes to school violence; now, it is just a matter of getting our facts straight so we know how to deal with that problem

Parents: The parents or guardians who are raising school children are easy scapegoats in the blame game. With direct daily influence on their children it seems as if parents and guardians could at least have a minimal affect on how kids act. The biggest problem with this sector of the blame game is there is no accurate way to determine if increased parental influence could have prevented a child's actions. If you deal with this argument, be careful and remember it is an emotional issue, especially when you start dealing with loved ones and family members.

Prevention and Protection

Realizing there is a problem is just a first step before doing something about it. Searching for a way to protect our children from others that may be deeply disturbed and capable of murder is no easy task. The FBI has put together a list of 'red-flags,' warning signs that can be used to identify kids that may potentially cause trouble. Included on this list are a fascination with firearms, a history of psychiatric treatment, cruelty to animals, and an event of severe trauma such as a break-up. Lists such as these are being used to monitor kids, using 'mental detectors' instead of 'metal detectors'. The old way of thinking was that if we could simply remove weapons from a child, the school would be safe; the new approach acknowledges that kids can get their hands on weapons and slip through the system. As a result, it indicates that we need to solve the problem at its root, find out what sparks these children to severe acts of violence, and try to stop them at that point. As the father of one Columbine victim, Darrell Scott, added, "We are slapping Band-Aids on deep gaping wounds when we look at the weapons that were used instead of why the boys were motivated to kill." Many governmental agencies are trying to find out ways to solve the issue of school violence, creating computer programs that will see how close a simple story about violence or an offending picture is to creating a child capable of murder. Of course, some such actions go too far. Schools have recently expelled or suspended children for harmless actions under the banner of "zero tolerance" out of fear of what has happened and a feeling that you can never be too careful.

Parental and Community Involvement

Another type of plan for how to counteract school violence is to clue in parents and the community to get more involved in the lives of their children. People are amazed that the parents of the shooters from Columbine didn't know their children had a fascination with bombs, and had meticulously planned their crime in the weeks leading up to the shootings. These were 'good parents,' without a history of neglect or abusive behavior. The Million Mom March, a rally promoting more active gun control, is the kind of spirited involvement that can keep kids from going astray. Such a proactive response promotes looking at the problem from a variety of angles and keeping our children as a top priority. After all, many people considered schools to be a type of sacred ground that was insulated from severe crime, but that has been

proven untrue. Now, the call for involvement at all levels, and especially involvement among parents, is stronger than ever.

Teachers and Administration

School personnel are an essential part of education: as the direct facilitators of classroom learning, much reform can be traced back to their certification or job status. The fact that we lack teachers today and scramble to hire anyone coming out of college prompts the question of who should be allowed in the classroom to educate the leaders of tomorrow. It also reveals a possible avenue for reform proposals and a gentle word or two about the detriments of an uneducated educator.

Hiring and Keeping of Staff

Getting teachers and administrators, especially superintendents, is a major problem for many schools today. Big-city schools are hurting the most, because it seems no one wants to take on the challenge of these complex school districts. The main factor, however, beyond tackling the tough issues that face today's youth, comes down to one thing: money.

Teachers do not get paid enough for what they do, especially when they support academics in an extra-curricular manner. Think about it – how much extra does your debate coach earn for sacrificing weekends and after school practice time, not to mention going over cases and speech notes? Not a lot, and that's the reason it's hard to find good people dedicated to the profession. **Merit pay** has become one option of how to reward teachers with extra money. But there is one major catch: It is based on the performance of a teacher's students. That may sound fair at first, but it could translate into teachers with gifted children always getting ahead while special education teachers at the other end of the spectrum get punished. Many critics think so, and this view, coupled with the problem of teachers competing with one another for a set amount of money instead of working together to create a better learning environment for all children, has derailed widespread support for any merit-based pay system. Another idea is to increase teacher pay to make the job more attractive to the best and brightest candidates, to combat America's teacher shortage and to improve the quality of teaching all at once. Yet money, of course, does not grow on trees, so any pay increase based solution brings with it financial dilemmas. However, it maybe worth a financial dilemma to prevent our America's children from facing the challenges waiting for them after passing through a failed education system.

Certification

Every American that wants to drive has to pass a licensing test and undergo training of some sort before being permitted to run the streets with a ton of steel and glass – and every American that wants to teach, to be allowed near our children and their malleable minds must also be certified.

However, the standards of such a 'test' are being drastically reduced. Many argue that we are so desperate to fill our classrooms with educators that we will take anyone who walks through the door, certified or not. Many teachers hate the objective testing of their skills. The core fear is that they will not pass a test that sets its standards too high. The most common test that teachers currently take is the National Teachers Examination, which is split into two parts: one on general knowledge, and one geared towards the specialty one desires to teach. In the days before World War II, teachers were among the best educated in the population, but as time has progressed, it now seems that it has become quite the opposite: More students go to college, yet a much smaller percentage of people with higher degrees choose to teach in elementary and secondary schools.

Recently there has been a drive to accredit the schools that teach our teachers. The accrediting organization is known as the National Council for Accreditation of Teacher Education, or NCATE. Yet under half of the schools in the nation that teach education belong, including some of those regarded as America's best. It is a voluntary organization to which not many schools apply, often for alleged ideological reasons, and many are rejected for not meeting certain standards. The standards include

diversity requirements, for instance, and other mandates not tied to academic conditions. Another new organization, the National Board for Professional Teaching Standards, or NBPTS, is looking to certify teachers through a “board” method and is backed by the federal government and several other organizations. Members of the National Education Association, a major teacher’s union, sit on the board, although they do not financially back the organization.

Teacher quality is a sensitive issue among forensics coaches and judges, many of whom are of course teachers. It is important to make the following distinction: while some teachers are wonderful and brilliant and committed to the education of their students, others may slip through the cracks if we are not careful. The message is not that teachers as a whole are bad or uneducated, but rather that careful efforts are necessary to ensure improved quality.

Cheating

This issue is a relative new one in today’s society, although the problem is as old as time. Teachers and administrators, feeling pressured to reach certain standards to save their jobs or their school’s standing, help their students cheat on the tests used to measure success.

As the stakes in exam scores soar higher and higher, more and more cheating takes place: children are given the right answers to multiple-choice questions and offered ‘help’ in re-writing essays. Predominately, cheating is found in elementary schools, because the children are less likely to report that they were helped. Many teachers criticize the idea of cheating but sympathize with their fallen colleagues, calling the unfairness of the tests the biggest part of the problem.

Another big reason that cheating has come up is the lack of respect that teachers receive from the administration, parents, and students. Because others often do not take them seriously, and as a result of their already low pay, they feel like they must boost their stature through ill-gotten gains of higher test scores. It would help to be sympathetic toward teachers even when pointing out their mistakes: they are people too and deserve respect.

Teachers’ Unions

The two major unions are the National Education Association, or NEA, and the American Federation of Teachers. As their names suggest, they are primarily dedicated to the advocacy of teachers’ rights. They help to ensure the pay, retirement, tenure, and benefits of teachers. Most critics, however, suggest that these unions ignore the needs of the students as they fight licensing requirements or tighten the curriculum of today’s schools.

In thirty-four states, teachers are required to join a union by law and dues for that union are deducted directly from their paychecks.

If they do refuse the union, an agency fee of almost as much as the dues is taken for compensation for the union. As a result, many teachers are being represented in favor of political positions with which they may not agree. Surveys indicate that only 40% of teachers are Democrats, but, according to the Federal Election Commission, 98% of the money dispensed by teacher’s unions political action groups for teachers goes to the Democratic Party. Certainly we must also realize that unions have done a lot of good for teachers, even if opponents point out the sheer political content of that gain. Once again, tread lightly – recognize the need for reform without totally condemning the system, since your judge may be a member of the organization you are tearing apart.

Classroom Integration

There are many subjects which would not fall directly under the heading of an “education issue,” but which nevertheless are important facets of education as well. How we integrate these things into our

classrooms is a key indicator of the feelings of society. Technology, religion, racial tensions, and politics are some of the key issues which mark our times and spark the biggest controversies in our schools. By looking at how these controversies have played out in the educational realm, we can gain insight into both public attitudes toward these debates topics and the educational system itself.

Technology

As the already fast pace of technological growth continues to quicken, the incorporation of new advancements into our society is changing the world. In order to play a role in that world, our children must be computer literate. Our parents took typing classes, we take computer-keyboarding classes, and our children will take classes on some outlandish machine we've never heard of that will be, of course, indispensable. **The main thing to remember when speaking about technology is the sentiment that we usually need more of it to train our children, and that we don't have enough money to get it.** Whether or not you bring in specific software or a plan of how to integrate more technology, realize that the world grows and our children must grow with it.

Religion

Since our nation's founding, there has been a continuing tension over the extent of the Constitutionally mandated separation of church and state. Now, this debate has come to focus on student prayer and the existence of comparative religion classes at public schools. The limits of this separation are hotly contested: The majority of American people actually do approve of prayer in school, or even the use of a public address system for prayer, as long as it is student led. A strong line of thought says that if teachers or administrators lead prayer or even make their religious views widely known, they are pressuring their students to agree by the power they have over the children, or making students with different religious views feel ostracized. While students should not be forced into religion, many argue that it is equally unconstitutional to refuse children the right to express themselves.

The Supreme Court's decision in *Engel v. Vitale* in 1962 made sure that school prayer was replaced by the less compulsive 'moment of silence' when any such time exists at all. A tender subject at all times, when religious issues come under the jurisdiction of public school the resulting conflicts can be truly vicious.

Racial Tensions

While the *Brown v. Board of Education* decision put an end to the notion of separate but equal schools for African-Americans and began the long road of integration in our schools, it was only the beginning of a journey that would take generations to complete. School busing arguments, quotas, multicultural education, and the embedded ideas of racism that would persist in classrooms even to the present day are lingering signs of that we have not yet reached the end of this journey.

Studies show that kids cluster around others that are 'like' them and that leads to self-segregation and more promotion of racism and inequality. Indeed, true equality within the educational system requires a delicate balance that will not be easy to create.

One major area of conflict is language. Whether the issue is bilingual education or the teaching of Ebonics, America's diversity forces us to consider the needs of every group among us. Since the Bilingual Act of 1968, which established a national system through which students could receive some education in their native language while learning English, the federal government has generally supported the notion of bilingual education. The idea was that kids were suffering because they could not understand classroom instruction, and that this lack of understanding both prevented any substantive learning and constituted discrimination based on national origin. In 1990, there were 145 such language groups who received this special type of education. However, in many cases, such actions actually promoted more segregation. The 1974 amendments to the Act of 1968, for example, actually encouraged Hispanic

students to view themselves as a group apart that was culturally distinct. These additions also repealed a restriction placed on lower income families, greatly increasing the number of children allowed in the program, increasing the strain on already tight budgets. Bilingual education has been controversial, and some argue that it prevents students from learning English, which in turn impairs their opportunities in a nation where English is the primary language.

In a country where certain peoples begin to feel forgotten, social science and history provides an excellent place to teach children about their heritage – and the heritage of their nation. “Afrocentrism” is used in schools to teach history and culture with a focus on an African-American’s point of view, seeking to give minority children a stronger sense of identity and develop good self-esteem. This approach fits in well with the idea of multicultural education, which truly celebrates the diversity that is represented across America, but only at first glance. To truly look at America from all perspectives would be the best choice, and that means not being ‘centered’ on any particular culture at all. Sadly, history is often only taught in the traditional sense, entirely from a European or white American standpoint. This subject makes a good example of reform in public schools. Some say that focusing on people through groups only makes them become more divided rather than simply seeing themselves as Americans all together. Nonetheless, what we teach our children reflects what society is feeling, which indicates that any general race question could be readily supported by educational institutions.

Politics

Inevitably, when it discussing education, you will have to discuss politics: either how certain politicians or their parties feel on certain issues or how these views impact the reform process. In the simplest terms, the parties’ attitudes towards education can be summarized as follows.

- **Republicans** are usually in favor of giving states more power over the educational process, to use vouchers or other funds as they wish. It is part of the idea that no one likes big government and that divided power is better than centralized control. Newt Gingrich, as Speaker of the House of Representatives, tried to go so far as to abolish the Department of Education, a type of action that has led some voters to see Republicans as anti-education. Yet they still favor pushing a considerable amount of money towards educational programs through state mechanisms and routinely suggest, if not act upon, numerous reform plans.

- **Democrats** still want the federal government to play the largest role, looking out for all children through an overarching plan that supersedes state control. They steadfastly oppose religious influences in public schools, often favor efforts to increase equality across district lines, and tend to want to keep the government’s educational focus on improving the public school system rather than on looking for alternatives.

Nevertheless, any politician’s power over the educational system is weak when it comes from Washington, as the federal government only contributes seven cents on the dollar that is spent at public schools. Education has become a highly political issue, as it is usually one of the top three issues voters list as important to them in making an electoral decision. That means, when covering issues from a particular candidate, education is an excellent one to highlight. Both parties are always trying to vie for education to be ‘their’ issue, so no matter what angle you are examining it from it is likely that any and all of those seeking office will have an opinion.

Political issues that are needs of the people always show up in education, because children reflect the views of their parents. Racial tensions, gender discrimination, and things along these lines are not only present in our society but in our classrooms. These conditions make reform in a political sense practically connected with improving the education of our students and often make schools into miniature models for the political changes of the times.

Plans to increase the stakes of standardized testing, or national certification, or even integration must do battle with the people with the political power and the lobbyists before anything can be done, and this political response makes the issue of education more than a simple curriculum plan.

Conclusion

As Robert Lowe said in the House of Commons in 1867, “I believe it will be absolutely necessary that you should prevail on our future masters to learn their letters.” Education has been and always will be a core issue of any country at the point that a society realizes that children truly are the future – and that’s not just a pretty or trite saying to be used by Miss America.

Crime

Robin Cook, Liz Kraut, and Joseph Poore

Introduction

Since the time of Adam and Eve, there has been a demonstrated difficulty in ensuring that people follow the rules. The Ten Commandments were written well over 2,000 years ago, and yet they remain the basis for some of our most basic laws: do not steal; murder is wrong. And, while most in society follow these simple rules, murders still happen, and “The Club” still sells millions of units each year to prevent auto-theft. Some people have figured out that it is often easier and more profitable to live a life of crime than to live a life of honesty. Perhaps Al Capone put it best: “You can get much further with a kind word and a gun than you can with a kind word alone.”

However, the impact crime has on society and the mechanisms in which society attempts to stop that crime have both expanded significantly since the days of the Ten Commandments or even Al Capone. **Crimes are now fought at the local, county, state, national, and international levels.** Crimes using computers are on the rise. Drugs are still as much of a problem as they were twenty years ago. Perhaps most alarmingly, recent incidents of police brutality have proven we can no longer blindly trust those that enforce crimes.

The goal of this chapter is to better define a topic area that is almost impossible to define. There is never a topic that is exclusively about crime—it always involves other issues. Hopefully, this chapter will allow you to understand some of those extraneous issues and give more informed analysis when talking about one of the many aspects of crime in America.

Trust of the Enforcers

Who shall guard the guardians themselves? -- Juvenal

There was a time in America where those who served as police officers were community heroes – the stuff movies are made of. Police officers were involved in the everyday lives of the people they served, and the public appreciated and respected them. Today, in many areas, this relationship has changed. Small town cities have sprawled out into megalopolises. The new larger cities have increased demands on police officers to focus on law enforcement rather than civic involvement. Moreover, high profile incidents of police brutality and reports by the news media of police incompetence have compromised **trust in law enforcement**. This is troubling, because the efficacy of law enforcement authorities on any scale rests substantially on the willingness of society to trust the enforcers.

Although police officers have a tough job, critics contend that practices such as **racial profiling, aggressive enforcement of petty laws like jaywalking, and brutality** erode their legitimacy. While some criticize aggressive enforcement, others, such as former NY City Mayor Rudolph Guiliani, openly defend the “broken window” theory and tout its successes. But, what, if anything, should government at the local, state, and federal level do to ensure that the police are better equipped to handle the problems they face, while at the same time playing nice. The focus of this section will include the problems and solutions available for police problems across the nation.

Impacts of Community Policing

The one area of America in which trust of police has remained statistically high is in suburban and rural areas. Experts have investigated this disparity in trust for years.

A growing school of thought nationwide argues that a lack of community policing results in “urbanites” not trusting their police forces. This theory has led many police departments, and the federal government, to focus more on community efforts. For example:

- The **1994 Federal Crime Act** granted **Community Oriented Policing Services (COPS)** grants to cities, which allowed for the hiring of 100,000 new police officers nationwide.
- New York City now actively encourages its police officers to live in the same precinct in which they serve.
- Some cities even require this as a condition of employment, or will give hefty bonuses for agreeing to both work and live in crime-ridden neighborhoods.

Brutality and Other Police Problems

In 1991, after a high-speed chase, Los Angeles police were caught on videotape beating Rodney King, a black man, in a very brutal fashion. A group of officers threw kicks and punches at the defenseless King for several minutes. This incident served as a wake up call for many Americans.

The King tape polarized the nation, and started a debate about police brutality. In Los Angeles, people began loving to hate the LAPD. Many people were convinced that the police officers involved in the incident should have been convicted and sentenced to prison for their roles. Many LA residents were so convinced, in fact, that they began rioting after non-guilty verdicts were handed down. The riots quickly grew out of control, and spiraled into what history experts say was the largest uprising since the Civil War. Fifty-three people died in the violence, over six hundred buildings were destroyed by fire and over one billion dollars worth of damage was done to the city.

Since that time, police brutality has not gone away. High profile incidents include the sexual assault of Haitian immigrant Abner Louima by New York police officers, and the shooting of the unarmed Amadou Diallou, whose body was riddled with 57 bullets by the NYPD. Recent events also include:

- November 2008- A Kings County Sheriff's deputy Paul Schene beat a 15 year old girl after she kicked a shoe at him. Schene hit her in the thigh or upper stomach according to court documents before smashing her head against a wall and striking her with two "overhead strikes." He then cuffed her and lifted her by her hair.
- September 2007- police remove a 21 year old protestor, Andrew Meyer, from a Constitution Day forum which featured keynote speaker Senator John Kerry. Meyer merely asked Kerry controversial questions at the town hall meeting. The event generated the now popular slogan "Don't taze me bro."
- November 2006- Atlanta police obtain a fraudulent no-knock warrant and enter the home of 92 year old Kathryn Johnston. She was shot six times after firing in self-defense. The officers were later convicted of manslaughter.

But beyond these well-publicized events, many more incidents go unreported across the country. The **"blue wall of silence"** among many police officers makes it virtually impossible to prove brutality except when officers are either video taped committing the offense or when serious medical attention is required. Had the tape of Rodney King never surfaced, the officers involved most likely would not have even faced internal discipline, much less national scrutiny. For obvious reasons, courts are at times quite reluctant to believe charges brought by those that are abused. **The word of a police officer – and especially a large group of police officers – is almost always taken over the word of an offender.**

In reality, we have no idea how many instances of police brutality have occurred in America. We do know, however, that such incidents happen. Despite pledges by President's Clinton and Bush to fight the improper use of force by police, instances of brutality have increased over the last two decades. Public officials in large cities such as Los Angeles and New York frequently claim that their police forces are no more violent or corrupt than any other in America. Instead, they argue, their officers merely face more allegations of improper behavior because they are placed under more public scrutiny. Whether or not they

are correct, we know that there is a problem both in cities large and small all over America, from New York to California to Iowa. With brutality such a problem, attention has been shifted as to ways to fight it.

While most police officers don't want to see bad cops remain on their force, they know that all police officers have dangerous jobs. If they ever need the help of a fellow police officer in a time of danger – be it a good cop or bad – they want the help. In order to make sure they maintain it, they maintain silence when their words could incriminate their comrades.

Additionally, many officers are concerned that they, too, could be accused of brutality, even if they do not intend any wrong. Accidents often parallel incidents of police brutality in many respects: Police can easily end up doing things they weren't supposed to be doing while trying to do something beneficial or even necessary.

In 1998, the Supreme Court ruled that an officer cannot be sued for damages resulting from high-speed chases under the due-process clause in the Constitution. Across the country, many people are killed every year from police chases gone wrong. Police departments are now altering their policies as to when to break off a chase and at what speeds any chase becomes too dangerous. However, in reality, once a chase has begun most officers are reluctant to break it off. Many times, as anyone who has ever watched the television show “COPS” knows, it takes a direct order from police headquarters for a police officer to even consider breaking off a chase. Because of these realities, when accidents happen, some call it a tragedy, others call it negligence.

Even as forces try to take added precautions, the definition of police brutality seems to be expanding, at least in the city of Los Angeles. Not only has the Los Angeles Police Department received very negative international attention for its roles in the Rodney King incident and the O.J. Simpson murder investigation, they now have an even bigger problem on their hands: the so-called **Rampart scandal**. One LAPD officer implicated at least 70 fellow cops for illegally shooting suspects, using excessive force, planting evidence, and lying in court to obtain convictions. Already, over 80 convictions since 1995 have been overturned, and eventually the number of people who have been falsely prosecuted could well number in the hundreds; 15,000 cases are now being re-examined.

Since September 1999, at least 20 officers in the LAPD have been fired; another 70 current and former officers are reportedly under investigation for violating the laws they were charged with enforcing. This case has, understandably, angered many. By validating the belief that people should not have faith in police officers, it has brought many of the issues surrounding improper police conduct to a head. The Justice Department has threatened to file a civil rights law suit against the city if they refuse to take action to reform their department now.

When addressing these questions, it is important to maintain a good sense of balance, remembering that, while not all police officers are good, not all officers are bad either. By noting positive actions along with negative ones, a speaker or debater can maintain this essential balance while easily transitioning into suggestions for reform.

Causes of Police Brutality

The first key to coming up with such suggestions is to examine the reasons why police engage in illegal behavior in the first place. Often, the cause of incidents like these is that officers honestly believe that they are doing a good thing. Police officers also watch the news; they know of many cases where juries have returned not-guilty verdicts in the face of a seemingly insurmountable amount of evidence used to prosecute the accused. They also see judges throw out evidence that might have otherwise led to a conviction. The logic some officers use is that the person probably committed the crime anyway, and a

little bit of extra evidence won't hurt. Or, when it comes to shooting incidents or other types of brutality, it may simply be a case of police officers taking the law into their own hands.

However, a new school of thought has emerged in recent years. Many now believe that the way in which policing is currently conducted may be a cause of brutality. Many police departments across the country – in small towns, not just big cities – now employ elite military-style police units. These highly trained, highly armed units, first known as SWAT teams, were developed in the 1980s by the LAPD to break stand-offs and to use in situations where a normal level of policing was deemed insufficient to ensure public safety. Now, the use of militarized policing in some areas has expanded into elite anti-gang, anti-drug, and undercover units. The U.S. Military has even supported these efforts – selling tanks, machine guns, and other excess military hardware to departments across the nation.

The theory now being circulated is that normal officers – the ones who are not members of these highly trained units – feel a sort of police “peer pressure” to impose excess force onto suspects. Some suspect that the motivation for this type of action may be to earn a promotion into one of these units. Even if there is no correlation, many say the numbers can no longer be ignored: **As military-style policing has increased, so has the amount of police brutality.** Whether there can be a direct link established remains to be seen in coming years; until a solution to the problem is found, however, lawmakers and policy analysts alike will continue to point to this relationship as a possible cause of increasing police brutality.

Racial Profiling

Racial profiling is a commonly used practice on police forces all over America, albeit a politically incorrect and, in many cases, racist one.

Under a system of profiling, police officers wait along highways known as major pathways for drug trafficking or smuggling of stolen goods. When a car driven by a person the profilers consider more likely to be guilty of such an offense – in many cases, an African-American – passes, police follow their vehicle until they commit some (usually minor) traffic violation, then pull them over. Officers then search the vehicle, either through permission of the owner or through a telephoned court order.

The practice has questionable success rates: State troopers in states along “Cocaine Corridor,” the area along Interstate 95 running from Miami to New York, have made major seizures using this technique. However, other states have not achieved success rates using profiling; still others deny they do it all together. **However, most experts agree that every police department uses racial profiling, either through codified policy or through subconscious behavior of patrol officers.**

A major problem with this practice comes in from a Constitutional standpoint. If a white person probably would not have been pulled over for making an illegal lane change, the stopping of a member of a minority group constitutes an illegal search and seizure, a violation of rights guaranteed by the fourth and fourteenth amendments to the Constitution.

Racial profiling also occurs at the federal level. A report released in April 2000 by the General Accounting Office, the Congressional investigative agency, found that, during 1997 and 1998, African-American airline passengers entering the country through airports monitored by the United States Customs Bureau were nine times more likely to be subjected to an x-ray search for contraband than white passengers; Hispanics were four times more likely to be x-rayed than whites. Furthermore, black women were three times more likely to be strip searched than black men. However, the searches did turn up results: The GAO report showed that 3% of frisked passengers were carrying contraband, 23% of strip searched passengers carried illegal items, and 31% of x-ray searches turned up smuggled goods. As recently as 2007, the ACLU accused the Massachusetts Port Authority of utilizing racial profiling at Logan International Airport.

Despite the political incorrectness of profiling, **lawmakers almost always refuse to specifically prohibit profiling**, in part because of some positive results. Lawmakers at all levels from federal down to local want crime problems to end, and many of them believe that profiling can help accomplish this goal. It also doesn't hurt that many of these lawmakers are white, either.

Regardless, the American people are going to have to make it known where they stand on the issue of profiling before any changes occur. In a poll driven society, most Americans seem, amazingly, ambivalent about the issue.

Since 9/11 this topic has been met with increased scrutiny. There are frequent accusations of racial profiling in law enforcement's anti-terrorism efforts, with Americans of Arab ethnicity and practitioners of Islam being its primary victims. Proponents argue that this is a common-sense step given the ideological bent of Islamist terrorism. Critics argue that such targeting is not only ineffective and unfair, but also ostracizes the vast majority of Muslims and Americans of Middle Eastern extraction that reject violence as a political instrument.

Crime Fighting Philosophies

"I'm convinced that every boy, in his heart, would rather steal second base than an automobile." -- Justice Tom Clark

We would all like to have enough faith in humankind to believe that no one, by nature, wants to be a criminal. Yet many, such as New York City Mayor Rudolph Giuliani, may not agree with the optimistic assessment of Justice Clark. After being elected the New York's first Republican mayor in years, Giuliani made his number one priority making the city safe to walk through at night. To reach this objective, he implemented several crime fighting strategies considered unique to New York.

The New York City Model

The so-called "New York City Model" boils down to two major steps. **The first of these is aggressive enforcement of what many consider to be among the pettiest of laws.** It's often called the "Broken Window Theory" of enforcement. Jaywalking and prostitution, specifically, were targets of the Giuliani NYPD. Officers are encouraged to make people move along and not crowd already crowded streets. Aggressive enforcement of subway regulations has occurred as well. Police now patrol housing projects with the same aggressiveness as those on the homicide beat. The theory is that if you bust jaywalkers, you show everyone that officers are out there, so people think twice about a crime before they commit it. If you keep people moving along the streets, the logic goes, they will not commit crimes there. New officers in the subways and projects keep these areas safer as well. **Eventually, Giuliani and his disciples hope, there will be no place left for criminals to commit crime.**

The downside to this system is that it gives New York cops the ability to exercise more power with less fear of a reprimand. New York police officers, as a result, are considered to be among the most rude and violent cops in America. This philosophy may make police officers seem rude and uncaring, but the theory is that crime will better be curtailed as a result.

The second facet of the New York Model is a high-tech computer system. Any crime committed in the city is automatically loaded into this system, which can then feed back high detail maps of different types of crime, sorted by zip code, precinct, or city block. This computer system gives the NYPD the ability to see crime waves before they start, and structure patrol units accordingly.

Video cameras were placed all over the city, feeding right into police stations in real time. Cameras were even placed in housing projects – without giving the residents of those projects the chance to vote in whether or not they like the idea. Norman Siegal, the head of the New York chapter of the American Civil

Liberties Union has made maps of the known cameras across the city and distributed them so that people can “wave at the mayor” when they walk by them.

Despite their controversial nature, the efforts that Giuliani implemented were very successful in reducing crime. **Crime rates fell dramatically, with those for violent crimes such as murder and rape dropping by over 10%.** And despite the fact that complaints of police brutality were up by nearly a quarter (24%) in just the first quarter of 1998, mayors across the nation are asking “Could New York’s model work in my city?”

For the most part, experts say, the answer is no, for a number of reasons. First, those that live in New York – no offense to New Yorkers intended – are a little bit edgier than those that live in other parts of the country. The reasons for this increased tension are hardly shocking: People practically live on top of each other, must take crowded streets and public transit systems to work in office buildings which house thousands and seem to cut the sky in half, only to return home while breathing polluted air. The stress of living in this environment is unbelievable, and it takes a little bit of a “push” to get anyone that lives these lives day after day to respond. **The same strategies would likely just make people angry at police officers if tried elsewhere.**

However, certain parts of the New York City model might work, without using the entire plan. The computer software would benefit police departments everywhere. In cities where people live downtown in large numbers, such as Chicago, the enforcement of jaywalking laws might have the same type of positive impact it has had in New York.

Cities with severe problems with specific types of crime might try linking them to other problems: Los Angeles, for example, might try working toward busting prostitution in hopes of combating drug use.

Whether the ideas developed by Giuliani can be implemented elsewhere is somewhat of a moot point – they have worked for New York. Remember that New York City was the city that most people said could never be tamed. It is now not only one of the premier cities in America, but one of the safest as well. It remains an open question whether the reduction in crime was worth the cost to civil liberties.

Lock ‘em up and Throw Away the Key

Prisons don’t rehabilitate, they don’t punish, they don’t protect, so what the hell do they do?

-- former California Governor Jerry Brown

A strict sentencing philosophy seems to be the current trend in courtrooms and state houses across America, as well as in the U.S. Congress. The effects of the push for more, longer sentences are shocking:

- There are more than 2,310,984 inmates nationwide, and the prison population is trending upward.
- Nationally, men are 12 times more likely to be incarcerated than women.
- For every 100,000 black males in the country, 4,777 are incarcerated. The ratio for Hispanic males is 1,760/100,000 and the ratio for white males is 727/100,000
- The nation’s prison and jail population is growing even as crime rates continue to fall.

This has many wondering if the crime rates are really falling, or if the prison system is literally holding crime rates down by holding inmates.

Indeed, a debate has raged for years over what the primary aim of the prison system should be: Should it focus primarily on rehabilitating inmates, or should the system focus on being punitive? As general rule, the Republican party favors the latter, the Democratic party the former. However, this is not always a hard rule. President Clinton, for example, led the charge in strict enforcement of laws during his term.

A key argument within this debate deals with **recidivism**. The recidivism rate is defined as the percentage of people who return to prison for another crime after being released. Statistically, more than 90% of state prisoners across America have committed one or more violent crimes. Lawmakers and judges alike are concerned with growing rates of incarceration, and have serious worries that the crime rate could explode in the near future. The concern is particularly acute for young people, who tend to continue criminal behavior into adulthood when they start as children.

American Prisons

As the number of people who are locked up increases, states across the country have faced the difficult task of finding where to house them. It is not unusual in America for prisons to have exceeded their original intended capacity by two, three, four, or even five times. This trend is especially true for women's prisons; women are, after all, the fastest growing segment of the prison population. When overcrowding occurs, riots are more likely to break out because humans are competing to use toilets, eat, breathe fresh air, and sleep.

The quality of local and county prisons is an especially controversial issue. These jails usually operate with little regulation from the state government and almost no regulations from the federal government. Moreover, they have a much smaller budget than state or federal prisons do. Consequently, guards are often overworked and underpaid, cells border on violating the sanitation code, and prisoners routinely attempt to resist authority.

Others have trouble with the new trend of **corporate owned prisons**. As prison overcrowding continues to increase, these for-profit prisons have many of the same problems that county prisons do. They are usually cleaner and almost never are filled beyond capacity because of state regulations, which are generally tougher than the regulations for prisons the state operates itself. However, because they are for-profit, they do tend to cut costs, especially in the area of staffing. Several cases of dangerous inmates escaping at for-profit prisons have drawn attention to these problems. Human rights activists claim that because of the very nature of for-profit prisons, they can hurt the basic rights of inmates.

Capital Punishment

Few issues garner such passionate debate by advocates on both sides as that of capital punishment. For many, the death penalty represents nothing more than state sanctioned homicide. Others claim that it has serious effects on deterring crime and, therefore, is a worthy crime fighting tool. There have been over 1,163 executions since 1976, with 3,220 prisoners still on death row.

Some arguments against its use include:

- Wrongful convictions happen – DNA evidence proves this. With capital punishment, wrong convictions cannot be reversed once the sentence is carried out. It is impossible to know how many people have been wrongly convicted or, worse, wrongly executed; however, the recent moratorium the state of Illinois placed on the death penalty seems to confirm that many have doubts about the effectiveness of our entire trial-by-jury system. Juries and eyewitnesses are only human, and can make mistakes. A number of capital convictions have been overturned, although sometimes after the sentence has been carried out.
- Incompetent representation happens. Poor defendants often do not have the money to hire attorneys, and public defenders are, across the board, not exactly known for many successful acquittals of their clients.
- Some say the death penalty is racist. No one can deny that there are many more black inmates on death row than white ones, or the black defendants tend to receive the death penalty at a much higher rate than white defendants, even for the same crimes.
- The United States is one of the few Western, liberal democracies to use the death penalty, and is among the small list of nations on the planet that execute juveniles.

- Most – but not all – statistics that the crime rates in death penalty states compared to non-death penalty states are negligible.
- The death penalty has, in almost every case, proved more expensive than keeping someone in prison for life, due to the high cost of lengthy appeals.

On the other side, advocates claim there are a number of benefits to death penalty use:

- Defendants are given many, many opportunities to appeal their sentences. It often takes 10-15 years before a criminal is executed while their case makes it through appellate courts at the district, state, and federal levels.
- In the vast majority of cases, defendants are given new attorneys when the appeals process begins if they are using public defenders.
- While many more black inmates are on death row, many more blacks are convicted of crimes in general. The racial makeup of death row is about the same as the rest of our prison system. If there is a problem with racism, this problem exists independent of the use of capital punishment.
- Trying juveniles as adults allows a public showing that we do not approve of juvenile crime. Moreover, America defines a juvenile as anyone under the age of 18, versus anyone under 14 or 15 in most other countries.
- Perhaps there is only a negligible difference between crime rates in death penalty and non-death penalty states. However, any difference is a positive step.
- Many families of murder victims want offenders to suffer for what was done to their relatives.

Special Penalties for Hate Crimes

In October of 1998, Matthew Shepard, a gay college student from the University of Wyoming, made a pass at a man he mistakenly believed was also gay. The man (along with several friends), savagely beat Shepard, dragged him behind a truck, tied him to a fence post in the middle of nowhere, and left him for dead. The gruesome murder of Matthew Shepard understandably shocked the nation. In the wake of Shepard's death, a group of homosexual rights advocates, supported by President Clinton, argued that Shepard was only the newest victim of a particularly disturbing type of crime: a hate crime.

Hate crimes are defined as violent crime committed specifically because of a unique characteristic of the victim, including race, religion and sexual orientation. Hate crimes are often prosecuted at the federal level, and receive longer mandatory minimum sentences than equivalent crimes.

In the wake of the Shepard case, Clinton proposed new legislation that adds sexual orientation to the list of characteristics that could cause a crime to be considered a hate crime. This idea – and, indeed, the notion of added punishments for certain criminal motivations – has caused great controversy. On one side, many in organizations such as the American Civil Liberties Union, the Anti-Defamation League, and the Democratic party argue that special penalties for hate crimes should be natural. These groups say that crimes such as Shepard's, extremely violent and seemingly senseless, should be held to a higher standard than a normal incident of that crime.

Despite the views of these groups, legislation has not gone very far in Congress for a number of reasons. First, determining what crimes should be prosecuted as hate crimes has proven to be difficult. How exactly do we see inside the minds of criminals to determine what their motives were upon committing a crime? Criminals would almost have to volunteer that they had committed the crime specifically for hate, many decided, or else the positive link could not be established.

Republicans in Congress also charged that it is unfair to hold one assault or murder to a different standard than another assault or murder. Other lawmakers thought it unfair to mandate that some crimes be prosecuted federally when they couldn't even define the crime.

So the debate continues, in many ways louder than ever. President Obama actively supports hate crimes legislation and criminal justice reform. In addition to reforming the legal code he is also pursuing reform in the workplace to try and end discrimination on the job as well as in court. Ultimately, the fate of hate crime legislation could lie with the Supreme Court, which recently upheld the premise that such laws are Constitutionally permitted.

Amnesty International, a global organization designed to promote human rights by putting pressure on governments that violate the rights of their citizens, has set up an Internet site focusing on police brutality, the American prison system, the death penalty, and other human rights concerns in the United States. This site can be accessed at: <http://www.amnesty.org/> It offers a plethora of arguments, statistics, and links related to these controversial issues.

The Drug Debate

Reality is for those who can't handle drugs. -- Jerry Garcia

For the past 20 years, the United States has made the war on drugs a major priority at the local, state and national levels of law enforcement. However, as drug usage levels remain as high as they were when the war on drugs was declared, many are wondering if the entire way that the United States chooses to fight drug use is ill-conceived.

Instead of focusing on reducing the demand for illegal drugs, we often focus our efforts on interdiction to prevent drugs from being illegally imported into the United States, on busting small-time dealers and users. This strategy, some argue, is fundamentally flawed because of the simple economics of drug use: As long as there are buyers and products getting into the country, someone will be available to sell it.

Beyond local efforts, the United States has also tried to fight drugs with a foreign policy technique known as **drug certification**. When a nation's certification comes up for review, Congress votes on whether the nation is an "ally" of the United States in the war against drugs. Failing to achieve this certification negatively impacts a country's trade relationship with the United States, and often undermines relations in other ways as well. Many argue that this also doesn't work because of the simple fact we end up calling our permanent enemies in the war on drugs just that—our permanent enemies. This method is hardly the best way to "win friends and influence people" when it comes to international relations. In order to get effective and substantive help out of other world leaders, many who have to deal with drug cartels and traffickers on a daily basis in their own backyards, some argue we must work to help them with their own domestic drug problems, instead of simply telling the leaders that they are not doing enough to help us. Many countries are already resentful of the United States drug fighting efforts to begin with; after all, their countries are being seriously impacted by the production and movement of drugs to be sold in the United States, not in their own countries.

In addition, the certification process has also become extremely political. Nations on good terms with the US generally have their certifications renewed regardless of the effectiveness of their anti-drug efforts. Conversely, countries like Iran, which accounts for less than one tenth of one percent of the drugs entering the United States, are routinely denied certification because of their political differences with America. Ultimately, drug certification has very little to do with drugs.

Due to these facts, there has been a fierce debate sparked in Washington as to how best to fight drugs. The recent quarrels concerning our role with Columbia in their civil war along with the almost yearly fight over Mexico's certification as a drug ally are examples as to how the United States must decide, and decide quickly, what the most effective strategy to fight drug use will be going forward. We know that drugs are still getting into the United States, and that there are still buyers once the drugs get here, so the question remains what we need to do to stop it.

Drugs and Other Crimes

Many studies suggest that there is a direct correlation between drug usage and other crimes. One seems to naturally lead to the other. Recent studies released by the U.S. Justice Department show that among 494,349 state prisoners convicted of violent crimes, 57% acknowledged they had used drugs in the month before their crime. Moreover, the study showed that 83% of inmates in state prisons and 73% of those in federal prisons had used drugs at some point in their lives. Whether drug use directly causes other crimes, or whether the same people who tend to use drugs are independently more likely to commit other crimes, the correlation between the two seems very strong.

Are Drug Laws Racist?

Because of the direct correlation between drugs and other crimes, at a time of both high crime and high drug usage in the mid-1980s, the federal government attempted to eliminate drug crime through legislation. In particular, the government attacked the use of crack cocaine. History has shown that this type of targeted legislation almost never produces the broad results it seeks, and most scholars now agree that the mandatory minimum sentencing guidelines established for the sale, use, and possession of crack cocaine in the 1980s would certainly fall into this category.

Because the U.S. Congress felt that there was a link between crack cocaine and other crimes, they believed that they could help control drug crimes by employing the crime fighting philosophy of locking up and throwing away the key.

Federal law now demands that possession of any amount of crack cocaine automatically be prosecuted at the federal level instead of the state level. Furthermore, upon conviction, federal judges must abide by mandatory minimum sentencing guidelines that often leave them with absolutely no discretion for circumstances of the individual case. The bottom line: If you possess any crack cocaine at all, you will go to jail, for a long time. Statistically, crack cocaine is punished more per ounce than any other drug.

What seems disturbing about this trend is the fact that the use of crack cocaine is mainly confined to low-income areas and among minority populations, whereas white affluent users are more likely to use powdered cocaine or other drugs such as heroine. Some say that if the U.S. Congress is really concerned in fighting drug crime they would federalize prosecution for all drugs, or at least all hard drugs, like heroine and crack and powdered cocaine.

Because they have not taken done so, however, many are now charging that America's drug laws are inherently racist. There is little (most so no) rational basis for differentiating sentencing rules for crack and power cocaine. The fact that the former is predominantly used by racial minorities means that at the very least these laws have a discriminatory impact, if not a discriminatory intent.

Moreover, some criticize the federalization of criminal drug prosecutions. Former Attorney General Edwin Meese, who served in Ronald Reagan's second term and presided over much of drug federalization, argues fervently that it is unconstitutional to mandate that drug crimes earn federal prosecution. The Constitution provides that the federal government must demonstrate an impact connected to the Constitution's **interstate commerce clause**. The case for federalization was easy to make in the 1980s, when drug crimes were at an all time high, but today that same case would be much harder to argue.

So drug control agencies are left in a quandary. Prosecuting all drug laws federally probably won't ever happen, because the Supreme Court would likely strike down any law mandating it. At the same time, inequities in drug crime prosecution remain, primarily existing along racial lines.

The Legalization Debate

With so much debate occurring over our punishment philosophies, it shouldn't be a great shock that many argue that there should be no punishment levied for drug use at all – that the use of drugs should be legal. Debate over this issue has raged, softly, for years. In New Mexico, Gov. Gary Johnson used his office to start a crusade to legalize drugs shortly after being elected to his final term. Johnson was a Republican who alienated many in his party with his pro-drug message.

Johnson, who says he's not pro-drug but is anti-government waste, makes the following points:

- If drugs were legal, America would save almost \$50 billion in fighting a war many, including Johnson, argue is unwinnable.
- Millions of people are locked up, not treated for their addiction, and then returned to the streets where they begin using again. Society has gained nothing.
- If drugs were legal and controlled like prescription drugs, there could be fewer users, and they would almost certainly have medical supervision.
- Some illegal drugs have medicinal uses. Marijuana, for example, is useful as a pain reliever in certain circumstances.³⁹
- Illegal drugs have a “forbidden fruit” factor. If they are really bad enough for some law maker to tell me I can't have them, the logic goes, they must be worth trying, especially if I am a rebellious teenager. Legalization, perhaps, would remove this factor.
- Johnson argues that drugs could be treated like alcohol – not sold to persons under 21 – and that crimes committed under the influence of drugs should be given a harsher penalty.

It goes without saying that there are two sides to this issue. For every argument Johnson makes, anti-drug crusaders in his state and across the country have facts and statistics that can support the opposite point. It is also true, some say, that there are inherently self-contradictory arguments that Johnson makes to advocate his position. However, if many more political leaders take after Johnson's provocative position, this debate will become one of the hottest public policy conflicts that the United States has seen in some time. Although Johnson's term expired in 2002 proponents of medicinal marijuana still advance the initial arguments he proposed.

A less radical and perhaps more practical proposal is the simple decriminalization of drug laws. Under such a scheme, the use and possession of drugs would remain illegal, and possession of large quantities or the intent to distribute drugs may still have stiff penalties attached. Simple possession of small amounts intended for personal use, however, would generally be dealt with by issuing a citation and a fine much like a traffic ticket. This would at least address some of the enormous costs associated with current drug enforcement policy.

Crime and the Media

Newspapers always excite curiosity. No one ever lays one down without a feeling of disappointment. -- Charles Lamb

Crime has had a profound impact on the media since the advent of mass-communication. Newspaper editors, radio broadcasters, and television reporters and producers learned long ago that almost nothing tantalizes the public more than a juicy story related to activity that society has deemed inappropriate. Simply put, sensational stories sell newspapers, and cause ratings to increase.

³⁹ It is worth noting that medical marijuana is a separate debate unto itself. Thirteen states (Alaska, California, Colorado, Hawaii, Maine, Maryland, Michigan, Montana, Nevada, New Mexico, Oregon, Rhode Island, Vermont, and Washington) currently allow prescriptions to be written for the use of marijuana. However, the federal Drug Enforcement Agency has threatened to take away prescription-writing privileges for doctors who choose to exercise this law.

While today we are tantalized by stories about Guantanamo Bay, water boarding, and Nancy Pelosi, the modern relationship between crime and the media seems to be a mere extension of news stories from days gone by. Russell Baker, who retired in 1998 as a columnist for the New York Times, recalls that during his childhood in the 1920s – an era considered by many to be the “golden age” of news – sensationalized stories about crime were just as prevalent as today. “[There were] lots of great pictures and stories about condemned killers being executed,” he writes, “with emphasis on what they had eaten for their last meal, before walking the last mile!” For years, people have claimed that the news media promotes violence over virtues; sensationalism over solid stories.

Some have also suggested that copycat crimes occur after large amounts of publicity. Almost every serial murderer that has ever received any amount of notoriety has had someone attempt to copy his or her “style.” Other types of crimes have created similar ripple effects as well.

Because of concerns such as these, questions concerning the negativity of American news are moderately common. Today, however, the debate has shifted. While many are still concerned with the sensationalism of American journalism, people are also concerned not only with the impact crime has on the media, but the impact that the media has on crime. The Columbine High School shooting in Littleton, Colorado in 1999 only heightened the discourse over what impact video games, music, and media in general have on crime.

The short answer is that no one knows. Studies have been done which support both sides of the debate, and the entertainment industry fervently denies that anyone with a modicum of intelligence could be influenced by what they see on television or in the movies. However, as public opinion continues to show that the American people have a difficult time buying this argument, the debate will likely only continue to grow in Washington over what, if anything, needs to be done to control this problem.

In addition to these types of questions, the Virginia Tech Massacre and other office shootings have raised another question in the debate. Are schools, office buildings, and other authorities taking enough precautions to prevent shooting sprees? Are professors, co-workers, and friends engaging with their peers enough to know when something is going wrong? As a result of government studies following the Virginia Tech shooting college campuses have installed digital locks on doors and instated emergency mass communication tools that utilize text messaging, campus e-mail, and even cell phone numbers.

The Music Industry

In the mid-1990s, after the overdoses of several well-known musicians, highlighted by the tragic death of Nirvana lead singer Kurt Cobain, many noticed a disturbing trend of drug overdoses occurring across the country. Heroin seemed to be the drug of choice for musicians, especially rock musicians, who both consumed and promoted it. At the same time, more children were dying of heroin overdoses than at any other time in history. Naturally, some asserted that music was the problem.

It was about this same time that the music industry was also coming under fire for its extreme use of vulgar language and violent lyrics in rap music. However, to a great extent, the debate over the music industry’s role in the problems of youth has quieted some in recent years. The industry, in an effort to move music off of the radar screen of public debate, agreed to the “Parental Advisory” stickers that now grace so many CD covers. This precaution, combined with other news events of recent years, has led a shift of public debate off of music and onto other media avenues, considered by many to be a much larger problem than music ever was.

Video Games

The electronic gaming industry has come under intense fire since the Columbine shootings. Killers Eric Harris and Dylan Klebold were all but addicted to violent video games, including bloody titles like

“Doom” and “Quake.” These games are, undeniably, violent. Some games even feature the ability to look into the dying eyes of victims after they are killed. Perhaps most importantly, Klebold and Harris are not the only ones that are addicted to games such as these.

According to the Interactive Digital Software Association, an industry trade group, the gaming business has become bigger than Hollywood. Its income soared to \$9.5 billion in 2007. Moreover, studies have shown that nearly a third of the top 100 video games in 1999 had at least some violent content. For many, the link seems clear: As carnage in video games continues to increase, profits continue to rise, and as sales go up, so do school shootings.

So do video games desensitize children to violence and ultimately lead to an increase in youth crime? In March of 2000, the United States Senate Commerce Committee, chaired by former Presidential hopeful John McCain, held hearings in hopes of deciding just that. Most child psychologists and educators that testified in those hearings agreed that there is a strong correlation between violent video games and children who exhibit aggressive and violent behavior. However, they also agreed that more research is needed for definitive conclusions.

The research that has been done was started to investigate other things, and the support data was only extended to cover video games. Studies that have been done regarding video games have not been long enough or extensive enough to be considered by many in the scientific community to be worth the paper they are printed on. For the most part, psychologists are relying on generalizations they have seen over years of study with the way children behave to establish the conclusions. As such, the importance for new data only seems to increase.

While psychologists are assessing the situation using generalized evidence, media experts are doing the same. For years, many have wondered why, if there really is a correlation between video games and violent behavior, youths in Japan are not acting out in similar ways. Video games in Japan are even more violent than those for sale in the United States. This piece of empirical evidence is something that has prompted Henry Jenkins, the director of comparative media studies at the Massachusetts Institute of Technology, to argue that there cannot be any significant link established between video games and violence. If there was such a link, and we did try and eliminate all violent media, he says, then “the Bible would be one of the first things we’d want to ban.” He argues that any concerted effort to eliminate media violence would likely go too far, encroaching on freedom of expression and leading to an excessive concentration of government power.

The Constitutional Conundrum

Even with the most compelling evidence, Congress would still have an extremely difficult time implementing change because of the likelihood that any law banning or regulating video games would probably be unconstitutional. The first amendment protects freedom of speech, and the Supreme Court has held for years that Hollywood productions are freedom of speech. It only makes sense that the logic would be extended to cover video games as well.

However, the public still wants some change. The video game industry, pressured by both Congress and President Clinton, has made some steps toward self-regulation. They have adopted a ratings system for all computer and video games. However, even this seemingly simple step has caused controversy. President Clinton said on many occasions that the ratings do not go far enough, and that they are too complex and numerous to be of any good. Whether the ratings are effective or not remains to be seen. What is clear is that public pressure is taking a toll on the industry. Whereas violence ruled the top games in the late 90’s, in 2008 85% of the top games had a rating of Teen or below.

Cyber-Crime

As society becomes increasingly technological, so too do societies criminals. In recent years a number of efforts have been launched to counteract the various uses of technology for criminal purposes.

One issue which has received significant public attention is the possibility of sexual predators using the internet to target victims. With more and more kids having unrestricted access to the internet, parents are justifiably concerned. A number of law enforcement agencies have ramped up their monitoring and prosecution of online predators. These efforts have included, notably, sting-operations in which police pose as young children online in an attempt to catch potential predators in the act.

Another major component of cyber crime is the issue of identity theft. Identity theft is one of the fastest growing forms of criminal activity. When a person's private information is stolen, criminals can often use it to make major purchases or as fraudulent identification for other illicit activities. Such criminals are often sophisticated and difficult to track. Enforcement efforts have also been ramped up on this front, though to date with limited success. Significant measures have been taken by private companies to ensure that any private data they store is secure, although at this point most consumers are unable to discriminate among sites that are good and sites that are not good at protecting their information.

Regulation of the internet and new technologies is always challenging and controversial, and will no doubt be an important public policy debate in years to come.

Bibliography

- Burris, John L. Blue vs. Black : Let's End the Conflict Between Cops and Minorities. New York: St. Martin's Press, 1999.
- Owens, Tom. Lying Eyes: the Truth Behind the Corruption and Brutality of the LAPD and the Beating of Rodney King. New York: Thunder's Mouth Press, 1994.
- Henry, Stuart. Constitutive Criminology at Work: Applications to Crime and Justice. Albany, NY: State University of New York Press, 1999
- Webster, Barbara. The Police, Drugs, and Public Housing. Washington, D.C.: U.S. Dept. of Justice, Office of Justice Programs, National Institute of Justice, 1992

Social Security

Peyman Momeni, Liz Kraut, and Grant Hagstrom

Introduction

“Security was attained in the earlier days through the interdependence of members of families upon each other and of the families within a small community upon each other. The complexities of great communities and of organized industry make less real these simple means of security. Therefore, we are compelled to employ the active interests of the Nation, as a whole, through government in order to encourage a greater security for each individual who composes it ... this seeking for a greater measure of welfare and happiness does not indicate a change in values. It is rather a return to values lost in the course of our economic development and expansion.”

-- President Franklin D. Roosevelt, June 1934

In 1935, after bank failures and a stock market crash had wiped out the savings of millions of Americans, the country turned to Washington to guarantee the nation's elderly a decent income. The solution was Social Security. Social Security is designed, as the title suggests, to provide society with a sense of security. Based on the simple ‘strength in numbers’ idea, Social Security shifts some of the responsibility of caring for society’s elderly, ill, or unemployed to the working public.

These programs touch the lives of well over 90 percent of all persons living or working in the United States, and provide critical income to those who have retired or ceased working due to severe physical or mental disability. As of late, the Social Security program has grown to such mammoth proportions that spending on the program accounts for over 5.1% of the entire Gross Domestic Product of the United States.

Unfortunately, more than six decades after its inception, with the gigantic Baby Boom generation approaching retirement age, Social Security faces a funding crisis. By about 2012 more money will be going out to Social Security recipients than will be coming in from workers' payroll taxes. The system's trust fund can cover the difference for a while, but by about 2032 the trust fund will be empty and the program will no longer be able to meet all its obligations.

Social Security is Here to Stay

One of the most enduring myths of Social Security is that a worker has a legal right to his Social Security benefits. Many workers assume that, if they pay Social Security taxes into the system, they have some sort of legal guarantee to the system’s benefits. The truth is exactly the opposite. It has long been law that there is no legal right to Social Security. In two important cases, *Helvering v. Davis* and *Flemming v. Nestor*, the Supreme Court ruled that Social Security taxes are simply taxes and convey no property or contractual rights to Social Security benefits.

As a result, a worker’s retirement security is entirely dependent on the political decisions of the president and Congress. Benefits may be reduced or even eliminated at any time. Given the program’s looming financial crisis, benefit cutbacks are increasingly likely. Therefore, the entirely political nature of Social Security places workers’ retirement security at considerable risk. Indeed, Congress has already arbitrarily reduced Social Security benefits of some groups of workers. Moreover, because Social Security benefits are not a worker’s property, they are not inheritable.

Why, then, is the system still around? Mainly for political reasons. Politicians know that if they eliminate Social Security, they will lose votes. Lots of them. After all, who wants to be known as “the person who cheated grandpa?”

The Pre-Social Security Period

Starting in the late 1910's to the early 1920's, America underwent some of the greatest changes in this nation's history. For the first time, more people were living in cities than on farms. In 1890, 72% of the population lived on farms, by 1930 this percentage had dwindled to a mere 44%. The Industrial Revolution transformed the majority of working people from self-employed agricultural workers into wage earners working for industrial centers. But when economic income is primarily from wages, one's economic security can be threatened by factors outside one's control – such as recessions, layoffs, failed businesses, organized crime, bad credit, and so forth.

This trend toward urbanization also contributed to another significant shift in American society: the disappearance of the extended family household and the rapid rise of the nuclear family household. Today, we tend to assume that a family consists of parents and children, the so-called nuclear family. For most of our history, we lived in "extended families" that included children, parents, grandparents, cousins, aunts, uncles, and other relatives. The advantage of the extended family was that when a family member became too old, ill, or infirm to work, the other family members simply assumed responsibility for their support.

But when the able-bodied left the farms to seek employment in the cities, often the elder generation stayed behind. The net result of this complex calculus of demographic and social changes was that America was more urban, more industrial, and fewer of its people lived on the land in extended families. The traditional strategies for the provision of economic security were becoming increasingly outdated.

The economy also underwent a great deal of transformation. The skyward-bound stock market of the roaring twenties gave many Americans a false sense of economic security. Few things are more tempting than the lure of easy riches. The United States learned this lesson the hard way. On October 29, 1929 the US stock market started on a descent that would leave the country in shambles. Before three months had passed, the Stock Market lost 40% of its value; \$26 billion of wealth disappeared. Great American corporations suffered huge financial losses. AT&T lost one-third of its value, General Electric lost half of its, and RCA's stock fell by three-fourths within a matter of months. It would take 25 years for the stock market to return to its pre-crash level. As America slipped into economic depression following the Crash of 1929, unemployment soared to well over 25%; 9,000 banks went bankrupt; the Gross National Product declined from \$105 billion in 1929 to only \$55 billion in 1932. Compared to pre-Depression levels, net new business investment was a minus \$5.8 billion in 1932. Wages paid to workers declined from \$50 billion in 1929 to only \$30 billion in 1932.

With the economy crumbling to the ground, Americans turned to Washington, led by President Franklin D. Roosevelt, for help. One of its responses was social security.

By the early 1930's, 31 states already had some sort of pension set aside for the elderly. However, the programs on the state level were ineffective because of inadequate funding and lack of widespread social penetration. The national program sought to overcome these obstacles and provide an enduring 'safety net' for all Americans.

What are the Specifics of the Social Security Act?

Since its creation in 1935, the original Social Security Act has been modified many times. The first draft of the act did not achieve all of the aspirations of its creators, but it presented a solid framework from which to build social legislation. The original act excluded farmers and domestic workers (and therefore excluded 65 percent of all black workers), disability and medical coverage.

In the United States, the Social Security Program was created to provide old age and survivors insurance benefits to workers and their families. Unlike welfare, social security benefits are paid to an individual or his family at least in part on the basis of that person's employment record and prior contributions to the system.

The Social Security Administration (SSA) administers the program, and since 1965 it has included health insurance benefits under the Medicare program. The original 1935 act used Social Security in a broader sense, including federally funded welfare programs and unemployment compensation within its scope; current usage associates the phrase simply with old age, survivors and disability insurance. The exact structure of the act is presented below:

The Structure of the Original Social Security Act Of 1935

Title I	Grants to States for Old Age Assistance
Title II	Federal Old Age Benefits
Title III	Grants to States for Unemployment Compensation Administration
Title IV	Grants to States for Aid to Dependent Children
Title V	Grants to States for Maternal and Child Welfare
Title VI	Public Health Works
Title VII	Social Security Board
Title VIII	Taxes With Respect to Employment (For Old Age Insurance)
Title IX	Tax on Employers of Eight or More (For Administration of Unemployment Compensation)
Title X	Grants to States for Aid to the Blind
Title XI	General Provisions

Perhaps the most important part the act was title II. It set the provisions for the social insurance program that many citizens depend on; we usually think of this title when thinking about Social Security.

What Is The Weight Of Social Security On Our Economy?

Few forces influence our economy with the raw power of Social Security. As mentioned earlier, the sum of all Social Security programs accounts for over 5.1% of the US GDP. Essentially, any small disturbance in Social Security will send massive shock waves rippling throughout the US economy, as well those of other nations. In January 1996 provided nearly 44 million Americans, primarily retirees and their spouses, with an average monthly benefit of approximately \$745. At the end of 1996, the latest year for which published data are available, the accumulation in the Social Security Trust Funds was about \$567 billion. In 1996, Social Security took in about \$424 billion and paid out more than \$353 billion; the remainder went into this Trust Fund.

About 92 percent of individuals age sixty-five and over receive Social Security benefits; an additional 3 percent, who continue to work and have not yet claimed benefits, are eligible to receive benefits upon retirement. In 1996, around 144 million workers, about 96 percent of individuals in paid employment, were making payroll tax contributions to the Social Security system and building credits toward future benefits.

A significant portion of the elderly need Social Security to survive. In 1994, Social Security provided 66 percent of the elderly in America with benefits that represented at least half their total income. Without Social Security, approximately half the elderly in America would have fallen below the poverty line in 1994. In the same year, 30 percent of elderly recipients relied on Social Security for at least 90 percent of their total income; for 16 percent of recipients, Social Security was their only source of income. These

benefits, in combination with Medicare health insurance, have dramatically reduced poverty for the aged in America. In 1959, the U.S. Census Bureau estimated that more than 35 percent of elderly Americans were poor. During the 1960s, elderly Americans experienced twice the poverty rate of all other Americans. By 1996, in large part because of changes in the Social Security and Medicare systems, the poverty rate among senior citizens was 10.8 percent. This rate is even lower than the rate for other adults.

How Do the Political Parties Feel About Social Security?

Historically, politicians have had a simple, consistent position on Social Security: Do nothing.

--Dan Froomkin

In the past, proposed solutions to the various problems facing Social Security aroused great debate, often partisan in nature. Each time, however, the arguments were stilled, repairs were made, and the system continued to fulfill its mandate. Lost in all the rhetoric surrounding the issue this time has been the numbers underlying the debate and the context in which those numbers must be viewed. That uncertainty about the future has resulted in suggestions for change that range from minor adjustments to complete privatization of the system.

Democrats have steadfastly opposed tinkering, concerned that any changes would erode the safety net provided by a program they revere as the greatest and most inviolable legacy of the New Deal. And while many Republicans consider Social Security the ultimate Big Government program – with plenty of social engineering thrown in for good measure – they learned over time that its popularity with the voters made it untouchable.

The Role of the Social Security Administration

Originally only a three-member board, the Social Security Administration was created with the sole purpose of administering the Social Security Act of 1935. The chairman of the board reported the findings of the administration directly to the President. By the early 1940s, the responsibilities of the organization were expanded to include management of the U.S Public Health Service, the Office of Education, the National Youth Administration and Civilian Conservation Corps, the U.S Employment Service and the Bureau of Unemployment Compensation. Soon, regional offices began to open in cities across the United States and the Social Security Administration grew to mammoth proportions.

By the time the 1970's had arrived, the administration was too large to control, so the numerous responsibilities were delegated to newly established agencies to help lighten the role of the Social Security Administration. The administration was streamlined to include the lone assignment of monitoring the status of Social Security. The projected shortcomings of Social Security and possible reforms to correct the problem are just two of the daunting tasks placed on the shoulders of this organization.

The Social Security Administration has, for the past several years, closely monitored the Social Security programs of several other nations. Through this research, they hope to recognize general patterns that occur during periods of projected deficits and novel reforms. To date, they have not yet noted a trend alluring enough to tilt the scales of US Social Security reforms in favor of any one proposal, which is why Social Security debates still consume Capitol Hill.

Two countries watched very closely by the SSA are the United Kingdom and Chile. Some of their trends are noted below:

The United Kingdom

The UK is currently using a system of partial privatization. That system is split up into two parts: a flat benefit, and an earnings-related benefit. Those who chose to invest in a private defined-benefit scheme

would be given an incentive, because they would lessen government obligation to retirees. The program has experienced some unexpected consequences, however. They include decreased benefits, and increase in the pensionable age for women, new administrative expenses, lost tax revenues, and the government taking on the responsibility of bailing out some failed private pension programs.

Chile

Chile is also under heavy privatization, which was initiated by infamous dictator Augusto Pinochet. The system is financed entirely by employee contributions. At least 10% of workers' salaries go for old-age pensions. 3-3.5% of workers salaries go to survivor and disability pensions. Nearly all of the pension funds are managed by a few private companies. Thus far, the system has had unexpectedly high administrative and transition costs. The government mandated a 17% wage increase to initially finance the program. The actual administrative costs, upwards of 20% of the program, are expected to increase when current workers begin to collect pensions from their private accounts. There is also a problem with the possibility that pensioners might outlive their pensions. Where the US guarantees benefits for the rest of a person's life, Chile does not, and a person may "run out" of benefits within their lifetime.

Social Security: Where Did We Go Wrong, Or, As The Case May Be, Right?

The US Social Security program offers quite a few advantages to supplement the relatively few disadvantages that have arisen lately. Some of the major benefits include:

- 1) Social Security coverage is nearly universal in the United States (refer to the statistics offered earlier in 'The Weight of Social Security on Our Economy')
- 2) Social Security offers benefits that would be almost impossible for workers to match through private policies. For an average wage earner with a spouse and two children, the disability policy provided by Social Security is equivalent to a \$203,000 policy in the private sector; Social Security's survivorship insurance is equivalent to a \$295,000 life insurance policy.
- 3) Social Security retirement benefits are portable, following workers from job to job. In comparison, many of the employer-provided pensions are offered to an employee only if they stay with a company for an extended period of time.
- 4) Social Security benefits are gauged against the CPI (consumer price index) annually to protect against inflation. Private pension programs and insurance plans rarely guarantee such comprehensive inflation protection.
- 5) Empirically, Social Security has been one of the government's smoothest running programs. Regardless of political or economic events -- such as wars, recessions, and government shutdowns -- Social Security checks have always reached recipients in a timely fashion.
- 6) There is very little overhead cost in terms of running the system. Administrative costs of running Social Security are about 1% of benefits, whereas the same expenditures of private insurance are between 12-14% of annual benefit amounts.

With all of the aforementioned pros favoring our system, it still has some rather substantial flaws that were unforeseeable upon its inception. The most notable shortcomings include:

- 1) Without changes, the Social Security Trust Fund may be bankrupt by 2032 (the substantiation for this assertion will come in the 'Baby Boomer' section of this brief).

2) Future retirees will probably receive less generous benefits than today's elderly. The benefit-to-contribution ratio on Social Security has been declining since the establishment of the Social Security system. Since the average worker regains his or her Social Security tax contribution with interest after 6.2 years in retirement, the benefit-to-contribution ratio is constantly declining to maintain Social Security stability.

3) The Social Security Payroll Tax is regressive, not progressive. In 1998, Social Security's 6.2% payroll tax was assessed on only the first \$68,400 of a worker's earnings. Because unearned income is not subject to taxation under a payroll tax and earned income beyond \$68,400 is not taxed, wealthy individuals pay a lower fraction of their total income in Social Security taxes than other people.

4) Some fear that Social Security depresses savings across the board. Although there is no conclusive evidence for this phenomenon, many economists attribute the low level of savings to Social Security. The two savings measures discussed the most are national savings and personal savings.

- **National Savings:** The national savings rate has been declining for the past 35 years. The Social Security Trust Fund, by adding to the pool of government savings but not to the pool of money ultimately available for future government programs, artificially prevented an even further decline of this rate. As the Trust Fund is reduced, the national savings rate will plummet further.

- **Personal savings:** Many economists hypothesize that Social Security is responsible for the low rate of personal savings in the US. Because they know about the Social Security safety net, people lose some incentive for saving for their own retirement. Because many believe Social Security will cover most, if not all, of the expenses they will encounter during their retirement years, they do not adequately develop personal savings plans.

5) Social Security may encourage early retirement, thereby mounting even more pressure on the system. Over the past fifty years, Americans have been retiring at progressively younger ages. The two ages at which most Americans retire are 62 (when they are first eligible to receive any Social Security benefits) and 65 (when they can reap full Social Security benefits). Examining the ages at which most Americans retire suggests that the structure of the Social Security program affects retirement decisions. Currently, Social Security benefits for those who retire after 65 are increased only 5% per year, which is not enough to compensate fully for the benefits foregone. People under 70, who continue to work while collecting Social Security, face benefit reductions if they earn more than a specified amount. Overall, people have a tremendous incentive to retire earlier because they know they will receive income, in the form of Social Security benefits, anyway.

The Baby Boomers

Prior to 1946, many Americans' schedules simply did not allow them the luxury of starting a family. However, between 1946 and 1964, people who had postponed having children during the Great Depression and World War II began to add to or start families. During this time period, the average size of the American family ballooned over 35% compared to just ten years earlier. The oldest members of the baby-boom generation are scheduled to become eligible for full Social Security benefits in the year 2010.

At the same time, Americans are living longer. Projections of longer life expectancies and declining birth rates suggests that, after 2030, more than 20% of all Americans will be elderly, a larger proportion than ever before.

Relatively speaking, this larger number of retirees will have to be paid their benefits from taxes collected from a smaller pool of workers. To put this trend into perspective, in the late 1930s there were 29 Americans working for every one person retired. Now, there are only six people working for every one

person retired. It is projected that by the year 2015 there will be three people working for every one person retired.

This movement indicates that the problem confronting Social Security is based on anticipated demographic changes, combined with assumptions of slower economic growth, which will throw the system out of balance.

Additionally, politicians have used Social Security as their own safety net. For example, Social Security has had a running surplus of over \$100 billion. The federal government, on the other hand, has not had a running surplus. In the early 2000's, some political leaders bragged that before George W. Bush's first term the United States ran a federal surplus of over \$100 billion. That statement is misleading in the sense that the government, in those two years combined, actually ran an operational deficit of \$282 billion. So how did this clever accounting smoke screen work? They siphoned off all \$189 billion of Social Security surpluses in 1998 from the Trust Fund to 'create' a budget surplus, and then siphoned a further \$228 billion in 1999 to cover up the government deficit.

In this sense, the Social Security Trust Fund is fiction. It actually holds government bonds – 'IOU's from the federal government – but, through crafty accounting, the government does not count those bonds as debt. Unfortunately, in about 15 years, when the baby boomers start retiring en masse and the trust fund starts turning in its bonds for cash to pay benefits, the government will have to present the cash somehow. It can do so in only three ways: increase taxes, cut other spending, or run a deficit.

How Does the Public Feel about Social Security?

In 1935, nearly all Americans, 89% of them, pledged full support of government assistance to needy elderly people. During the subsequent 60 years, Social Security has routinely received strong support from the general populous. If anything, most Americans advocate increasing the benefits of Social Security and expanding the program overall. Americans were asked how successful they believed, on a scale of 1 to 10, our current Social Security program has been as far as achieving the following goals:

- A foundation of income for all Americans.
- A nearly adequate income for the lowest-income Americans.
- Income protection against the "risk" of living much longer than one plans, or the actuarial tables suggests, by paying a life annuity that is indexed for inflation.
- Dignity for retirees, by having the income paid through a government transfer rather than requiring family members to ask another family member for direct assistance.
- A level of taxation that permits a pay-as-you-go program with a small reserve
- A benefit that grows in real value by passing on productivity increases and life-style increases to retirees with a benefit formula that targets replacement of final income, as opposed to a constant level of purchasing power.

The result was a rather surprising 8.7. Americans accept, and support, the current Social Security system, but they also recognize that changes are needed. Nearly two-third of people surveyed thought that benefits were not sufficient. Most people would be willing to pay higher taxes to maintain the Social Security system. Fewer than zero in ten respondents felt that the federal government spends too much on Social Security, while more than three-quarters of respondents favor universal participation in the program.

What Reforms Can Be Made to Save the System?

Most Social Security experts agree that Social Security must be reformed. However, there is much heated debate as to how the system should be altered. There are two general schools of thought when it comes to Social Security reform. The first suggests that we could keep the same basic structure of our current

system, but make some adjustments concerning its implementation. The second – admittedly more radical – would call for a complete overhaul of Social Security.

The following list contains certain reform measures that have been proposed by the 1994–96 Advisory Council on Social Security (the **Gramlich Commission**).

A majority of the Advisory Council supported several incremental reforms that would reduce, but not eliminate, the projected deficit, estimated to be slightly more than 2 percent of projected payroll tax revenues.

1. Increasing the working period over which a retiree's benefits are computed from thirty-five years to thirty-eight years. Currently, only 35 years of a taxpayer's career are taxed for by Social Security. Adding three years to the wage history that is taken into account when formulating a retiree's benefits would include a worker's earlier, lower-paid employment years, thereby reducing benefits. This change would close about 12 percent of the projected gap.

2. Changing the way in which Social Security benefits are taxed, so that any benefits a retiree receives beyond what he or she contributed to the system as a worker would be taxed as ordinary income. Currently, only beneficiaries with incomes above certain annual thresholds owe taxes on their benefits, and just a portion of their benefits is subject to the tax – not the lump sum. This change would close about 14 percent of the projected gap.

3. Extending Social Security coverage and participation to 3.7 million state and local government employees who are currently excluded from the program. Subjecting government workers to Social Security payroll taxes would bring more revenues into the system. This change would shrink the estimated shortfall by about 10 percent.

4. Accelerating the scheduled increase in the retirement age so that it becomes sixty-seven by 2011; the retirement age would be indexed to longevity thereafter. Many experts point to the fact that Americans are living longer than ever before. In 1983, the Social Security Act was amended to raise gradually the age at which retirees become eligible for full benefits; under this reform, the retirement age would reach sixty-seven for individuals who will turn sixty-two in the year 2022. Speeding up this process so that the retirement age would become sixty-seven for individuals who will turn sixty-two in 2011, and thereafter indexing it to longevity, would reduce how much the system pays out and improve the long-term financial picture for Social Security. This change would eliminate about 22 percent of the gap.

5. Adjusting the Consumer Price Index (CPI). The Bureau of Labor Statistics, which is studying possible adjustments to the CPI, announced in 1996 that it is putting in place measures that are expected to decrease the CPI by 0.21 percent per year; this change will take care of an estimated 14 percent of the gap. There is substantial controversy among economists about whether the index, even after the change, would continue to overstate inflation.

These incremental changes would eliminate more than 70 percent of the projected long-term shortfall. A variety of reforms have been suggested to deal with the remainder: **investing the Social Security Trust Funds in the stock market, means-testing Social Security benefits, and "privatizing" Social Security**. The last of these ideas would entail switching from a system of social insurance, where everyone is guaranteed an inflation-proof benefit for his or her retirement, to a system of individual retirement account, in which individuals' benefits would no longer be guaranteed by the government. The Advisory Council report concurred that means-testing should not be implemented, but members split into three groups over which reform to recommend.

Possible Reform: More Aggressive Investment in the Stock Market

As mentioned earlier, one proposed reform is to invest some of the Social Security Trust Fund in the stock market to prevent future shortfalls.

Under current law, the trustees of the Social Security Trust Funds may invest the surplus that the fund accumulates only in U.S. government securities, the debt the government issues to finance its borrowing (see earlier section about the baby boomers). Because these securities are the safest investments available, they pay a relatively low rate of interest.

Under one proposed plan, part of the Trust Funds would be invested in stocks through an unmanaged index fund holding a diversified portfolio of shares; more than half of the Trust Funds would remain in Treasury bonds. An independent "investment board" nominated by the president and approved by the Senate would oversee the investments and would be allowed to invest the Trust Funds' money. Because stocks have generated higher investment returns in the past than Treasury Bonds, diversifying might generate greater assets over time.

There are several advantages to such a system.

- Preserves the current system of benefits, leaving the safety net unchanged.
- The system would remain progressive, with lower-income seniors receiving a higher proportion of their past earnings than upper-income retirees.
- If stock market returns continue to match past performance, it could leave the system healthier.

Critics, however, point to several disadvantages.

- All this plan does is change the form in which Trust Funds investments are held. It does not increase national saving or otherwise change the system in a way that might encourage future economic growth.
- The government could end up as a major stockholder in many American companies. This violates the spirit of the Federal Reserve Act of 1913. The purpose of the act was to draw a distinct split between politics and the economy (which is why the government does not control the federal reserve board). Though reformers advocate an "independent investment board," the threat of political interference in corporate governance has raised concern.
- Stock markets are risky. Investing the Trust Funds in stocks implies taking a bet that returns will be high enough to make up the shortfall. If returns are not high enough, or the stock market crashes, future generations will be left with the possibly tremendous debt.

Possible Reform: Means Testing

Advocates of means-testing argue that few upper-income retirees should be entitled to collect a great deal – or collect anything at all, in the case of the highest earners – from the government. The most commonly proposed form of means-testing would be to reduce or eliminate the Social Security benefits for retirees who receive substantial investment income during their retirement.

There are several advantages to such a system.

- By reducing benefits, the Social Security payout will be lessened. Therefore, means-testing could alleviate some of the future pressure on the Social Security program.
- Reducing Social Security payments to middle- and upper-income elderly would not immediately pose a threat to lower-income retirees.

- Because upper-income retirees would have their checks reduced or eliminated while the checks of lower-income beneficiaries would remain untouched, means-testing would make the system more progressive than it currently is.
- Means-testing could promote national savings by cutting benefits to higher-income workers while maintaining current tax levels, thus reducing the government deficit or increasing its surplus.

There are also several disadvantages.

- Means-testing could transform the public's perception of the program from one that benefits everyone to one that serves only low-income Americans, undermining its political viability. Other government means-tested programs such as welfare, food stamps, and Medicaid are continually under political attack, in part because support is scarce for programs that primarily benefit the poor. Consequently, although the nation's poor, elderly citizens are the target group of Social Security, this plan would probably not rally much political support.
- People who earn more and save would receive lower benefits, which could be viewed as unfair and, furthermore, could create perverse incentives, hurting personal savings. Also, means-tested programs tend to motivate individuals to "hide" assets and income. The Medicaid and welfare programs have been riddled with "gaming" schemes developed by individuals who sought to receive undeserved benefits.
- Administrative costs would increase under a means-tested program. The administrative costs for the Social Security program are about 1 percent of total program expenditures. The administrative costs for Supplemental Security Income, a means-tested program for the elderly, run well in excess of 10 percent of the program. These numbers would start to reach private sector rates, which would, in turn, decrease the credibility of the government's ability to maintain Social Security.

Possible Reform: Comprehensive Privatization

These proposals come in a variety of types. In this and the other major plans, all future retirees would receive payment from two sources: a guaranteed minimum benefit and an additional amount that reflected the returns individuals earned on their "personal security accounts" (PSAs).

Both components of the benefit would be financed by the payroll tax. Because the guaranteed part of the benefit would be based only on a portion of the payroll tax, it would be significantly lower than the benefit that low-income retirees now receive. Each individual's additional benefits would depend on the performance of his or her PSA, which the worker would control.

While the stock market's performance in the decade or so leading up to 2008 was, for the most part, fairly impressive, the twenty-year average for stock market performance – the approximate period of an individual's saving for retirement – has been far less predictable.

“Since 1900, the 20-year average real total return on the stock market fell to about zero three times—1901 to 1921, from 1928 to 1948, and from 1962 to 1982 . . . Of course, the returns were substantially negative after paying taxes on interest and dividends. In between were periods in which the 20-year average stock market returns peaked at rates ranging from 6% to 10%. This meant that some people earned a negative real return from investing in the stock market, while others received a real pretax return as high as 10%.”

– John Mueller, former economic counsel to the House of Representatives' Republican Caucus

Particularly given the major economic downturn in 2008 and 2009, privatization plans are unlikely to gain much support. Though the potential for gains is enormous, many perceive the instability of the market as too great a risk.

Furthermore, most of the privatization plans would entail significant tax increases or newly generated borrowing to maintain current benefits for workers who will be retiring in the next ten to twenty years, as payroll taxes are shifted to the new accounts. This influx of funding would be necessary because workers now in their fifties have relatively little time remaining before their retirement, and suddenly shifting to a personal account system would leave them at greater risk of ending up worse off. They would have less of an opportunity to accumulate sizable accounts, and the short-term horizon would leave them more vulnerable to a downturn in investment markets. As a result, younger workers would have to pay taxes for both current retirees' benefits and for their own future benefits.

There are several advantages to privatization schemes.

- People would be able to choose the risk/return combination that best suits them. The well-off could invest more aggressively while lower- and middle-income retirees could opt for more secure though lower-yield investments.
- Some individuals could obtain higher returns than they would under the current system.
- Individuals would own their own accounts, so they would face less risk if future generations defaulted on promises to pay benefits.
- National savings would likely increase if payroll taxes were raised to finance the transition to a privatized system.
- By shedding the enormous financial obligations of the government to future retirees, Social Security privatization, when fully implemented, would virtually eliminate the challenge of generating sufficient taxes to provide promised benefits.

There are also notable disadvantages.

- Social Security's success in keeping most of the elderly from poverty would be threatened. Workers who invest poorly or unwisely would not be assured of staying out of poverty.
- The Social Security system would become much less progressive. Research indicates that without an extensive financial education campaign, low-income workers would have lower returns on their Social Security investments, and thus smaller retirement accounts and smaller incomes than high-income workers, because they tend to make poorer investment choices.
- The shift to a privatized system would create huge transition costs. The current generation of workers would essentially be required to "pay twice." Today's workers would continue to pay for the benefits of current retirees. They would also be required to make contributions toward their own retirement. According to one estimate, the privatization plans backed by a minority of the recent Social Security Advisory Commission would require about \$6.5 trillion in additional taxes over the next seventy-two years.
- Administrative costs of the Social Security program would increase, especially for individual investors, who would have to pay management fees to Wall Street investment houses on their investments. Private

administrative and management fees for financial portfolios are many times larger than the administrative costs for Social Security.

If many older Americans fell into poverty, either their families or other government programs would have to take up the slack. Many members of the baby-boom generation might find themselves supporting aging parents while trying to raise their own children.

Reform Obstacles

Unfortunately, many obstacles stand in the way of meaningful social security reform. While it is obvious that something needs to be changed, the political atmosphere and the parties involved with social security are often unwilling to compromise.

These obstacles to reform include:

1. The American Association of Retired Persons (AARP), which has significant influence in Washington, is reluctant to give permission for any change to the existing social security scheme that would effect benefits or the retirement age.
2. Social security is a hot button political issue. It is very polarized, and both parties are unwilling to compromise. Privatization, for example, has become a "republican" issue, that many democrats are ferociously opposed to.
3. Younger Americans feel they are entitled to the same social security benefits that individuals retiring today receive. They don't want to pay into a system which promises certain benefits and then pays substantially less than promised.

Conclusion

Social Security has caused quite a few headaches across the United States. Citizens and politicians alike lament its shortcomings, but recognize and appreciate the program's inherent worth. And even though restructuring the Social Security infrastructure will continue to be a long and tedious process, it is a noble and necessary one. This program holds the weight of the lives of 44 million Americans on its shoulders, and its demise will surely mean disaster.

Although the once-shining outlook for the United States' Social Security Program now lacks some luster, the system is not beyond repair. In fact, our program is much better off than those of our foreign counterparts (most of them, anyways), but we also have much more at stake. With the lives of countless citizens and the economy of the only remaining super-power on the line, the US cannot afford a Social Security disaster.

Bibliography

- Aaron, Henry J. Can America Afford to Grow Old: Paying for Social Security. Washington, DC: Brookings Institute, 1989.
- Scheiber, Sylvester J. and John B. Shoven. The Real Deal: The History and Future of Social Security. New Haven: Yale University Press, 1999.
- Shapiro, Daniel. "The Moral Case for Social Security Privatization" from *The Cato Project on Social Security Privatization*, October 29, 1998.
- Tomkiel, Stanley A. Social Security Benefits Handbook. Boston: Sourcebooks, Inc., 1998.

Online Sources

- Beach, William W. "Peace of mind in retirement: Making future generations better off by fixing social security." The Heritage Foundation. September 10 2004.

http://web.lexisnexis.com/universe/document?_m=d682ce0de6177a476a0c96efeb80a005&_docnum=1&wchp=dGLbVzb-zSkVb&_md5=f5e9514da8d69eacdc603be572c080d7

- Burns, Scott. "A what if on social security." The Dallas Morning State. November 13, 2004. <http://www.dallasnews.com/sharedcontent/dws/bus/scottburns/columns/2004/stories/111404burns.84ae2.html>
- Downing, Neil. "Social Security will take bigger bite from higher-income workers." The Providence Journal. October 23, 2004. <http://web.lexis-nexis.com/universe/documentation>. September 30, 2004. <http://www.heritage.org/Research/SocialSecurity/bg1802.cfm>
- McGarry, Kathleen, and Schoeni, Robert F. "Social security, economic growth, and the rise in elderly widows' independence in the twentieth century." Demography. May 2000. <http://www.jstor.org/view/00703370/di014760/01p0060r/0?searchID=cc993341.11004836181&frame=noframe¤tResult=00703370%2bdi014760%2b01p0060r%2b1%2cFFFB%2b2000500%2b9867%2b79999499&userID=82471776@stolaf.edu/01cc9933410050164397d&dpi=3&sortOrder=SCORE&config=jstor&viewContent=Article>
- No Author. "Battle begins over how to save social security." Newsday. November 14 2004. http://www.newsday.com/news/opinion/ny_vpduo144041676nov14,0,3772309.story?coll=ny-editorials-headlines
- Strobe, Leigh. "Bush again eyes social security overhaul." The Boston Globe. November 11 2004. http://www.boston.com/news/nation/washington/articles/2004/11/11/bush_again_eyes_social_security_overhaul/
- Vieth, Warren and Hook, Janet. "Privatized accounts moved to 'Fast Track'." Los AngelesTimes. November 4 2004. <http://www.latimes.com/news/politics/2004/la-na-social5nov05,0,1224589.story?coll=la-home-headlines>
- Ydstie, John. "Social security privatization doesn't equal solvency." NPR. November 12 2004. <http://www.npr.org/templates/story/story.php?storyId=416641>

Healthcare

Yoni Schneller, Liz Kraut, and Grant Hagstrom

Introduction

Health care related questions, perhaps more than any other, are enduring fixtures in public speaking. What is more remarkable than health care's continual presence as a public speaking topic area is that health care questions maintain the same form from year to year. Questions about the role of government in health care are no less relevant today than they were ten years ago, nor do they stand to lose their relevance with time. Because certain health care related questions are perennial fixtures in public speaking competition, a speaker with an understanding of the generic controversies that constantly reappear in the topic area should have a decisive advantage over his or her peers.

While generic knowledge can carry a public speaker through many a health-care round, competitors should constantly seek to expand their specific knowledge of health care issues. This process involves acquainting oneself with the details of the latest prominent health care proposals. It also entails (painfully for most social science-oriented public speakers) understanding the basic biological concepts behind certain health care issues. For example, understanding how the over-prescription of antibiotics can prove dangerous for public health is essential to understanding what should be done about this public health concern.

It should also be noted that any public speaker will have trouble answering many health care questions without a broader understanding of the political and economic context in which policy is made. Economics and politics often set the bounds for what health care policy can accomplish. For example, it is futile to analyze the future of Medicare without an understanding of relevant political positions or budgets constraints.

The information below is designed to give you some core background information with which to contextualize health care related topics and questions.

Government Health Care Policy

Theoretically speaking, the health care industry, like any service industry, could exist independently of government involvement. However, as a commodity which is essential to sustain human life, health care is generally not viewed in the same light as an ordinary commodity. Rather, because it is so closely tied to an individual's ability to live and her quality of life, health care has come to be viewed by many as a kind of basic human right. Governments draw their mandates for intervention in the industry from this doctrine. Thus, if free markets fail to provide widespread access to quality health care, governments consider themselves justified in acting, to ensure both availability and quality in the health care sector.

Some countries, such as Britain and Norway, have interpreted this mandate broadly, establishing immense national health care systems with pervasive regulation. Relative to such nations, the United States government has taken a very modest role in health care regulation. However, it is important to understand that even in the United States, the government's grip upon the health care sector is so extensive that it is impossible to consider health care issues without taking into account the government's influence. Indeed, the vast majority of health care related topics concern government policy.

Such policy questions generally come in two flavors, which correspond to the two major aspects of United States health care policy:

- Health Care Provision – intended to ensure the availability of health care

- Health Care Oversight – intended to ensure the quality of health care

Health Care Provision

Governments derive their mandate to provide health care from the aforementioned view that health care is a basic human right. Nations that take this mandate to the extreme provide free health care for all citizens. While such nations tend to suffer from bloated bureaucracy and excessive regulations, they achieve a more equitable distribution of health care than is provided by the free market.

The United States government has taken a different approach, providing health care only for segments of the population perceived as vulnerable, especially the poor and the elderly. Market forces are expected to accommodate those who do not qualify for government assistance. Two tradeoffs explain the United States' reluctance to provide universal health care:

- 1) Empirically, there is an inverse relationship between the availability of health care in a nation, and the **quality** of that nation's health care.
- 2) National health care systems consume a tremendous amount of governmental **resources**.

The inverse relationship between availability and quality is rooted in the fact that high quality health care is generally very expensive, and thus unaffordable to many segments in a population. When a government chooses to increase the availability of health care, it generally must put into place restrictions that lessen the quality of the health care available. The United States has been reluctant to increase health care availability partially because it fears the regulations entailed by such a policy would lead to a drastic decline in the quality of available health care.

The second, and more prominent, consideration curtailing the government's provision of health care is the sheer cost of universal health care. Conservative estimates put the potential price of universal health care at 15% of America's GDP. Americans are generally leery of large, resource consuming government programs, and universal health care is no exception.

Hillary Clinton's 1994 health care proposal is an emblematic example of these concepts at work. Clinton and a committee of health care experts released a 1400 page proposal for the creation of a national universal health care system. Days after the report was released, insurance and drug companies bombarded America's airwaves warning of the quality tradeoff. In the now legendary Dick and Jane advertisements, the companies warned the American public that the regulation necessary for universal health care would substantially reduce the quality of available health care. Meanwhile, Congressional Republicans railed against the program's tremendous price. Consequently, Clinton's proposal was buried in a congressional committee and never voted upon.

This discussion is intended not as an exposition of universal health care (which will be explored more thoroughly later), but as an introduction to the tradeoffs necessary for any government provision of health care. Expanded availability of health care generally brings with it social benefits, as more people with health care is generally better than less people with health care; however the potential costs of a proposal should always be the first thing a public speaker or debater considers. Astute analysis will always weigh the qualitative and financial costs of a health care proposal against its social benefits.

With this idea elucidated, let us look at Medicare and Medicaid, the government's existing programs for the provision of health care. We will then continue to examine possible new programs for the governmental provision of health care.

Medicare

Medicare was created by Lyndon B. Johnson in 1965 to provide health care for all Americans aged over 65. The program comprises a hospital insurance plan, known as Part A, and a supplementary medical insurance plan, known as Part B. These programs cover expenses for hospital and nursing facility stays, visits to doctors, and surgeries. Recipients are expected to make a co-payment, which covers a small percentage of the costs, usually 10 or 20 percent, while the government foots the bill for all further expenses.

The program, which was passed as an amendment to the 1935 Social Security Act and is paid for by Social Security tax receipts, has been a tremendous boon to elderly Americans, many of whom would find it impossible to pay towering medical bills with pensions and social security checks alone.

Today, Medicare has become a mammoth bureaucracy that consumes more than 13% of all government spending. Needless to say, a program of such large scope is bound to be riddled with problems – and, as we all well know, where there are problems there are public speaking topics and debate resolutions. Medicare related questions generally fall into one of three topic areas:

The first variety of Medicare topics are administrative questions, concerned with bureaucratic issues in the Medicare system. Provided that a public speaker has adequate documentation regarding a given administrative issue, administrative questions are the most straightforward variety of Medicare question. For example, because of the titanic proportions of the Medicare system, many organized crime syndicates have begun to erect phony health care services that successfully defraud the Medicare system of billions of dollars every year.

Such Medicare issues demonstrate why administrative questions are so simple to answer. Assuming the public speaker has documentation that demonstrates Medicare fraud is a serious problem, he would be very foolish not to advocate a stronger effort against fraud. Administrative problems in Medicare cost relatively little to fix, and as such, most questions concerning possible administrative problems are very straightforward.

The second variety of Medicare topics pertains to fiscal reform. Such questions concern themselves with Medicare's growth, and the long-term potential for Medicare to pose a serious fiscal problem to the United States budget. In 1970, Medicare spending constituted 3.2% of all federal expenditures. By 1998, Medicare accounted for 11.7% of expenditures. This trend of growth seems likely to continue: As the baby boomers approach antiquity, the proportion of the population receiving Medicare benefits will increase, while the percentage of Americans paying into the system will decline. Such circumstances suggest a looming fiscal crisis. Even if the federal budget should see a return to surpluses (an event which looks hugely unlikely in the near term), such surpluses cannot obviate the troubling demographic shift.

When attempting to predict Medicare's future, it is essential for to understand that Medicare is, like Social Security, one of the most politically charged federal program.

Medicare has become so politically charged because it is tailored to a very specific demographic: the aged. There are two factors to keep in mind about elderly populations: 1) there are a lot of them, and 2) they've got enough time to vote and write letters to their elected representatives. Augmenting this political power is the American Association of Retired Persons (the AARP), which gives its members supermarket discounts and distributes unthinkable sums of money to elected officials. Seniors combine their tremendous presence at the polls with their lobbying efforts to vigilantly protect their Medicare benefits. Very few politicians are willing to earnestly tackle the looming Medicare crisis, for fear that their political careers will be trampled by a massive herd of petulant geriatrics. Because of this political tendency, the only tenable prediction one can make regarding the future of Medicare is that our leaders will be too timid to handle Medicare's potential problems.

On the policy side, there are a number of possible solutions to the looming Medicare crisis. Some proposals call for a drastic restructuring of the system. One such idea is **means testing**. Medicare provides equal coverage to all elderly Americans, regardless of their economic circumstances. Means testing Medicare would involve tying Medicare benefits to an individual's economic circumstances – essentially, a medical welfare program for the elderly. Means testing would substantially narrow the scope of Medicare, lessening the burden on the system and allowing it to focus less wastefully on the individuals it serves. Slightly less radical is the possibility of simply spending less money. This move would involve increasing the co-payments seniors have to make when they seek treatment, and scaling back the range of treatments subsidized by the system.

Another policy proposal raised from time to time is the potential expansion of Medicare. Such questions involve proposals to increase the range of services subsidized by Medicare. While Medicare covers most of the elderly's health care costs, it does not cover certain aspects of medical treatment. Those Medicare recipients who can afford it supplement their Medicare coverage with "Medigap" insurance, which, as the name suggests, fills the gaps in Medicare. Many elderly Americans cannot afford such insurance, and must either abnegate certain treatments, or pay for them out of pocket. Thus, politicians occasionally propose to expand the scope of Medicare.

Most proposals to expand the coverage of Medicare are politically motivated attempts to win over senior voters. Such proposals are rarely good policy.

The reasons proposals to expand Medicare are bad policy are two-fold:

- 1) In the absence of fiscal reform, the expansion of Medicare further imperils the program's long-term solvency.
- 2) Despite any gaps in Medicare, the elderly already have an amazing medical network at their disposal, while other groups, such as children, have little or no medical safety net.

However, bad policy is not always bad politics. In fact, in the case of prescription drug coverage, bad policy is excellent politics. Whereas political considerations block the feasibility of fiscal reform, they increase the feasibility of Medicare expansion.

Medicaid

Medicaid, like Medicare, was introduced by Lyndon B. Johnson in 1965 as an amendment to the Social Security Act. Whereas Medicare subsidizes health care for the elderly, regardless of income, Medicaid subsidizes health care for poor Americans. In order to participate in Medicaid, states must offer its benefits to all persons receiving public assistance. Historically, Medicaid has been linked to federal welfare programs, such as Aid to Family with Dependant Children. Recent welfare reforms, however, have devolved welfare programs to state control. As such, the states determine who is eligible for Medicaid and who is not. As welfare rolls in most states have declined dramatically, the number of people receiving Medicaid benefits has declined as well.

Medicaid has rarely been a significant political issue. Politically speaking, Medicaid is the polar opposite of Medicare. The poor vote in small numbers, and politicians often cut into the program.

Though welfare reform killed most controversy over Medicaid, it also gave birth to the one subject which will likely be the basis for many speech and debate topics: Many individuals leave welfare rolls for low-paying jobs which do not provide health care insurance. A large proportion of the population is said to have "fallen through the cracks" of Medicaid, including a large number of children. This problem might

be solved by breaking the link between welfare and Medicaid, allowing those who have left welfare for jobs with no insurance to retain their health coverage.

Bold New Worlds

Since the introduction of Medicare and Medicaid, the government's role in the provision of health care has been very static. Every election cycle, many proposals are introduced for the creation of new health care programs. Such proposals generally sputter before an American electorate which lacks the attention span for complex policy proposals. Nevertheless, there are two specific potential programs that constantly reappear in forensics events.

The first recurrent question concerns health care for children. The number of uninsured American children skyrocketed after welfare reform lessened the scope of Medicaid coverage (see above). Recent statistics estimate that 11 million American children are without health insurance, and that this number is perpetually rising. As children generally have no control of their economic circumstances, this situation strikes most reasonable individuals as grossly unfair.

The major objection to providing health care for children is the cost any such program would entail. Princeton University economist Uwe Reinhardt provided the following refutation: "A lot of people whine that [health care for children] would take up too much GDP. We're talking about giving health care to poor kids! I don't see the problem with spending a lot of GDP on that." Indeed, it seems likely that providing poor children with health care should enjoy widespread support, but the devil is in the details. The precise implementation of such a program is subject to the same debates as the health care sector in general, which include whether market-based approaches or regulatory approaches are more efficacious and how to design any plan to operate at maximum efficiency.

The second recurrent proposal involves the provision of universal health care. Most nations with levels of economic development comparable to ours have far more extensive government health care programs than the United States. Thus, many debaters and public speakers must address the topic of universal health care.

There are two general forms in which universal health care can appear, although there are dozens of manifestations of government healthcare systems which can be studied:

1) The Single-Payer System – under which the government would coordinate the entire health care system and subsidize all care. Good examples of this system can be found in Britain and France.

2) Employer-provided insurance – under which all employers would be required to provide health care insurance for employees. A good example of this system can be found in Hillary Rodham Clinton's 1994 proposal.

There are several reasons why universal health care is not a realistic goal in the United States. For one, the idea of a large sector of the economy being regulated and run by the government is so socialistic in conception that the American public has a reflexive response against it. It should also be noted that the resounding defeat of Hillary Clinton's 1994 proposal engendered the impression that universal health care is political cyanide.

The most important obstacle to universal health care is the aforementioned trade-off between the availability and quality of health care.

Were the government to provide health care to every U.S. citizen, it could, as the sole purchaser of health care, dictate the prices of health care service. For affordability's sake, it would have an incentive to set the prices well below present levels. If price controls are imposed on medications, drug companies will have

fewer funds to research new treatments and thus patients will see a qualitative decline in treatments available to them. Similarly, as doctors see their salaries decline, fewer individuals (and fewer bright ones at that) will pursue careers in medicine. Demand for treatment would outstrip supply, and the quality of medical practitioners would deteriorate. This problem is empirically demonstrated in single-payer systems such as Britain's and Canada's, where many patients wait months to consult specialists.

Health Care Oversight

The average health care consumer is in a vulnerable position: He neither understands the market forces that are responsible for his care, nor does he understand the scientific rationale for the treatment he undergoes.

To protect the vulnerable and often ill-informed consumer, the government regulates both the fairness of the market forces behind health care and the safety of medical treatments. To understand how the government regulates the health care market, it's important to understand how the market functions. There are three agents involved in most health care transactions:

- **A Consumer** – The individual receiving care.
- **A Provider** – An agent providing care, such as a doctor, drug company or hospital.
- **An Insurer** – A corporation, such as a traditional insurance company or a Health Maintenance Organization (HMOs), which subsidizes most of the individual's health care costs.

While the government targets some market regulations at health care providers, it devotes far more of its attention to regulating insurance companies and HMOs. The health insurance industry is made possible by two-factors: the high price of health care, and the unpredictability of disease. Because health care is so expensive, individuals have an incentive to purchase insurance should they need treatment. Because disease is so unpredictable, insurers can make great profits collecting premiums from very healthy individuals. Indeed, over the course of their lifetime most people will pay more for health insurance than they will receive in coverage.

Insurance Companies

Current government oversight of the insurance industry mainly involves uninteresting technical details like capital reserves and reimbursement guidelines. However, there is emerging demand for government regulation in two areas: 1) Mental health insurance and 2) genetic testing.

Despite the stigma long attached to people with mental health issues, mental health problems are just as real and just as threatening as physical ones. Furthermore, their cause is often grounded in chemical activity in the brain which can be treated through medication. For this reason, there have been growing calls for the government to require mental health parity from insurance companies. Such a policy would require companies to provide the same coverage and subsidization for mental health as they provide for physical health. While such a policy may prove costly for insurers, as mental health increasingly establishes its scientific basis in the neurological behavior of the brain, it is becoming untenable to maintain the second-class status of insured individuals' mental health needs.

The other emerging demand for regulation concerns genetic testing. As scientists unravel the mysteries of the human genome, they arrive at a more thorough understanding of how an individual's genetic configuration may play a role in determining his or her susceptibility to certain diseases. This breakthrough could make it possible for insurance companies to deny coverage to individuals who are susceptible to diseases which may drain the insurers' wallets. Thus, privacy activists have called for restrictions on insurance companies' ability to grant or deny coverage on the basis of genetic information.

The insurance industry makes its profits through uncertainty: Patients are not sure whether or not they will get sick, and as such they have an incentive to seek insurance. Genetic testing removes a large part of this uncertainty and therefore calls into question the need for insurance. When an insurance company is forced to grant insurance to an individual who is certain to contract a resource-consuming disease, it is not providing insurance (a promise to pay expenses if disease occurs) so much as a handout (a promise to pay expenses when disease occurs). This condition, some argue, would seem to defeat the point of insurance.

HMOs

In the early 1990's medical prices were shooting upwards. It seemed as if medical spending would consume a greater and greater portion of America's resources. To a large extent, the insurance system was responsible for this growth. In the absence of insurance, a patient may decide to give up certain treatment options for financial reasons. Even on her death bed, a patient may decide a treatment with little chance of success should be forgone so that the money can be left to his or her progeny. With insurance, however, decisions made by doctors and patients are subsidized by a third party. Thus, the incentive is for doctors and patients to pursue further treatments until all beneficial options are exhausted--"pushing to the flat of the curve", as economist Paul Krugman describes it. This perverse incentive provided by insurance gave rise to HMOs.

HMOs, though varying in form, are basically insurance companies with strict limitations on treatment options: an individual in an HMO has his or her choice of doctors dictated; visits to specialists must be approved by HMO pencil-pushers; some treatments are not covered.

HMOs have often generated public outrage over some of their more abhorrent efforts to contain prices. Especially controversial have been "gag orders" preventing doctors from discussing potentially expensive treatments with clients. Likewise, horror stories abound of individuals denied treatment at emergency room entrances because their HMOs refuse authorization. Also problematic is the fact that insurance plans provided by private employers are legally immune to lawsuits. Many citizens' groups and politicians have called for a "patient's bill of rights", which would check some of the HMOs more egregious abuses.

While many HMO actions may seem reprehensible, it is important to remember that the HMOs' profit-drives are the key to containing medical costs – that our nation does not truly have the resources to provide every individual with unlimited health care treatment.

An appropriate reform to HMOs would curb the worst of the HMOs' excesses while allowing the organizations to retain control of the bottom line. Thus, HMO regulations that would allow patients to seek emergency treatment at the nearest emergency room, rather than at a more distant hospital covered by their HMO, might be considered a legitimate reform, correcting for restriction most people view as deplorable. Meanwhile, regulations that require HMOs to provide unfettered access to specialists might be considered an unreasonable reform, as they would curtail a legitimate tactic HMOs use to contain costs.

Above all else, good HMO reform should introduce objective standards for HMOs to deny or approve treatments. HMOs tend to be capricious in their decision to deny or approve a prescription drug or a hospital stay.

The Drug Industry

America subjects drug companies to a process of scientific scrutiny whose rigor is unparalleled. Under the auspices of the Food and Drug Administration (FDA), the U.S. government requires drug companies to thoroughly test their products before marketing them. The FDA review process requires an extensive set of clinical trials, in which companies test their drugs on a demographically diverse group of trial patients.

This review process provides insight into a drug's safety, the drug's potential side effects and its effectiveness in combating disease.

Though the FDA's review process has been very effective in ensuring the safety of drugs, many question whether the process could not function more efficiently. On average, a drug must be tested for five years before it receives FDA approval. During this time, many individuals may suffer or die due to their inability to procure the drug. Furthermore, the long approval process proves costly for drug companies, and may result in higher drug prices or less money for further medical research. These side effects of the approval process provide a compelling case to streamline the drug approval process.

One potential approach would involve eliminating much of the FDA bureaucracy. Eliminating the red tape that surrounds the drug approval process would help expedite the approval of drugs while maintaining safety standards. Another approach would shift responsibility for drug testing to the drug companies. These companies would have to submit their data to the FDA to meet methodological standards, and large fines could be levied to deter false data or doctored experiments. The United States' rigorous drug testing regimen has benefited the health and safety of the American people tremendously. At the same time, a more efficient FDA would allow for quicker and less costly development of drugs.

AIDS

The emergence of Acquired Immunodeficiency Syndrome (AIDS) as a cause of death throughout the world is far and away the most startling health care development of the past twenty years. AIDS is transmittable through the exchange of body fluids such as blood and semen. Thus, it is spread through unprotected sexual intercourse, the sharing of drug needles, and, until blood-tests became standard, blood transfusions. The disease works by overpowering the human immune system and leaving the body vulnerable to cancerous growths and infections.

For many years, AIDS was equated with certain death. Recent advances, however, have begun to efface that equation. The most publicized advance was the introduction of protease inhibitors, drugs which inhibit the AIDS virus's production of important proteins. When used in conjunction with several other drugs, in so called "drug-cocktails," protease inhibitors have been remarkably successful at curtailing the progress of the AIDS virus. Also emerging are a group of drugs known as entry inhibitors, which prevent the AIDS virus from entering the cells of the patient's immune system. These drugs too have shown much promise. In short, there is much reason for optimism. Whereas AIDS was once regarded as a death warrant, today many infected individuals lead normal lives with little trace of the virus in their system.

Nevertheless, there is reason for caution in our optimism. The HIV virus, the precursor to AIDS, is notorious for its mutations. Such mutations can potentially make the virus resistant to treatment. Already, individuals who have not responsibly adhered to the strict drug regimen associated with protease inhibitors have developed viral strains resistant to the treatments. The constant mutation of the drug also complicates the prospects for an effective AIDS vaccine. Thus, the overall prognosis for the war on AIDS is one of guarded optimism.

The effectiveness of available medical treatment for AIDS is also closely tied to socioeconomic status. That AIDS is an international crisis is well known. But even within the United States, the enormous expenses associated with effective AIDS treatment can be a catastrophic expense, even to families firmly in the middle class. Equity in treatment continues to be a healthcare challenge with relation to the AIDS epidemic.

Cancer

In his 1971 State of the Union Address, Richard Nixon declared war on cancer. Many were optimistic that the disease, one of the world's leading causes of death, would soon be tamed. Since Nixon's

announcement, the United States has poured more than \$30 billion into cancer research. Treatments have become more effective, and the quality of life of cancer victims has improved. However, the disease remains the chronic killer that it was at the time of Nixon's announcement.

Most scientists agree that we are still many years, if not many decades, away from the sort of all-encompassing cancer cure envisioned by President Nixon. Applying the above generic criteria, we find that while there is a definite commitment to battling cancer, there is halting progress, and the scientific consensus is none too optimistic.

The biotechnology explosion provides the potential for new inroads against the disease. Biotechnology promises not an outright cure, but rather the ability to predict which individuals may be susceptible cancer so as to provide early detection and more effective treatment.

Gene Therapy

Gene therapy is an absolutely revolutionary medical technology. Many diseases, such as cystic fibrosis, are caused by defective genes. Until the advent of gene therapy, the only way to treat a genetically induced disease was to combat its biological and chemical effects. Gene therapy attempts to fight genetically induced diseases by actually altering an individual's genetic composition.

Cystic fibrosis, for example, is caused by genes that fail to produce the proteins that break down mucous in the lungs. Victims eventually died of suffocation when their lungs grew clogged. In the past, only two treatments had been available: to attempt to clear the lungs manually, by coughing and slapping the back, or to attempt to break down the mucous through certain medicines. Both treatments were very unreliable. Gene therapy would treat cystic fibrosis by providing an individual with the genes necessary to produce the mucous processing proteins. Thus, a graft of skin containing corrected genes could provide a patient with the necessary proteins for months at a time.

While gene therapy has the potential to revolutionize medicine, it is still in its infancy. Much research remains to be done before it is approved as a common treatment.

There are, indeed, many risks associated with gene therapy. These risks were most stunningly manifested in 1999, when teenager Jessie Gelsinger perished after receiving gene therapy for a rare metabolic disease. The consensus in the scientific community following Gelsinger's death is that much research remains to be done before gene therapy can be applied safely and effectively on a broad scale.

Ethical Issues

The field of medical ethics is ever-evolving. Not only must it deal with an enormously diverse array of questions, but it also must attempt to incorporate what it has learned into answering new questions that are constantly proposed by novel technologies and situations. There are several important areas of medical ethics you should be aware of.

First, the ethics of research is an important and ever-evolving issue. Medical research has the potential to save countless lives and alleviate immeasurable suffering. Despite these laudable goals, however, researchers have sometimes used less than ethical means to try to achieve their objectives. Both national and international standards were forged in response to enormously controversial research projects. International norms emphasizing the autonomy of subjects, their right to informed consent, and their right to enjoy the benefits of the research were developed largely in response to experiments performed by the Nazi regime on the various socially marginalized groups in concentration camps. Similar values are reflected in US law, which in addition to being shaped by international norms was also greatly influenced by the infamous Tuskegee Experiment, in which African American men who had contracted syphilis were not treated so that scientists could observe the natural course of the disease. Today a series of structures

are in place, including the requirements that institutional review boards approve any research project which receives federal funding, that are designed to ensure that such egregious breaches of ethics are never repeated.

Second, ethical questions are related to the provision of healthcare as a whole. Significant ethical questions are raised when huge numbers of people have little or no access to appropriate healthcare in the United States. Conversely, ethical issues are also implicated when government regulation of healthcare limits the availability of certain options with regard to my treatment. If, for example, we limit access to specialists in order to contain costs which will ultimately permit us to provide basic healthcare to everyone, we know that we are sacrificing some people's health and wellbeing (those who would have benefited from immediate access to a specialist) for the good of the whole population. Whether this is a permissible moral trade-off is a classical ethical question.

Finally, there are many ethical questions implied in the doctor / patient relationship itself. How much information must a doctor give a patient before the latter may exercise "informed" consent for a medical procedure? May a doctor limit her medical advice to a patient based upon that doctor's personal moral convictions? For example, may a doctor who personally opposes abortion refrain from counseling women on the availability of abortion as a medical option? Is it ethical for doctors to specialize in lucrative practices which are not essential to life or wellbeing while many poor and rural hospitals do not have adequate medical staff to administer even the most basic of care? Each of these is an important question for medical ethics.

Conclusion

Health care related questions often require a complex approach which considers many facets of an issue. Even when approaching questions that seem remarkably one dimensional, the astute speaker or debater will always contemplate the moral, economic, political and technological aspects of the question before him or her.

Most importantly, sound analysis will strive for a balance answer. When approaching universal health care, an effective thinker will ask whether the moral benefits of universal coverage outweigh the economic costs of lower quality and longer lines. When approaching the FDA, he or she will ask whether the economic and health benefits of faster drug approval outweigh the risks engendered by fewer standards. In short, addressing topics about health care is a balancing act. So long as speakers and debaters recognizes the various angles of a question and weigh them prudently, there is every reason to believe they can address the issue successfully.

Bibliography

- Altman, Stuart H. and Uwe Reinhardt. *Strategic Choices for a Changing Health Care System*. Chicago: Health Administration Press, 1996.
- Armstrong, Pag, Hugh Armstrong and Claudia Fegan. *Universal Health Care: What the United States Can Learn from the Canadian Experience*. New York: New Press, 1998.
- Butler, Stuart, Michael Gluck, Judith Lave, and Robert Reischauer. *Medicare: Preparing for the Challenges of the 21st Century*. Washington D.C.: Brookings Institution, 1998.
- Cohn, Jonathan. "Spend a Little." *The New Republic*, December 13, 1999, p. 15. <http://www.tnr.com/121399/cohn121399.html>
- Donlan, Thomas G. "Looking Down the Track: The real train wreck is right on schedule." *Barron's*, October 11, 1999, p. 55
- Easterbrook, Gregg. "Abortion and Brain Waves." *The New Republic*, January 31, 2000, p. 21.
- Gorner, Peter and Jeff Lyon. *Altered Fates : Gene Therapy and the Retooling of Human Life*. New York: W.W. Norton & Company, 1996.
- Koretz, Gene. "A Health-Cost Time Bomb?" *Business Week*, August 7, 2000, p. 26

- Maugh, Thomas H. "New Class of Anti-HIV Drugs Shows Promise." Los Angeles Times, February 1, 2000, p. A-1.
- Reischauer, Robert. "Prescription Drug Coverage and Medicare." Congressional Testimony. <http://www.brookings.edu/views/testimony/reischauer/19990928.htm>
- Roodwin, Marc A. "The Neglected Remedy: Strengthening Consumer Voice in Managed Care." The American Prospect. September/October 1997. <http://www.americanprospect.com/archives/34/34rodwfs.html>
- Wolfe, John R. The Coming Health Crisis: Who Will Pay for Care for the Aged in the Twenty-First Century? Chicago: University of Chicago Press, 1993.

Environment

Brian Fletcher, Max Wolson, and Grant Hagstrom

Introduction

The issues surrounding the environment are fertile ground for forensics topic writers. There are many problems that are almost always in the news, such as global warming, ozone depletion, and endangered species, and other, more specific controversies – for example, whether the U.S. should ratify the Kyoto Protocol or reform the Environmental Protection Agency – that make headlines for short periods of time.

Although environmental problems can be intricate and controversial, many of the same analytical concepts can be applied to all of the major issues. Armed with these concepts and a solid foundation of information, you will be able to intelligently critique current policies and even cope with the most analytically challenging topics.

Background: The Issues

You will sound more knowledgeable and authoritative – and therefore more convincing – if you can put current controversies in their historical context. A good background knowledge of the history of the environment and the basic facts surrounding current issues will also make it easier for you to keep up with new developments because you will be able to fit the events of the day into a larger picture. It is important to understand that all environmental concerns of today, regardless of recency, take their roots in problems which have existed for a long time. There would be no need for debates over nuclear energy if not for the flaws in Industrial Revolution coal burning.

For all intents and purposes, the history of the U.S. environmental policy finds its origins in the time of the 26th President, Theodore Roosevelt. Roosevelt was well known for being the first president to set aside land as National Forests and for pushing for protection of America's natural resources.

The next major developments took place in 1970. On April 22 of that year, 200,000 people gathered on the Mall in Washington, DC to commemorate the first Earth Day. Altogether, 20 million people around the country were involved in Earth Day events. How did such an unprecedented event attract so many participants? For nearly 200 years the United States had been using natural resources like forests, coal and oil and polluting the air, water and land with little regard for environmental consequences. In the 1960's, the consequences became too serious to ignore, and by 1970, people were fed up. Earth Day was an expression of a lot of pent up frustration. The Earth Day celebration put the environment on the national agenda, and it has stayed there ever since.

Earth Day had a significant impact on America's social and political landscape. Socially, large numbers of ordinary people began to think seriously about the environment for the first time and the environmental movement took off. Today, this movement is made up of organizations ranging from the Sierra Club to Greenpeace, each with more resources at their disposal than environmental advocates from previous generations ever dreamed of.

Politically, Congress took notice of shifting public opinion – as politicians usually do – and stepped in to take on the task of regulating environmental quality, a job that had previously been largely left to the states. Just a few months after Earth Day, Congress created the Environmental Protection Agency (EPA) to oversee compliance with federal environmental laws. At the same time, it began to expand the federal government's control over the environment with new legislation.

Between 1970 and 1980, Congress passed a series of landmark laws extending federal regulatory authority into new areas and raising standards for environmental quality around the country.

Since 1970 Congress has passed hundreds of environmental laws, but the most important are the “big four” landmark laws passed between 1970 and 1980:

- the Clean Air Act;
- the Clean Water Act;
- the Endangered Species Act;
- the Comprehensive Environmental Response, Compensation and Liability Act

The problems addressed by these laws are a good place to begin an issue-specific background of the environment.

Air Pollution

Air pollution may be the oldest environmental problem – there are records of laws governing coal burning within the London city limits that date back to medieval times. However, air quality really started to go downhill after the industrial revolution: a few coal fires are nothing compared to thousands of factories and hundreds of thousands of cars and trucks. By the mid-1900s, buildings in London and other major cities were black with soot. Even the moths had to adapt: Before the industrial revolution, city moths were mostly white because the light color provided better camouflage from predators. After decades of industrial pollution, the moths had evolved to dark gray because it blended with the soot-covered urban landscape.

The air quality affected people too: In 1948, a cloud of “killer smog” actually suffocated twenty people in a Pennsylvania manufacturing town. In 1970 Congress finally passed the Clean Air Act to address pollution from industry and transportation. Despite this first step, problems with clean air remain, and with them come topic areas involving clean air standards or the health impacts of smog.

The Clean Air Act authorizes the federal government (through the EPA) to set air quality standards for six major pollutants (ground-level ozone, particulate matter, lead, carbon monoxide, sulfur dioxide and nitrogen dioxide). Individual states are responsible for implementing their own laws and regulations to meet these standards.

The Clean Air Act was amended in 1990 to tighten regulations on sulfur dioxide, which is produced by burning coal and oil and causes acid rain, and to add ozone-depleting chlorofluorocarbons (CFCs) to the list of regulated chemicals. The 1990 amendments are also notable because they included a new regulatory mechanism that has proven to be very effective: tradeable “emissions credits.”

Factories which emit less than their allotted share of pollutants earn emissions credits which they can sell to other factories that would otherwise exceed their own limits. This scheme produces the same reduction in total pollution as a “one-size-fits-all” regulation, but it is much more efficient.

Companies which can reduce their own pollution cheaply are given an incentive to lower their emissions below the legal limits so they can make money by selling credits to other companies. Then the factories that would otherwise have to spend a lot to reduce their emissions to the legal limit can save money by purchasing credits from their more efficient counterparts instead. In this concept exists an important controversy that warrants attention. Since the inception of the amendments, people have questioned the idea of companies being able to exceed emissions standards so long as they have been able to bargain for emissions credits. Regardless of stance, the controversy plays into any discussion of emissions credits.

As a result of the Clean Air Act and its successors, air quality in the U.S. is substantially better today than it was thirty years ago. The EPA has been especially effective at reducing the emission of lead by outlawing lead paint and leaded gasoline, and eliminating CFCs from refrigerators, aerosol cans and styrofoam. However, there is still room for improvement: Many US counties, especially in urban areas, don't meet EPA standards, and summer smog advisories are a daily event in many big cities, most notoriously Los Angeles.

One of the current controversies regarding air quality that you could be asked about is the debate on whether or not to tighten existing emissions standards. There is always friction between industry and environmentalists over air quality standards, because more stringent emissions standards would cost quite a bit of money to implement.

Everyone agrees that the EPA must strike a balance between economics and the environment, but there is substantial disagreement over what constitutes a proper "balance": environmentalists think we can afford to pay more for better air quality, and industries feel like they are already suffering unfair losses because of existing regulations.

Some supporters contend that allowing for economic precedence could, in fact, lead to future environmental gains. Some sociologists have proposed that further development could result in the shifting from a Post-Industrial Society to a "Bioeconomic Society" one in which science and nature are blended. Such a development, if it actually occurs, would undoubtedly lead to environmental improvement. Despite its being a theory and not concrete fact, the concept is none-the-less worth noting when economics and environments collide.

Global warming (also known as climate change) has also been in the news for years, and will stay there for some time to come. Some scientists argue that emissions of carbon dioxide and other "greenhouse gases" have increased the tendency of the atmosphere to trap heat from the sun on the earth's surface. The problem is compounded by deforestation, since plants replace carbon dioxide with oxygen. Environmentalists point to record high temperatures in recent decades as evidence that the theory is correct, and predict dire consequences if the trend continues, including the melting of polar ice caps, coastal flooding and radical shifts in climate.

On the other hand, global warming skeptics claim that the rise in temperatures is just a part of the earth's natural climate fluctuation and dispute the link between so-called "greenhouse gases" and climate change. The scientific controversy is accompanied by a political mess: the world's developed and developing economies depend on carbon dioxide emitting activities to function, and stabilizing, let alone reducing, emissions would be extremely expensive. Nonetheless, there is growing consensus in the scientific and political community that some action needs to be taken to address climate change, even if less radical than the most fervent proponents would advocate.

Water Pollution

Like air pollution, water quality has been a problem for centuries. In the middle ages people learned that dumping sewage and other waste into their water supplies made them sick, but the link between industrial pollution and cancer, birth defects and other serious problems wasn't made until much more recently. By the time the government stepped in, U.S. waters were in bad shape. The most egregious example of water pollution may be the Cuyahoga River in Ohio. In 1969, a stretch of the Cuyahoga near Cleveland spontaneously combusted and burned until firefighters were called to put it out. This and other incidents put water quality second on the national agenda after air pollution.

In 1972, Congress passed the Clean Water Act, which prohibited the discharge of pollutants into major rivers and lakes and required that already-polluted waterways be cleaned up. The Act was complemented

by the 1974 Safe Drinking Water Act, which regulated tap water quality by setting maximum acceptable levels of eighty chemicals.

Both pieces of legislation have improved water quality. Factories and other big polluters that used to dump untreated waste into rivers are now strictly regulated. There are also many success stories of rivers and lakes rescued from horrible pollution: For example, the Great Lakes are safe for fishing and swimming again, and even the infamous Cuyahoga River has been cleaned up. Tap water is also much safer now than before EPA regulation. However, water quality is still a problem. In the 1990s dozens of people were killed by contaminated tap water, and more than 1/3 of U.S. lakes and rivers are unsafe for fishing or swimming.

Experts agree that the next step in improving water quality is the regulation of “non-point sources” of pollution. Essentially a point source is said to be a primary source of pollution (i.e. any source which one could “point to”). Point sources are easy to identify and relatively easy to regulate, and therefore the EPA has proved to be fairly good at limiting pollution from them. Non-point sources, on the other hand, are spread out and hard to pinpoint. They include agricultural runoff and even private lawn pesticides and fertilizers that seep into water supplies through storm drains. Because non-point sources are diffuse by definition, they are much harder to regulate, but there are enough of them that collectively they do a lot of damage to water quality.

Another current problem in water quality deals with wetlands. Swamps and other wetlands are an important natural habitat. They also act as natural water filters and can limit flooding. Recognizing the value of wetlands, Congress has authorized the EPA to protect them from development. However, the price of stopping the destruction of wetlands has been severe limitations on property rights: Millions of dollars have been lost by developers who buy land planning to build on it, only to have it classified as protected wetlands after the purchase. Any person who has flown in to either of South Florida’s International airports could easily witness the prime example of this struggle. Flying over the Everglades, one notices a well established line where the houses of Weston, Florida end and the Everglades begins. As with other cities, the location of that line has been a point of contention for developers and law makers for many years. Similarly, the EPA is still struggling to find the proper balance between the environment and private property.

Endangered Species

After regulating air and water quality, Congress attempted to halt the extinction of animal species. Although extinction happens naturally, the expanding human population has accelerated the process by polluting the environment and encroaching on natural habitats. By the 1960s, dozens of species in the U.S. had become extinct and hundreds more, including the bald eagle, were threatened with the same fate. Although efforts to prevent extinction usually focus on what environmentalists wryly call “charismatic mega-fauna” like eagles and bears, even the loss of lower-profile species could have serious implications on the environment as a whole because food chains and habitats are interdependent, and the loss of one species can have ripple effects on others.

In 1973 Congress passed the Endangered Species Act. The Act allowed the Fish and Wildlife Service (FWS) to place threatened species in several categories depending on how close they were to extinction. The FWS was given the resources to monitor all species designated as threatened, and was empowered to prohibit development or other destruction of the habitats of the most endangered species.

The Endangered Species Act has always been highly controversial. It has had its successes: A few species, including the bald eagle, have been taken off the endangered list because they are no longer threatened with extinction. However, thousands of species remain on the endangered list, and others have gone extinct despite being protected by the law.

The Act remains controversial today because it pits endangered species protection against property rights and economic growth. The high profile spotted owl case, in which thousands of acres of prime logging territory in the Northwest was declared off limits because it was the home of the endangered bird, illustrated the costs associated with protecting endangered species. Landowners also object to the fact that they are not compensated if the government prohibits development on their property because an endangered species is discovered.

Opponents of the Endangered Species Act argue that in addition to being unfair, the law is counterproductive, because it gives landowners an incentive to remain ignorant of, or even to destroy, endangered animals on their land. This perverse incentive exists because the public discovery of an endangered population would render their land useless. Critics suggest that species should be protected through financial incentives for voluntary conservation instead of mandatory restrictions on the use of private property. As questions over the acts' future course remain pressing, public speakers and debaters will face topics involving endangered species, as well as the interplay between property owners' rights versus the importance of protecting these species.

Toxic Waste

Unlike ordinary air or water pollution, which is usually temporary and mobile, toxic waste is made up of heavy industrial chemicals that remain for years (and possibly centuries) after they are deposited and can contaminate soil and water for miles around. Many industrial processes produce extremely toxic waste that causes storage problems as it accumulates. Careless disposal of toxic waste can ruin entire areas for decades. The most well known case of toxic waste pollution in the U.S. happened at Love Canal in New York. Thousands of people had to leave their homes in 1978 after discovering that a housing development was built on top of a toxic waste dump.

The last of the "big four" laws was the 1980 Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund). CERCLA created a government fund to pay for the clean up of deserted toxic waste sites and also imposed liability on landowners for the costs of cleaning up their own properties.

Superfund may be the most controversial environmental law of all, but everyone agrees on one thing: The law as it is written doesn't work. Thousands of sites are on the national list of dangerous properties, but only a tiny fraction have actually been fully cleaned – and each site that has been cleaned has cost tens of millions of dollars.

Superfund's liability rules have also caused problems: The owner of a property is liable for the entire cleanup cost, so many former industrial sites actually have a negative value. It would cost a business more to clean up a property to federal standards than it could possibly make by developing it. These "brownfields" sit in a polluted limbo: No one is willing to buy them or clean them up, so they continue to be sources of pollution, not to mention eyesores, as they deteriorate.

The liability rules associated with Superfund have also led to enormous litigation costs, as the federal government and private landowners and manufactures spend millions on lawsuits attempting to sort out financial responsibility for cleanup projects. These millions could be spent on actually improving the environment or to improve the corporate bottom line, so both environmentalists and businesses agree that things need to change. However, Superfund reform remains stalled at the starting line because none of the parties involved agree on anything except the need for change.

The Superfund controversy has been around for decades and will probably stay around for years to come. In addition to sorting out the financial incentives and liability regulations, effective reform will have to

answer the question “how clean is clean?” Today, Superfund sites are cleaned until they are suitable for residential development, but critics argue that they could be made safe for industry or other uses at a much lower cost. If Superfund standards were more flexible, critics argue, a lot of dangerous sites could be cleaned to acceptable levels instead of having a few sites cleaned to excellent levels.

Recently, the controversy has been expanded even further as possible payment responsibility shifts have been discussed. In the case of many Superfund sites the Government has now been looking into the usage of tax money to fund Superfund site cleanup. The charging of citizens to clean up messes which corporations have created just adds additional fuel to an already hotly contested issue.

The “big four” issues cover the most important domestic environmental problems, but there are many other dimensions to the environment and it pays to expand your background knowledge beyond the basics.

Nuclear Power

The world’s worst nuclear accident happened in 1986, when a part of a Soviet nuclear power plant at Chernobyl exploded and began leaking radiation. Many people were killed immediately, and thousands more were exposed to damaging radiation. The surrounding area was contaminated for years and is still suffering from the environmental repercussions of the event.

The Chernobyl disaster is a powerful reminder of the dangers posed by nuclear power. A much smaller radiation leak in 1979 at a U.S. plant at Three Mile Island in Pennsylvania serves as evidence that the U.S. is not immune from the danger of a nuclear accident.

This danger of radiation leaks, combined with the environmental headache posed by nuclear waste with a half-life of thousands of years, has convinced many environmentalists and much of the public that the costs of nuclear power outweigh its advantages. However, there are others in the environmental movement who point out that nuclear power plants generate energy without the air pollution and resource depletion associated with burning fossil fuels.

Until solar or wind power is practical on a large scale (and becomes cheap enough to be competitive) nuclear power may be the best way to improve air quality. After the initial fascination with nuclear power in the 1960s and 1970s, the construction of nuclear plants slowly tapered off in the 1980s and reliance on nuclear power will continue to decline for the foreseeable future. However, nuclear power will continue to be an important issue.

First, there is the continuing problem of storing nuclear waste. Even as the number of newly spent uranium fuel rods slowly decreases, storage will continue to be a substantial problem because much of the waste from years past is stored in temporary facilities – sometimes even at the power plants themselves. The Department of Energy is in the process of opening a permanent storage facility under Yucca Mountain in Nevada, but it is very difficult to store radioactive waste in a way that will keep groundwater safe for the hundreds or even thousands of years that the waste will remain dangerous. Furthermore, Nevada and the surrounding states are afraid of an accident while tons of uranium is shipped by truck or train to a permanent storage facility.

In contrast to the danger of nuclear power are the historically realized results of its usage. While any accident involving a nuclear facility creates extreme consequences, their actual frequency presents an equally strong argument in favor of nuclear plants. Aside from the disasters of Chernobyl and Three Mile Island, nuclear plants have presented little realized-danger to their surroundings.

In newer post-September 11 times concerns of nuclear power danger have turned instead to terror related security concerns. Many have advocated a cessation of nuclear development simply because of the apparent risks of refined nuclear material being shipped into potentially hostile territories. Though a nuclear power plant is not a requirement for nuclear bomb production, it is a helpful precursor.

Land Use

Land, like air and water, is a finite resource. For most of this country's 200 year history, we haven't had to face that reality because there was always more cheap land available than we needed – in fact, inexpensive land was one of the defining characteristics of the early U.S. – it used to be that the federal government would give away farms to anyone willing to work them for two years. Even today the government controls huge swaths of territory (especially in the West) that it allows ranchers and sometimes even logging and mining companies to use for prices far below market rates. However, as the population has grown the demand for land has grown with it, and land use has become a subject of controversy.

Federal land is the source of many controversies. The first question is whether or not to permit private use of the land at all: Some environmentalists object to any use of public lands by private companies, especially when those companies extract resources like oil and minerals. Others argue that prohibiting the exploration of federal land and the extraction of any resources that might be found puts an unnecessary brake on the economy. For example, the Clinton administration came under fire for refusing to allow energy companies to look for oil and gas in Alaska.

When the government does decide to allow a private company to buy or use its land, the issue becomes the price. How much should the government charge? Up until very recently, the prices for the use of federal lands were governed old laws, some of them passed more than 100 years ago. As a result, private companies were being allowed to extract millions of dollars worth of timber, minerals and oil for rates far below market prices. This pricing arrangement was objectionable not only because it meant that the companies were getting a free ride while taxpayers lost out, but also because the artificially cheap lease rates drove down the price of the extracted resources and encouraged overuse. These problems have been recognized and Congress is in the process of reforming the federal land bureaucracy, but change is a long and complicated process and the issue will continue to be a source of controversy.

Another issue associated with federal lands is the use of “land swaps” to protect the environment. The idea, begun in the 1970s and 1980s, is that the federal government will trade environmentally unimportant but commercially desirable land to developers in exchange for other pieces of land that do have ecological significance. Almost everyone agrees that the idea is a good one in theory, but it has become apparent that the government is making some bad deals and trading away extremely valuable land and getting far too little environmentally important territory in return.

Urban sprawl is a newcomer to the political arena. Since the mid-1990s, politicians, including most notably Al Gore, have seized upon the haphazard and rapid growth of suburban areas as a campaign issue, and it seems to have some resonance with voters. People are tired of the traffic and visual pollution associated with the uncontrolled growth of metropolitan areas, and local, state and even national governments are being faced with the task of coordinating city planning between cities and suburbs. Right now the debate over sprawl is long on complaints and short on proposed solutions, but cities are looking into more tightly controlled zoning ordinances and longer-term city planning as possible answers to the problem.

Environmental Issues on an International Scale

Like the history of environmental regulation in the United States, the history of international environmental governance begins in the early 1970s. In 1972, the UN hosted the Conference on the

Human Environment in Stockholm, Sweden. This landmark conference was the first time that the international community formally addressed the full range of environmental issues.

In the aftermath of Stockholm, the UN created the UN Environment Program (UNEP) which is headquartered in Nairobi, Kenya and charged with coordinating international environmental efforts.

The next major environmental conference was hosted by the UN in 1992 in Rio de Janeiro, Brazil.

The focus of the Rio conference was the concept of “sustainable development.” The idea behind sustainable development is that environmental protection and economic development must progress hand in hand and be mutually reinforcing.

There is widespread agreement on this principle, but divisions also emerged at the Rio conference. Specifically, the developed states (often referred to as the North) and the developing states (the South) disagreed over how to divide the financial burdens of environmental protection. Many of the environmental problems in the world today were caused primarily by the U.S. and other industrialized states during the process of development. Now, as other nations around the world are poised to begin the same process, the North is pressuring the South to insure that its growth doesn’t come at the expense of the global environment. The South wants the richer North to cover its costs because the developed states are in a better financial position and also because they are mostly to blame for the current plight of the environment.

In addition to UN conferences and administrative bodies, the global environment is also governed by a series of environmental treaties, or multilateral environmental agreements (MEAs). Major treaties include:

- The Montreal Protocol (governing the emission of ozone depleting substances.)
- The Kyoto Protocol (limiting the emission of greenhouse gases.)
- The Basel Convention (regulating international transportation of hazardous waste.)
- The Convention on International Trade in Endangered Species
- The Convention on Biological Diversity
- The UN Framework Convention on Climate Change

Another controversial dimension of global environmental protection that you may be asked about is the intersection between free trade and environmental protection. The World Trade Organization (WTO) regulates the trade policies of its members, including the U.S. The WTO is governed by the principles of reducing barriers to trade and insuring that all of its member states are treated equally in each other’s trade and tariff policies. The U.S. generally supports these principles as well, but the U.S. government also uses trade sanctions (limits on the import or export of another nation’s products) to achieve its foreign policy goals, including environmental protection. In 2004 those trade sanctions came into direct conflict when the WTO ruled American steel tariffs to be a violation. The US was, therefore, presented with the un-enjoyable choice of penalties from WTO nations or reduction of steel tariffs. The US Marine Mammal Protection Act (MMPA) requires that tuna other fish be caught in a manner that doesn’t kill dolphins, sea turtles and other protected species. The MMPA also prohibits U.S. companies from importing fish that are caught in a non-dolphin safe manner, even if they are caught in foreign waters.

In the early 1990s, following the MMPA, the Clinton administration banned Mexican tuna from US markets. The Mexican government filed a complaint at the WTO, and a dispute resolution panel found that the U.S. trade sanctions were “illegal.” This decision was never adopted by the WTO as a whole, so the issue of unilateral environmental trade sanctions remains unresolved.

The Politics of the Environment

Like any other issue, the environment has a political side. Luckily, most public speakers are more than comfortable talking about politics, and when it comes to the environment the Republicans and Democrats take fairly predictable positions. In general:

- **Republicans** favor economic growth over environmental protection, prefer a minimum of government regulation, and when regulation is necessary, prefer state and local regulations to national standards.
- **Democrats** are more likely to favor a strong federal role in the protection of the environment, even at some cost to the economy and the autonomy of states.

One frequent political dispute over environmental regulations concerns “unfunded mandates.” Unfunded mandates have long been one of the GOP’s favorite issues, and the 1994 Contract with America even included a pledge to eliminate them. An unfunded mandate is a federal requirement that a state or local government do something (hence, “mandate”) without federal money to pay for the job (hence, “unfunded”).

Many environmental regulations take the form of unfunded mandates –most notably, the Safe Drinking Water Act. The Act requires every municipality equip its water system with the technology to check for and filter dozens of chemicals. This process can be extremely expensive, especially for small, rural systems. These requirements are especially frustrating to Republicans because many smaller water systems have practically no chance of actually being contaminated by some of the chemicals covered by the EPA mandate.

Examples like these are good ammunition in the Republican’s case for local regulation of the environment. They argue that different states and localities have different problems and different preferences, and that these differences should be reflected by different regulations.

On the other hand, Democrats argue that many state and local governments lack the experience and the know-how that is required to effectively protect the environment. By setting national standards, the EPA prevents duplication and inefficiency as well. Furthermore, some environmental problems can’t be regulated locally. For example, factories in the Midwest produce sulfur dioxide, which forms acid rain that falls in the Northeast. If sulfur dioxide emissions were regulated by the states, Midwestern states would have no incentive to limit emissions (since their ill effects fall outside of their borders) and Northeastern states would be powerless to stop acid rain.

Many topics about politics and the environment also deal with the simpler issue of whether or not environmental questions will become more or less politically significant in the future. The power of environmental lobby groups within the political process, as well as the power of industrial counter-lobbies, goes a long way towards determining the path of environmental legislation. By analyzing how much people care about environmental issues, and, correspondingly, how much support they will give to such organizations, one can get a better idea of how legislation, and environmental protection, will progress.

Causes of Environmental Problems (or, the Environment as Economics)

Economics may be the “dismal science,” but a few of its basic concepts are highly applicable to the problems of environmental regulation. In fact, economics is the key to understanding why environmental problems happen.

It helps to begin by remembering that markets (I’m using the term broadly, to mean all buying and selling) are meant to distribute goods and services efficiently. Next, think about environmental quality as a good like any other. It may be difficult to think of, say, safe drinking water as a commodity like a candy

bar, but like a candy bar, safe water is a desirable thing, and most people would be willing to (and many people do) pay for it just like a candy bar. The problem is that while a market is a good tool for distributing things like candy bars, steel and soap, it is not nearly so good at distributing environmental quality. This market failure occurs because no one person or company can “manufacture” environmental quality, and each of us doesn’t get to buy our own environment—we all share the same one. This means that the environmental costs associated with economic activities are paid by society as a whole, rather than by the producer or consumer of the product which causes pollution. Economists call this an externality. An externality occurs when the costs of an activity fall on the public as a whole rather than on the particular actor in a given transaction.

The best example of an environmental externality is pollution: the benefits of making and selling a product go to the producer and the consumer, but the environmental costs fall on society as a whole. Because producers and consumers don’t bear the environmental costs of their activities, they don’t take them into consideration and they pollute too much. This example illustrates how externalities cause “market failures” and inefficient distributions of environmental quality. Many argue that the government’s job is to use its power to eliminate these externalities and “fix” the market.

The government can “fix” the market by taxing polluting activities to discourage companies from polluting too much, or by holding polluters liable for the clean-up costs of their pollution. Either way, the government imposes artificial costs on a business in order to simulate the environmental costs that the market would otherwise miss.

Another useful analogy for explaining environmental problems is the “tragedy of the commons.” The tragedy of the commons is a concept that gets its name from an old practice: Towns used to have a big grassy area in the center called the commons because anyone could use it to graze livestock. For each individual farmer, it made sense to graze as many of his cattle as possible in the commons because he didn’t have to pay for the feed – but when every farmer did that, all of the grass in the commons died because it was overcrowded, and none of the farmers could graze any of their cattle for free. The “tragedy” is that each individual farmer’s rational pursuit of his self interest resulted in a worse outcome for everyone than if they had all exercised restraint.

The depletion of common resources like clean air and water is an example of an environmental tragedy of the commons. For each business or individual, the benefits of polluting (usually saving money) far outweigh the harms to them from their individual action – after all, the pollution from one person or one company lessens overall environmental quality just a little bit. But when thousands of companies and millions of people think this way, everyone pollutes and the aggregate damage to our common resources makes us all worse off.

When a tragedy of the commons occurs, the government can make everyone better off by enforcing mutual restraint, preserving our common resources by making sure that no one uses too much of them.

Barriers to Effective Solutions

Ideally, the government would be able to solve all of the problems caused by market failures and externalities with efficient regulations. However, “efficient government regulation” is something of an oxymoron. There are a lot of things that can go wrong between recognizing a problem and implementing an effective regulatory solution, including:

- **Regulatory Mismatches.** The first place that environmental regulation can go wrong is at the choice of regulating agency. In the acid rain example from the “Politics” section, it is clear that individual states can’t effectively regulate sulfur dioxide production because the source of the problem is in one set of states and the consequences are felt in another group altogether. If the

source of a problem isn't within the jurisdiction of a government, that government is powerless to solve the problem. If the effects of the problem don't fall within the jurisdiction of a government, that government has no incentive to solve the problem (why hurt its constituents to benefit people who vote in other states?).

- **Interest Groups.** The second cause of environmental regulatory failures is a familiar cause of bad government: distortion of the democratic process by special interests.

This problem is especially pressing with environmental regulation because the people hurt by good environmental regulations (in general, polluters) are often concentrated and have a lot to lose. On the other hand, the set of beneficiaries (the public) is very large, but each member of the public stands to benefit only slightly from any given regulation.

For example, power plant owners could lose a lot of money if air quality standards are improved – they have a very strong incentive to donate money, lobby and otherwise use their influence to prevent that from happening. You and I, on the other hand, will benefit a little bit if those plants are forced to stop polluting, but only a little bit – and that makes us much less likely to lobby or campaign for regulations. In the worst cases, this dynamic results in the foxes watching the henhouse: lobbyists for some companies have actually helped Congress to write the environmental regulations for their industries. For example, many Midwestern power plants were granted lucrative exceptions from the 1970 Clean Air Act.

- **Narrow Regulatory Schemes.** One of the most significant problems with early attempts to regulate environmental harms was the one-dimensional nature of the regulations. The EPA and Congress dealt with air, land and water pollution as though they were entirely separate problems, but in reality they are closely linked. The focus on single elements of the environment rather than the big picture can lead to unintended consequences. The best known example is the use of the chemical methyl tertiary butyl ether (MTBE) in gasoline. Many require the use of MTBE as a gasoline additive because it makes the gas burn more cleanly and improves air quality. However, MTBE is also a carcinogen, and its use in gasoline has caused it to seep into ground water through exhaust, runoff and leaks, fouling drinking water and risking negative health effects.

- **Economics.** As mentioned earlier, development and environmental improvement are not always the most easily combined options. In general, economic advancement presents more immediate payoffs to those who pursue it. As a result there is a general reluctance to enact environmental policies when apparently more rapid positives exist on the side of economics.

- **Science Conflicts.** While any number of theories can be cited that illustrate the grave status of our environment, there are equally numerous theories which bring into question the extent and time frames put forth in environmental studies. As a result many environmental debates turn into a “he says-she says” argument and effective regulation is made difficult.

Principles for Effective Solutions

Now that you understand the causes of environmental problems and some of the things that can go wrong on the way to solving them, it's time to look on the bright side: there are some principles which are proven to make regulation more effective.

- **The Matching Principle.** The matching principle holds that the jurisdiction of the regulatory authority attempting to cope with an environmental hazard should correspond to the scope of the problem, including both its causes and effects. This correspondence prevents regulatory failure because of mismatches between interested parties and authorities.

Unfortunately, this principle is difficult to implement. Environmental problems move with air and water currents, not according to artificial lines on a map.

• **Market-Based Solutions.** Although the market isn't very good at protecting the environment, government regulations that make use of market forces like supply and demand are often much more flexible and efficient than those that don't. For example, the tradeable emissions credits used in the amended Clean Air Act of 1990 have insured that the factories that can cut sulfur dioxide emissions most cheaply and efficiently are the ones that make the cuts. In general, tradeable permits and credits allow the government to set an environmental target (in this case, a total level of emissions) and let the market determine the most efficient way to meet that target, something that markets are very good at doing. A similar solution has worked for a very different problem: protecting dwindling fisheries. Instead of imposing a flat cap on the number of fish that each boat can catch, governments around the world (including the U.S., Iceland and New Zealand) are auctioning off permits to catch fish. Because the permits can be resold, the system rewards the most efficient boats because they can afford to buy up more permits and catch more fish.

• **Technology and Environmental Regulation.** Everyone knows that new technology can make our lives easier, but it can also make it easier for the government to protect the environment. Pollution tracking computers allow the EPA to pinpoint the sources of air and water pollution. New devices actually fit inside the smokestacks of power plants and use the Internet to send by-the-minute updates on the plant's emissions to the EPA.

By giving the government more information with less manpower, technology allows the EPA to more quickly assess the need for new regulations and the results of existing laws.

Conclusion

With these concepts in mind, you will be equipped to tackle environmental topics of all kinds. Best of luck!

Bibliography

- Connelly, James and Graham Smith, Politics and the Environment. New York: Routledge, 1999.
- Elliott, Lorraine M. The Global Politics of the Environment. Hampshire: Macmillan Press, 1998.
- Esty, Daniel C., "Toward Optimal Environmental Governance" from The New York University Law Review, Vol. 74, No. 6 (December, 1999), pp. 1495-1574.
- Gelbspan, Ross, The Heat is On: The High Stakes Battle Over the Earth's Threatened Climate. Boston: Addison-Wesley, 1997.
- Hill, Peter and Roger Meiners (eds.), Who Owns the Environment? Lanham, Md.: Rowman & Littlefield, 1998.
- Instructional Materials Center, The. Theodore Roosevelt. <http://www.umkc.edu/imc/roosevlt.htm>. 2002.
- Rothman, Hal K., Saving the Planet: The American Response to the Environment in the Twentieth Century. Chicago: Ivan R. Dee, 2000.
- Werksman, Jacob (ed.), Greening International Institutions. London: Earthscan, 1996.
- Yandle, Bruce (ed.), The Market Meets the Environment. Lanham, Md.: Rowman & Littlefield, 1999.

United States and Science

David Hardy and Joseph Poore

Introduction

Science is one of the more neglected areas of speech and debate; it rarely makes the news and involves complex and controversial issues where a firm grasp of the field is necessary. The goal of this section is to give you some core background information with which to contextualize some of the major scientific issues commonly discussed in forensics events today.

Issues

There are three main issues dominating the scientific current events field: stem-cell research, space science, and genetically modified foods.

Stem Cell Research

Epitomizing the cutting edge of biomedical engineering, stem cell research is one of the most hotly debated scientific issues. The issue erupted onto the scientific stage in 1998 with the isolation of the human embryonic stem (ES) cell by a biologist at the University of Wisconsin.

Conception begins with a male sperm mating with a female egg to produce an embryo. The embryo immediately begins to divide and multiply, creating thousands of similar cells. About four days after conception, the cells begin to specialize or differentiate, i.e. they're given different roles in the newly forming human body. These now-specialized cells group form hollow spheres that subsequently develop an interior mass of human embryonic stem cells. There are also adult stem cells, that while they have great potential, are considered rife with problems and obstacles not encountered with ES cells.

Thus, stem cells can theoretically generate a multitude of types of cells in the body, from bacteria-fighting white bloods cells to skin cells to precious nerve cells.

Stem cells have been proposed to treat a variety of ailments from Parkinson's and Lou Gehrig's disease, to nerve damage and diabetes. Cell therapy involves replacing diseased or dead tissue with healthy ones. It doesn't involve injecting actual stem cells, but stem cells that have been converted to whatever the need. For this reason, one of the particular powerful capabilities is the ability to replace nerve cells, which are finite. After a certain point in their life, a person simply stops growing more, and loses the capability to replace them. Stem cells would theoretically change that.

Ethics

Many opponents of ES research believe that human life begins at conception, and therefore any research that visits harm upon a human embryo is morally reprehensible. So far, all stem cell extraction has involved such harm. Proponents of ES research point out however that fertility clinics routinely create multiple human embryos for impregnation, of which ultimately only one is used; the rest are simply thrown away. Researchers could instead save those embryos and extract the stem cells for potentially life-saving treatments or cures. Either way, the embryo will probably die. Moreover, fertilized eggs often fail to attach themselves to the uterus wall. Thus the fact that they are fertilized, stem cell supporters argue, should not give them equal standing with fully grown adults.

Opponents of ES cells advocate research on adult stem cells as an alternative, which can be safely extracted without harm to the person. Most scientists cite serious drawbacks with this approach, however, including the fact that such cells are generally considered less versatile.

Government Policy

The original breakthrough (the isolation of the ES cell) was ineligible for federal funds because of a 1995 ban Congress enacted, and which has been continued every year till 2001. In 1999 the National Institute of Health (NIH), the federal agency which distributes government grants for medical research, revised these rules to say government funds could be used for research on ES cells as long as the damaging part of the process was carried out through private funds.

During the 2000 presidential campaign, George W. Bush stated his opposition to stem cell research that results in the destruction of a human embryo; essentially he was against the practice. Once elected, Bush avoided a policy stance on the issue for seven months as lobbying groups on both sides ratcheted up the pressure. Proponents of the research included patients groups, scientific organizations, and biotech firms, while such social conservatives as the Christian Coalition and Catholic Church leaned hard against it. Finally, President Bush made a primetime TV address to the nation on August 9th, 2001, in which he announced that federal money would be allowed to go to ES research, but only to existing lines of embryonic cells. Existing lines are composed of ES cells that have been removed and are dividing and multiplying indefinitely. Thus by blocking access to federal monies for new lines, it discouraged destruction of any further embryos. Furthermore, President Bush created the first ever “President’s Bioethics commission” to offer advice on such matters.

Existing stem cell lines

The NIH estimated the number of existing lines in the world at 64, far higher than most scientists say is credible. As soon as this remarkable number was published however, it immediately came under scrutiny, and on September 5th Secretary of Health Tommy Thompson acknowledged that only about 24 are developed lines, with the others mostly too premature to be studied. Moreover, the NIH has failed to reveal the sources of these lines, leading to questions of genetic diversity.

On November 7th, 2001, the NIH created the National Embryonic Stem Cell Registry, which among other things, lists all existing lines available for federal grants. By August 2002, the NIH had brokered agreements with more companies to allow researcher’s to use their stem cell lines, thus expanding the existing count to 78, although many skeptical reports have asserted that only 16 of those have actually been readily available for research.

2004 Politics

Ron Reagan Jr. (son of the late former President Ronald Reagan) made a historic speech at the Democratic National Convention leading a bipartisan call for more stem cell research funding. His opinion carries great gravitas in that his father died of Alzheimer’s, a disease many believe may be cured by ES research. President Reagan’s wife Nancy has also publicly supported medical research on ES cells. Reagan’s speech in particular has forced the issue into the media, along with public statements by angry scientists and patients who have now realized that the number of existing lines was vastly overestimated. In Congress, the Stem Cell Research Enhancement Act was introduced as a bipartisan measure and has enjoyed relatively widespread support, although it was ultimately killed in committee.

John Kerry has come out as a fervent supporter of stem cell research, which generally falls in line with his more secular views on policy. This among other issues was one of the reasons dozens of scientists have signed a petition which accused the Bush Administration of distorting science for political aims. President Bush, on the other hand, took a more middle of the road policy, as evident in his 2001 compromise speech. Bush’s position on ES remained consistent throughout his administration. However, the election of a new President has already resulted in a policy shift. President Barack Obama signed executive order on March 9th, 2009 reversing federal bans on research. This reversal is considered a huge victory by many in the scientific community who now believe that research on the healing potential of ES can now begin in earnest.

Space Science

Since the end of the Cold War, NASA has lacked the concrete goal that the moon mission provided of one-upping the Soviets. In some ways this has been beneficial, as their job has become far less politicized and more devoted to pure research science. But three events have placed the space program under more scrutiny. These were space shuttle Columbia disaster, China putting a man in space, and President Bush telling NASA to go to Mars.

There are four current issues for space science:

- President Bush's plan for Mars
- Google Lunar X Prize
- Robotic missions of exploration
- Chinese space program

President Bush's plan for Mars

On January 14th, 2004 President Bush laid out a broad plan for NASA that included going back to the moon, sending humans to Mars, and developing a replacement for the space shuttle. While there has always been a philosophical debate on the worthiness of costly space exploration vs. social programs, there is still a consensus that some space exploration is necessary and worthwhile. The NASA budget in 2003 was \$15.5 billion, or about 1% of the entire federal budget. However, there is a real debate within the scientific field and political circles over the cost of human space exploration, which costs an estimated 100 times what a robotic mission does.

To pay for his goal of going to the Moon by 2020 and Mars soon afterwards, Bush has proposed a \$1 billion increase in NASA's budget over five years, which most scientists agree is a reasonable proposal. However, most of what it will cost will come from shifting funds already in the NASA budget. The International Space Station (ISS) will be completed around 2010 (although research will continue unabated), and the space shuttle will be retired soon afterwards. These two actions will free up an estimated \$6 billion yearly, although some of that will inevitably be eaten up by development of what Bush calls the "Crew Exploration Vehicle". The CEV is so far only on paper, and few funds have been allocated towards it, so unless the US plans to use Russian Soyuz capsules, the freed \$6 billion will have to be split up.

Google Lunar X Prize

The X Prize is a privately funded competition for multiple teams around the world to launch and land on the moon. Upon landing, the team must navigate across the surface of the moon and transmit pre-determined photographs and data back to the Earth. The Google Lunar X Prize is sponsored by the X Prize Foundation, a not-for-profit education organization that receives money from the Ansari family, numerous corporate sponsorships and private donations. On September 29th, SpaceShipOne became the first commercial craft to fly into space. Funded in part by Microsoft co-founder and billionaire Paul Allen, it flew 67 miles high. On October 4th, less than a week later and on the anniversary of Sputnik, it repeated the feat, winning the X-Prize. Brit Richard Branson has already licensed SpaceShipOne for commercial flights through Virgin airlines, beginning in 2007 and with a cost of around \$200,000, 1/20 the cost the first extraterrestrial civilian Dennis Tito paid Russia to go aboard the International Space Station via a Soyuz rocket. The initial X-Prize resulted in 100 million being contributed for research and development of new technologies

Robotic missions of exploration

Over the last decade, numerous exciting scientific discoveries have been made possible by the use of robotic technology in space exploration. Perhaps most notable has been the success of the Mars Rover missions, which have collected data far beyond what scientists had hoped for on Earth's nearest neighbor. The Rovers have found, for example, compelling evidence that liquid water was once common on the surface of Mars.

Other unmanned explorations have also generated never before seen images from the outer edges of the solar system, and taking pictures of Earth's nearer neighbors with clarity and precision that was previously impossible. Such missions will continue to generate excitement in the scientific community for years to come.

Chinese space program

On October 15th, 2003 China became the third nation to put a man into space. The Chinese "taikonaut" was one of twelve fighter pilots training in Russia's Star City outside Moscow, indicating that China is committed to further space flights. Additionally, official statements on the future of the Chinese space program set high-reaching goals, including putting humans in orbit and moon exploration.

China would also like to join the International Space Station, although so far the US has firmly rejected this possibility. Nevertheless, a joint American-Chinese research instrument is due to be taken on board in the near future. The space program is a clear result of a mammoth drive by China to establish itself as a premier world power. While so far the space program has remained mostly science-oriented, the government has articulated that it will be integrated into the larger defense of the nation. Moreover, even a purely science-driven space program adds to national pride and prestige, clearly the motivating force for sending a man into space, and in doing so joining a very exclusive club.

It is this zealous drive towards space that is worrying many US government officials. The Bush administration's clear interest in maintaining hegemony makes them clearly suspicious of said and unsaid intentions; the inherent urge to maintain a huge lead in the space field means more attention has been turned towards the American space program.

Genetically Modified Food

Many environmentalists' top priority is genetically modified food, an issue that has only recently cropped up in the last few decades with the Green Revolution. Quite simply, it involves splicing genes from one organism into another, or by altering the existing DNA.

How it works

DNA is the blueprint for every organism. It determines how every single function is carried out, how every organ is built, and what everything looks like. Thus by determining which part of the DNA (individual genes) is responsible for various traits you can add them to the DNA to gain that trait. This is called recombinant DNA. Or you can alter an existing gene if it's causing problems, say, the tomato. The resulting product is called "Bt tomato" or "Bt corn".

For example, the biotech firm Monsanto recently developed Bt Cotton, variant that contains a gene that naturally kills bollworms. This gene was extracted from a separate, naturally occurring plant that already was resistant to bollworms, thus Monsanto took the best of both worlds: the resistance of the donor plant and ability to turn crops into cash from cotton.

Benefits

Since genes can be inserted into almost any food from a global gene library, the benefits are practically limitless. In addition to cotton being made naturally resistant to a type of pest, it could be made to naturally resist disease, survive in inclement weather and harsh climates. In addition, crops are being engineered to survive a dousing of extremely potent pesticides that couldn't be used on organic crops. More superficial changes such as size of fruit, taste, color, and shape are all more than possible; they are stocking your grocery store produce section right now. Finally, a company could engineer a crop that is more nutritious or something that might be in the general public's health such as the drive to put Vitamin A into rice to alleviate some vitamin deficiencies in third world countries. Who knows, people might pay a little extra to get their days' dose of calcium in a donut. Whatever there's a market for will be researched.

Concerns

Environmentalists are extremely concerned about the spread of such bioengineered crops. They list several concerns in their arguments to governments to ban such plants. First, because the process is so new (the first commercially available GM foods appeared in 1994), there has been no time to study the long-term affects altering something as important as DNA. Although there is little empirical evidence for the claim that GM foods harm people, critics argue this is irrelevant, as there simply hasn't been enough time to tell. Things that look great now have unexpected consequences down the road, as was learned by experiences with asbestos and thalidomide.

Second, critics point out that when you're altering the very blueprints of life, there are going to be far-reaching consequences. Furthermore, when combining genes from a foreign organism, the new gene brings other things along with it. In 1997, a peanut gene was spliced into the DNA of Brazilian soybeans, but along with the nutritious aspect of the new gene came the common peanut allergy, which caused a media frenzy about such risks and the soybean was recalled. Also, the same gene may have different results depending on its surroundings and what other genes it interacts with. GM researchers concur with this point but say that that problem is limited to the research lab—the whole point of testing and researching is to iron-out these problems.

Cynical observers point out that a biotech firm could just as easily modify a plant for harm as beneficial reasons. Firms could design a plant that makes consumers thirsty; they could even splice in nicotine to make their products addictive! Yet the Food and Drug administration currently thoroughly inspects and tests for many years all applications for GM foods, making any deliberate mischief highly unlikely. Granted extensive corruption could theoretically compromise the public interest body charged with safeguarding consumers, yet this is true of any product, and thus shouldn't limit just GM foods.

Finally, experts fear the rise of a super-breed of insects or bacteria, resistant to all current forms of pesticides. Taken to the extreme, this could translate into a global plague that is immune to known drugs and panaceas. However, researchers and farmers have suggested a buffer-zone of non-GM crops so that if a bug becomes resistant to the new plant, it dies when it encounters the original crop.

Politics

Since the first commercial introduction of GM foods, proponents and opponents have assembled powerful allies and lobbied governments in their effort to either open up markets to close them to GM food.

One of the fiercest battlegrounds has been environmentally-conscious Europe, represented through the trade bloc of the European Union (EU). Skeptical EU leaders have until recently taken a wait-and-see approach, banning the sale of GM foods. For several years the EU has had a moratorium on bioengineered crops, which the US has challenged as illegal under the World Trade Organization (WTO). Yet over time their stance has loosened. In May 2004, the EU gave approval to Bt Corn for human consumption. Later in September, it approved Bt Corn for growth in EU nations. Despite these steps, public consumer sentiment runs strongly against the extensive use of GM foods, with protesters even going so far to as to destroy a field of GM corn in France in July 2004. Moreover, all GM foods will be clearly labeled giving organic-oriented consumers a clear choice in the matter.

America has far less stringent requirements for growing or selling GM foods. Products need not be differentiated between organic and GM (many companies do so anyways), and the European moratorium on imports/growing was never implemented here. This is not to suggest that such matters are taken lightly. The FDA requires a long and stringent review of all GM crops applying licenses. However due to the ease at which the American consumer has embraced GM foods (lower prices surely played a role), as well as being the leader in biotechnology worldwide, the US has proselytized them aggressively as the answer to the pressing world hunger problems.

The issue of patents creates another foreign policy and social issue, especially for third world nations. First, since biotech firms are in the business of making money, they're going to focus their research efforts on crops that grow best (or will after the splicing) in wealthy first world countries. Since the new variants of each crop are patented, farmers must buy the seeds from the company every year; they've even gone to so far as to make sure the newly grown crop cannot be saved for next year's planting. Not only does this create a dependency on the corporation, but the high cost often prices many poor farmers out of the market. Finally, there is the ethical question of whether you can even patent a living organism, genetically-engineering or not. Many fear this devalues life into an industrial commodity.

Bibliography

- Britt, Robert R. FAQ: Bush's New Space Vision. 15 Jan. 2004. Space.com. 1 Sept. 2004 <http://www.space.com/news/bush_plan_faq_040115.html>.
- Smith, Marcia S. CRS Report: China's Space Program: An Overview. 21 Oct. 2003. Congressional Research Service. 1 Oct. 2004 <<http://www.spaceref.com/news/viewsr.html?pid=11007>>.
- Tupper, Craig. Space Science Missions. NASA. 1 Oct. 2004 <<http://spacescience.nasa.gov/missions/>>.
- Mars Express FAQs. 6 Aug. 2004. European Space Agency. 2 Oct. 2004 <http://www.esa.int/export/SPECIALS/Mars_Express/SEMJBQXLDDMD_0.html>.
- Banke, Jim, Brian Berger, and Robert R. Britt. STS-107 Columbia Disaster. Space.com. 1 Oct. 2004 <<http://www.space.com/columbiatragedy/>>.
- Frequently Asked Questions. Stem Cell Research Foundation. 1 Oct. 2004 <<http://www.actrf.org/About/FAQ.htm>>.
- AAAS Policy Brief: Stem Cell Research. 26 Aug. 2004. American Association for the Advancement of Science. 1 Oct. 2004 <<http://www.aaas.org/spp/cstc/briefs/stemcells/index.shtml>>.
- Leading Scientists Accuse Bush of Politicizing Science. 24 Feb. 2004. Democracy Now!. 2 Oct. 2004
- Insect Resistance. Ag Biotech InfoNet. 3 Oct. 2004 <<http://www.biotech-info.net/bt-transgenics.html>>.
- Gilbert, Baldwin, and Thomas Lee. "Genetically Altered Cotton Transforms Farming in S. Africa." St. Louis Post-Dispatch 26 Nov. 2001. 3 Oct. 2004 <http://www.biotech-info.net/african_farming.html>.
- "Europe to back GM corn for humans." BBC 14 May 2004. 3 Oct. 2004 <<http://news.bbc.co.uk/2/hi/europe/3714595.stm>>.
- Black, Richard. "Europe gives GM seed green light." BBC 9 Sept. 2004. 3 Oct. 2004 <<http://news.bbc.co.uk/2/hi/europe/3641234.stm>>.
- Gentleman, Amelia. "GM protest reignites in France." The Gaurdian 26 July 2004. 3 Oct. 2004 <<http://www.guardian.co.uk/international/story/0,3604,1269013,00.html>>.
- Bioengineered Foods. 22 Jan. 2001. US Food and Drug Administration. 3 Oct. 2004 <<http://www.fda.gov/oc/biotech/>>.
- Keating, Gina. "SpaceShipOne Wins \$10 million Prize with Flight." Reuters 4 Oct. 2004. 4 Oct. 2004 <http://story.news.yahoo.com/news?tmpl=story&cid=578&e=5&u=/nm/20041004/ts_nm/space_xprize_dc>.

Immigration

Amanda Knight And Joseph Poore

Introduction

Since 1965, there has been no true “reform” of immigration policies and or programs in the United States. Yet, according to figures released by the 2000 Census, the foreign born population in the United States has reached an all time high with more than 31.1 million individuals residing in the US, including anywhere from 7-8 million people here illegally. With such a dramatic increase of new immigrants in the past decade, more than 57% alone during the 1990s, the government has been hesitant in taking significant action in dealing with an ailing immigration policy. The silence ended in the wake of 9/11.

The prospect of terrorist violence highlighted the importance of effectively controlling who is able to enter the country. More restrictive policies, at least on the surface, seem like a boon to national security. At the same time, the United States is a nation founded by immigrants, and has been profoundly shaped by waves of immigration in its short history. What’s more, many immigrants living in the United States form an important part of the American economy, as demonstrated by the effects of mass rallies which took place in cities across America in 2007. Thus, the government is left trying to find the perfect harmony in balancing economic growth and the words of Lady Liberty against national security. But this is not the first time that we as a country faced border control policies that had to balance a mishmash of conflicting objectives. We want to encourage international visitors, yet monitor and deport illegal immigrants. We want to welcome refugees from foreign wars, stop the import and export of illegal drugs, continue to facilitate international trade while somehow managing to keep terrorists out of our borders, and embrace individuals to become new Americans. While that may seem like a mouth full, it is just a small component of the problems that are facing the Republicans and Democrats on Capitol Hill. From former Presidents to talk radio hosts to everyday voters, everyone seems to have a thought, or solution to the immigration problem. Pete Wilson, elected governor of California in 1990, United States senator and mayor of San Diego, published an open letter in all major Californian newspapers in 1994, calling for the United States government to amend the Constitution, no longer granting citizenship to children born to illegal immigrants in the United States:

“The failure of the U.S government to control illegal immigration places an unfair economic burden on state governments - especially that of California - that are required to provide social services to illegal immigrants. To remove the incentives for illegal immigration, the federal government should take the following steps: stop forcing state government to provide education, health care and other benefits to illegal immigrants; create an identification system to assure that government benefits are provided only to legal residents; and amend the Constitution to deny U.S. citizenship to children born in the United States of illegal immigrant parents.”

Wilson’s words struck many chords with many pro as well as anti-immigration advocates, not to mention President Clinton, who promised “sweeping immigration reform”, but to no avail. Wilson never saw the dramatic “sweeping reforms” that former President Clinton called for. Former presidential candidate, Pat Buchanan, still manages to shock his critics, especially when it comes to immigration policy, by calling for a “Time Out on Immigration.”

“Immigration is altering the racial composition of America; by 2050, whites may be near a minority. Consequently, American society is becoming increasingly divided along racial lines. The resulting ethnic tensions could cause the breakup of the United States in a manner similar to that of such multination states as Czechoslovakia and Yugoslavia. America needs a ten-year “time out” on immigration to allow recent immigrants to assimilate.”

Significant questions over immigration policy persist into the first decade of the 21st century. In fact, Julian L. Simon, professor of business administration at the University of Maryland is renowned for his conviction that large scale immigration is beneficial in a free-market economy. Simon once wrote in the *Public Interest*

“Increased immigration to the United States would contribute to the country’s technological advancement, help provide for the nation’s labor needs, increase tax revenues, and improve U.S. competitiveness in the world economy. Contrary to common misconceptions, immigrants do not harm the U.S. economy by abusing welfare and displacing native workers.

Immigrants pay more in taxes than they receive in social service benefits, and they improve the job market by increasing the demand for labor. In order to boost the nation’s productivity and sharpen its technological edge, the United States should change its immigration policies to favor skilled workers. Moreover, each year the country should increase its number of legal immigrants by 500,000.”

Simon’s, Buchanan’s and Wilson’s views are all radically different, and based upon different “needs.” Simon’s the need for economic growth, Buchanan’s the need for altering the racial composition of society, and Wilson’s the needs of his state in an economic crisis. With so many different demands and conflicting view points, there must be a way to balance immigration policy in modern society to meet the needs of citizens, provide domestic security, and promote economic activity while staying true to our nation’s heritage. In the next few pages, I hope to provide some background and context for contemporary debates about immigration by recounting the history of immigration policies and looking at how the roots of the policies affect us today.

A Brief History of Modern Day Immigration Policy:

Advocates for radical immigration reform argue that the crux of the immigration problem today lies specifically in the flaws of modern day immigration policy. Using an “out-dated tool” to establish policy, the United States has set itself up for immediate discontent not only from citizens but from immigrants as well.

The first major congressional action on immigration policy was established in 1882 by Congress. The Immigration Act of 1882, as it is commonly referred to, defined immigration policy for the first time in the United States. In addition to declaring immigration regulation as a task of the federal government, the law barred those who seem likely to require special public services, including ex-convicts and the mentally ill. Subsequent federal laws expanded the list of unwelcome, or “excludable” immigrants to include polygamists, people convicted of crimes of moral turpitude, and those with contagious diseases, such as cholera and tuberculosis. In 1903, the list grew even longer, banning anarchists, people with epilepsy, the insane and “professional beggars.” These early immigration laws responded to the burgeoning labor movement to protect American jobs and wages. During the 1880s, for example, Congress prohibited employers from importing large numbers of low-wage contract workers whose presence pushed down wages throughout an industry or geographic region where contract labor was common. The Immigration Act of 1882, served as a framework to “exclude” individuals that society found repulsive at the time. Yet, the first immigration policies did little to control immigration in the aggregate, offer quotas of individuals admitted into the United States, or lay the groundwork for the procedural issues that immigrants would face.

To administer the growing array of immigration regulations, Congress in 1891 created the Office of Immigration within the Treasury Department. In 1906, the office was given responsibility for naturalization, or admitting the immigrants to citizenship, renamed the Bureau of Immigration and

Naturalization and shifted to the Commerce and Labor Department. The 1906 Naturalization Act also tightened the conditions of citizenship by requiring applicants to speak English and sign their applications. And with the Naturalization Act of 1906 came the creation of the first “guidelines” that immigrants had to follow in order to seek admission into the United States. These new regulations reflected public concern over the continued surge of immigrants in the 20th century. From 1900 to 1920 (the peak of the industrial revolution) 14.5 million people arrive in the US, with annual numbers exceeding one million people in some years. As anti-immigrant sentiment mounted and the economy stagnated, Congress passed the 1917 Immigration Act over a veto from President Woodrow Wilson.

The Immigration Act of 1917 was the harshest piece of legislation yet brought down by Congress. Calling for all immigrants to be able to read and write, the act reiterated all the exclusions enumerated by previous legislation and barred most Asians and Pacific Islanders. Now keep in mind that the American public viewed these workers as an economic threat. During the peak of the industrial revolution businesses wanted to do one thing: profit. And what better way to do that, than through cheap, immigrant labor, or at least that was the public perception. Immigrants desperately trying to survive in a new country would take any job offered at any wage to ensure they would survive. It did not take long for businesses to exploit the plight of the immigrants. Their economic vulnerability forced them into jobs which paid next to nothing, where they would work for long hours in poor conditions. American born citizens felt that they were losing work because of the immigrants and their seeming willingness to take any job. This sentiment worsened as the bubble of the 1920’s burst, the economy declined and America entered World War I.

In an economic downturn, American citizens became hostile towards immigrants as there now was more competition for jobs in a market that was already saturated. And with all of this competition came a backlash from citizens who had the attitude of “the more the merrier” in America. As America emerged from World War I, she saw immigration from war-ravaged Europe soar after 1920. Mounting economic stagnation, combined with high unemployment and housing shortages only served to further the resentment of immigrants by American citizens. In response, Congress passed the 1921 Quota Act. In addition to restricting the number of new immigrants for the first time, the new law was designed to maintain the country’s ethnic and cultural status quo. By creating the national origins system, which set an annual limit on the number of admissible immigrants of a given nationality at three percent of their numbers already living in the United States, the act roughly achieved its objective. Subsequent law required immigrants to obtain visas from U.S. embassies in their countries before they left for the United States.

The 1921 Quota Act is significant because it gave birth to the problem of illegal immigration. The act made it exceedingly difficult for immigrants from countries such as Italy, Spain or Russia, any of the Asian or African countries to come to the United States. Most of the individuals who were living in the United States and had immigrated from another country prior to 1921 hailed from countries in Northern and Western Europe, not from Italy, Spain or Russia, countries that had a large number of individuals looking to come to America at the time. Thus the first wave of illegal immigrants was born from excluded Europeans who entered the country via Mexico or Canada which were not subject to quota limits. The bureau responded to this new problem in 1924 by creating the Border Patrol.

With the decline of the economy and the onslaught of the Great Depression, America saw a decline in the influx of immigrants as economic opportunities were scarce. While America was facing its first major economic downturn as a nation, half way around the world, the rise of Adolf Hitler would not only soon spark World War II, but dramatically influence immigration policy yet again. National security concerns over Hitler’s regime infiltrating the United States influenced immigration policy, further reducing new arrivals. **The 1940 Alien Registration Act required the fingerprinting and registration of all new immigrants and mandated deportation of criminals and subversives.** Anti-Japanese sentiment

sparked by fears of a Japanese invasion after the bombing of Pearl Harbor prompted the internment of thousands of Japanese Americans, many of whom were second or third generation US citizens. (For further reading on this, see *Korematsu v. United States*). World War II also saw the introduction of a new program to offset labor shortages caused by the draft. Beginning in 1942, foreigners were permitted to enter the United States on a “temporary work visa.” Most of the individuals came from Mexico and harvested crops during the agricultural season before returning home. Because wages were much lower in Mexico than in the United States, growers were able to pay these temporary workers much less than American citizens. The 1951 US-Mexican Migrant Labor Agreement made the popular “Bracero” program as it was called, permanent. It was formally discontinued in 1964, but not before providing a wealth of Mexicans the opportunity to work in America and become the first generation of Mexican-American citizens.

The rise and fall of immigration in America mirrors movements in the global community. From wars, to the civil rights movements, to the rise of Communism, immigration policy has been a vital element of the times. With the end of World War II, the United States found itself in a peculiar position. Before the 1940s the United States had no system in place to handle refugees. But in the wake of World War II, a wave of refugees fleeing from the devastation in Europe appealed for entry into the United States.

Under the 1948 Displaced Persons Act, Congress set up a refugee system which over the next four years would admit some 400,000 refugees. Congress extended the program in the early 1950s to accommodate people fleeing communist countries outside the quota system, mainly Cuba and Hungary. Many of the refugees were given status as permanent residents, enabling them to become naturalized citizens. As the same time, the outbreak of the Cold War and the growing anti-communist sentiment led to the exclusion of aliens suspected of communist leanings. But this act by the government would not be enough to satisfy the American public as a whole when it came to immigration and national security.

The rise of the Cold War and heightened tensions between the United States and its communist foes prompted drastic changes by Congress to overhaul the entire immigration and naturalization system. **A new law, the 1952 Immigration and Nationality Act, incorporated many of the changes introduced since the 1930s including national quotas and alien registration. Despite a veto from President Truman, the new law broke ground with the establishment of preference categories favoring skilled workers and relatives of citizens and resident aliens.** It would take a decade before lawmakers appreciated Truman’s objections that the act was discriminatory towards immigrants. (A direct contradiction of the freedom and equal opportunity America offered.) Riding the “civil rights wave,” supporters of immigration reform, including President John F. Kennedy, criticized the racial and ethnic preferences embodied in the national quota system. **Calls for change mounted and finally in 1965, Congress abolished the national origins quota system. In its place, numerical limits were set on the basis of preference categories.** Priority was given to relatives or citizens of permanent residents and to immigrants who possessed skills needed by industry. Refugees also were granted preference status and folded into the general immigration system. When the new limits took effect in 1968, an annual quota of 170,000 entrants from the Eastern Hemisphere was set. Immigration from the Western Hemisphere, meanwhile had become a problem after the Bracero program, which allowed Mexican citizens to work in the United States on temporary visas, ended. Immigrants had continued to pour in from Mexico and South and Central America, lured by the booming United States economy. To slow the flow, Congress in 1968 set the first annual quota for immigration from the Western Hemisphere at 120,000 people per year.

With the termination of the Bracero program and a new quota placed on immigrants, illegal immigration actually increased, to the shock of Congress. (Well, duh!) But for the first time, the United States faced a new “type” of illegal immigrant. The title was once reserved for drug smugglers and immigrants from quota nations. But it grew to include farm workers who had become accustomed to migrating seasonally and other citizens from the Western Hemisphere who had enjoyed unlimited entry into the United States

before 1968. As political and economic conditions throughout the hemisphere deteriorated in the 1970s and 1980s, illegal immigration continued to grow despite enhanced enforcement by the Border Patrol.

The abolition of national origins quotas in 1965 changed the largely European face of immigration to the United States. Initially refugees from Cuba and, after the Vietnam War, Southeast Asia diversified the immigrant pool. Political unrest in Central America in the late 1970s and 1980s added Latinos to the mix. To meet these changing circumstances, Congress passed three major immigration laws.

1. **The 1980 Refugee Act placed the new refugees outside the general preference system and set limits on the number to be admitted each year.** (Remember, refugees were folded into the general system with the overhaul of discriminatory policies by President Kennedy in 1965.) The law also established procedures for granting permanent-resident status to a certain number of refugees each year.

2. In addition to the plight of the refugees, illegal immigration continued to plague officials throughout the 1980s. In 1986, Congress attacked the problem from a new front. Up until this point Congressional leaders were enacting new laws every few years to solve the immigration dilemma but this was only a band-aid approach. Every new law enacted enhanced the problem rather than curtailing it. To truly fight immigration, Congress finally looked to the demand side - employment. **The sweeping Immigration Reform and Control Act (IRCA) of 1986 prohibited employers from hiring undocumented aliens.** Employers were required to verify their worker's eligibility for employment and could be fined up to \$10,000 for violations. With hefty fines facing business owners employment opportunities for illegal immigrants shrunk considerably as initial enforcement by the government was resilient. Undoubtedly, the unique opportunity that IRCA gave immigrants was to address the supply side of illegal immigration, by granting amnesty to all undocumented aliens who could prove they had lived in the United States since January 1, 1982. The law gave temporary resident status to eligible residents, who could later become permanent residents. An estimated 2.6 million illegal immigrants accepted amnesty from the federal government proving that the motives of the government worked. First, the act proved to relieve the burdens of the INS by lowering the numbers of illegal immigrants that the INS was supposed to be tracking and deporting. Secondly, the government's motives behind the IRCA sent a stern message to businesses that the government was going to draw the line when it came to illegal immigrants. They could no longer work legally in America.

3. The third law passed by Congress in the late 80's, early 90s overhauled policies governing legal immigration. **The 1990 Immigration Act changed the preference categories while at the same time increasing the number of immigrants allowed into the United States each year.** Preferences are given to relatives of US citizen and resident aliens and to "priority" workers, such as noteworthy university professors, researcher's executives and professionals and their immediate relatives.

Congressional action in the late 1980s and early 1990s was popular at the time, but did little to curtail the large flux of immigrants into the United States. So in a sense, the United States has had no true immigration reform since the 1965 Immigration Act to limit the numbers of immigrants that come into the United States each year. The September 11th terrorist attacks have made a staunch argument in calling for immigration reform once again, as 15 of the 19 hijackers were in the country on expired student visas. (The INS continues to be understaffed and overworked) **Once again, feeling public pressure, Congress and President Bush responded with the permanent establishment of the Department of Homeland Security which is set to now govern the Border Patrol, Customs, Coast Guard, and the US Citizenship and Immigration Service (USCIS) all in conjunction with the Department of Justice.** The government's goal is two-fold. First and foremost, increase domestic security to offset the threat of terrorism, while at the same time, decreasing the bureaucracy by compiling components of the government that perform similar functions.

Since 2002, the United States Citizenship and Immigration Services (USCIS) under the Department of Homeland Security, has made a number of reforms in an attempt to deal with the immigration problem. Most of the reforms have focused on fixing the atrocious mess that the Immigration and Naturalization service left. Under the INS, visas were given out like candy and no accountability existed. Immigrants were coming to the United States on 6 month visas and spending the rest of their lives in the United States.

Some of the measures the Department of Homeland Security has taken to act on the immigration problem include:

- US-VISIT (United States Visitor and Immigrant Status Indicator Technology)- Currently used in airports and at seaports. United States-VISIT increases the United States ability to track individuals who are wanted for various crimes, while encouraging legal travel. A key element of US-Visit is its biometric identifier which has helped to capture over 100 wanted criminals since January 2004.
- "One Face at the Border"—combined immigration, customs, and agriculture to more effectively deploy agents along the border.
- Port Security--\$482 million in port security grants have been given out. The Container Security Initiative has been expanded to 17 ports, and security rules for the maritime industry have been implemented.
- Threats Mapped Against Vulnerabilities—increases government capability to match threats with specific targets and boost security for infrastructure.

Along with these measures the Department of Homeland Security is planning on further increasing border patrol and security, increasing information sharing and infrastructure, developing new technology, and continuing to educate and prepare communities for possible attacks.

The most recent attempt at immigration reform was legislation sponsored by Senators Kennedy (D-MA) and McCain (R-AZ). The bill sought to provide a “responsible path to citizenship for the approximately 12 million illegal immigrants in the US. In addition it included tougher enforcement of immigration laws and a more robust border control force. The bill never made it to a vote.

Arguments

I thought that I would just provide you with a little preface as to what is going to follow. I am not sure of the “best” way to present the arguments, so I decided to just divide it into two sections. “The Case for Immigration, and The Case Against Immigration” Essentially, immigration good and immigration bad.

The Case for Immigration

Nicolas Mills, an American Studies Professor at Sarah Lawrence College, argues in “Arguing Immigration: are new immigrants a wealth of Diversity. . . or a crushing Burden?” **that, “. . . the welfare side of the costs-and benefits debate (surrounding immigration) produces similarly sharp divisions. Pro-immigrants point to studies showing that immigrants pay more in taxes, some \$85 billion more, and then they take out of the welfare system, some \$24 billion.”** The major claim by anti-immigration supporters is that immigrants are a financial burden to the government. With such depleted systems as Social Security, Medicaid and Medicare, many people feel that the government is already spread too thin when it comes to financial responsibility. Increasing immigration, they claim, is only going to further drain depleted services which should be reserved for natural citizens. Mills’ argument is a direct take-out of such claims. You could argue that the government should allow more immigrants into the United States because the more immigrants that are working in the country, the more they are paying in taxes. Everyone is aware of the financial troubles the government is in. A fiscal debt of catastrophic proportions, a war on terrorism which costs \$100 million a day to fight, and an ailing Social Security system means

that the government has to “create” money. Increasing the flow of tax dollars, therefore, generally seem like a good idea.

Nathan Glazer, a former editor of *The Public Interest*, concurs with the growing sentiment that funding for immigrants should be increased. In “The Closing Door” which first appeared in the *New Republic*, Glazer states that “an effort to increase funding for immigrants should be made, especially in the areas of health care and education.” **The principle of Glazer’s argument is that it is the nation’s duty to provide health care and educate immigrants when they arrive in America to ensure that the immigrant population does not become a class of “second-rate citizens.”** The crux of the argument lies in the analysis of long and short term gains.

The government has the moral obligation to provide social services for these individuals to ensure that in fifty years they are educated, employed and contributing back to society. ‘Second rate citizens,’ as Glazer refers to them, would be an economic burden on the nation if they were not educated, and thus could not work, or were ill because they were malnourished, and needed medical attention. The claim is that the United States must increase funding for immigrants, or increase the scope of existing immigration policy to ensure that a second class of citizens does not develop, and while the immediate cost might burden the United States, the long term benefits of an educated and healthy field of immigrant workers outweighs any short term losses.

Richard Rothstein, a research associate at the Economic Policy Institute in Washington, D.C., first published his article entitled, “Immigration Dilemmas” in *Dissent* in the fall of 1993. **In “Dilemmas”, Rothstein makes a very effective case for that fact that immigrants help to revitalize urban neighborhoods and increase the diversity of American culture.** In a round a “humanitarian” argument can be made in the sense that by bringing together people of many different cultures, the United States is promoting a larger base of diversity and expanding the collective melting pot. The case for cultural tolerance is a significant one. Increasing immigration yields the growth of the community and helps individuals to realize their full potential.

Another argument made by individuals opposed to increasing immigration is that immigration should be curtailed because immigrants are competing with citizens for jobs. **In reality, immigrants serve a pivotal role in the job market, and because a division of skill labor exists, there is virtually no competition for jobs between immigrants and citizens.** As Saskia Sassen, a professor of urban planning at Columbia University, and author of *Cities in a World Economy* (1994) writes, “The United States should increase its policies of immigration to allow more immigrants into the US simply because there is a division of skill in terms of labor that places immigrants in an entirely different job category than natural citizens.” Sassen claims that the division of skill between immigrants and US citizens is so vastly different that we (as a society) should not fear immigrants “taking” jobs of. The immigrants provide the un-skilled to semi-skilled labor, while natural citizens generally provide skilled labor. With this division, there is no immediate loss of jobs, thus the competition and “fear” of the loss of jobs is overstated.

This next argument as to why the United States should increase its immigration policies is contingent upon one thing...that Mexico will help the United States curtail the flow of illegal immigrants between the two nations. The United States has repeatedly stated through many administrations that we (as a nation) would love to work in conjunction with Mexico to ensure that illegal immigration was curtailed and to implement checks and new security measures on the US/Mexico border. In early August of 2002, Mexican President Vicente Fox established the National Council of Mexicans Abroad to fight for the plight of Mexican immigrants abroad. Having significant support from all parties in his country, **Fox wants the National Council of Mexicans Abroad to serve as a satellite between the Mexican government and the people that have left Mexico for the United States-ensuring their civil and**

humanitarian rights are in tact as well as compile information on health care, education and employment of the immigrants in America. This work has been continued with Mexico's present administration.

The Case against Immigration:

Steven Camarota, the director of research at the Center for Immigration Studies in Washington, D.C., argues a strong case against immigration in the National Review of July 29, 2002, when he states that, ". . . over the past 30 years, the number of immigrants in the United States has tripled. If current trends are allowed to continue, the foreign born population will in fact pass the all-time high by the end of this decade." **Camarota's main argument stems from how immigration yields both long and short term poverty.** "The implications for American society are enormous," he argues. "For example, a good deal of attention has been given to the fact that the number of people who live in poverty did not decline in the 1990s, despite a strong economy. What has generally not been reported is that new immigrants and their U.S. born children accounted for the nation's stubborn poverty rate. The primary reason so many immigrant families live in poverty is that a large percentage have very little education. Newly arrived adult immigrants, for example, are more than three times as likely as natives to lack a high school education." Lacking a formal education, immigrants can not attain a job that will accumulate enough income to place them above the national average for individuals technically living in poverty. So as more and more immigrants trickle into the United States, poverty will increase because large numbers of people can not find work because they lack a formal education, can not consistently keep a job, or find an employment opportunity that pays them a substantial amount above minimum wage. (Remember, some immigrants have literally nothing). With poverty and the increasing demand on an already depleted welfare system, the United States government should reduce immigration, or limit it all together, because the government cannot afford a new wave of immigrants. The financial strain on the government would prove to be unbearable. Without governmental assistance these immigrants will just become victims in the vicious cycle of poverty.

The next argument against increasing immigration that Camarota makes states that, **"Immigrants and their children also account for nearly two-thirds of the increase in the population lacking health insurance over the last decade.** By dramatically increasing the uninsured population, immigration creates significant costs for taxpayers, and it drives up costs for insured Americans as providers pass along the costs of treating the uninsured to paying customers. The central role immigration has played in creating the nation's health-insurance quandary has largely gone unreported." The fact that taxpayers are suffering because of uninsured immigrants are driving up premiums has an adverse effect on not only the health care industry, but on the citizens as a whole. In an industry where prices are exceedingly high, this will not sit well with many Americans. So the general sentiments are going to be that the United States should not allow more immigrants into the country because of their contributions to rising health care costs.

The next argument that Camarota makes deals with public schools. He notes in the National Review again that, "The impact on public schools is even more significant. In the last 20 years the school-age population has grown by roughly 8 million. Most observers agree that this increase has strained resources in districts across the country. What most media accounts of this growth (in education) leave out is that census data indicates that there are about 8 million school-age children from immigrant families - and, because they are much poorer on average than natives, this increase in enrollment has not been accompanied by a corresponding increase in local tax revenue." **By having to educate the immigrants and children of immigrants, it is going to costs states million of dollars in funds that they simply do not have.** There is simply not enough money to promote immigration and then educate an entire wave of immigrant children. The larger impact of long term US competitiveness lead by a highly-educated generation, the argument goes, surely outweighs immigrant education.

Steven Camarota is an immigration expert and he makes four really poignant and thoughtful arguments on why immigration should be limited specifically because of its impact on the realm of social issues in the United States. Camarota also that immigration contributes to the expanding “rich-poor gap.” While writing on immigrants in today’s society compared to 100 years ago, Camarota states “. . . though most people were poor by today’s standards, most historians agree that there was not a very large economic gap between the standard of living of natives and that of immigrants; this was because, on average, immigrants were not that much less skilled than natives. Data are limited, but in terms of years of schooling or literacy, immigrants 100 years ago were roughly equal to natives. This is no longer the case. While a number of today’s immigrants are quite skilled, immigrants overall are significantly less educated than natives. As a result, when it comes to average income, poverty rates, welfare use and other measures of economic well-being, today’s immigrants are much worse off than natives. Unlike that of 1910, today’s U.S. economy offers very limited opportunity for those with little education, and thus creates a very sizable gap between the two groups.” **So the growth of the rich-poor gap and the unequal balance of money in society are only going to be perpetuated if the United States was to alter its immigration policy to allow more immigration.** With the formal education of immigrants continuing to decline, the state is only going to have an increased burden when it does come to educating these immigrants to pull them up from poverty.

In addition to his arguments dealing with social issues, Camarota comments on the size, scope, and expansion of the government. When comparing the government in 2002 versus the government in 1910, the major change has been in the increase of spending on everything from education to infrastructure. Camarota denotes, “with federal, state and local government now eating up roughly one-third of the gross domestic product (GDP), the average individual must be able to pay a good deal in taxes to cover his use of public services. In practice, the middle and upper classes pay most of the taxes; the poor, and immigrants, generally consume significantly more in public services than they pay in taxes. In 1997 the National Academy of Science estimated that immigrant households consumed between \$11 and \$20 billion more in public services than they were paying taxes each year.” So, any additional immigrant is only going to drain the government of more money, and thus be a financial burden on society because immigrants do not pay significant taxes, or so this argument goes.

The final argument that comes from Camarota deals with the ability of immigrants to integrate into American society. He asserts that, “The situation of today’s immigrants is, then, dramatically different from what it was at the turn of the last century. But even if one ignores all these differences, one undeniable fact remains: The last great wave of immigration was stopped as an act of government policy. World War I, followed by restrictive legislation in the early 1920s, dramatically reduced immigration to about a quarter of what it had been in previous decades. This immigration pause played a critically important role in turning yesterday’s immigrants into today’s Americans. So if the past is to be our guide, then we should significantly reduce immigration numbers.” The claim that can be made is that **in the past that we must halt immigration today to ensure that the economy, the government, and most importantly the immigrants can “catch up”** to their new life in America. Here would be a good place to add in the evidence about a ten year moratorium on immigration. **The case to limit immigration in American society finds strength in its deep roots that immigrants yield a direct decrease in United States economic competitiveness** because immigrants tend to be poorly educated. Lawrence Harrison a former director of programs for the United States Agency for International Development and author of *Underdevelopment Is a State of Mind: The Latin American Case and Who Prospers? How Cultural Values Shape Economic and Political Success* concurs with the sentiment that immigration should be reduced to strengthen United States economic competitiveness. He notes that, “High levels of immigration, legal and illegal, have not produced the positive economic results that growth minded advocates have expected. For four decades we have accepted vastly more immigrants than any other advanced country. Yet despite the “big head start” that the United States economy enjoyed after World War II, our average performance measured over the last forty years has been among the worst of the

developed nations. Many factors contribute to the decline of U.S. competitiveness, but the low-skill immigrants of recent decades has surely not been helpful, except to labor intensive business that have profited from the supply of cheap labor - leaving the community at large to pick up the social costs.” The impact to this is fairly self-explanatory. The United States government loses its ability to be the sole super power with a large percentage of the work force lacking skills vital to economic survival.

The final argument against immigration lies in the premise that **the government must limit immigration because the initial policies and programs that the government bases the USCIS off of are flawed.** Once again Harrison proclaims in “Huddled Masses, Unskilled Labor” that “. . . United States immigration policy has emphasized political concerns - e.g., Cuba, Vietnam and family relationships, not skills, and has done little to curb the vast flow of illegal immigrants.” Harrison claims that we must halt the flow of immigration into the United States because the policies that the US government currently uses are flawed. They do not adequately address the “numbers crisis” but focus solely on the humanitarian aspect of immigration. Since 1882 and the first “immigration policy” the government has acknowledged that there is a problem surrounding immigration. Yet, they continue to create additional policies with the thinking that this “band-aid” policy will provide a short term cure. In reality, the only way to treat the problem surrounding immigration is to overhaul the entire system. Then and only then can the nation see some sort of cure to the immigration woes plaguing society. Adding additional policies to an already flawed system yields no real reform, just repeated failure by the government. **The government has taken some steps toward overhauling the system by shifting control of much of the immigration system to the Department of Homeland Security, however along with that control the government shifted many of the same archaic and fruitless policies of the INS to the Department of Homeland Security.**

Important Actors/People

The key players in the immigration game are as follows. This can also be a starting point for your research or filing subdivisions:

Border Patrol- **Jayson Ahern**

Immigration and Naturalization Services Commissioner- **Michael Aytes**

Director of Homeland Security- **Janet Napolitano**

President of Mexico-**Felipe’ Calderon**

Bibliography

- Borjas, George J. Friends or Strangers. New York, NY: Basic Books, 1990
- Buchanan, Pat, et al. “America needs a Time Out on Immigration.” Ed. William Barbour, San Diego, CA: Greenhaven Press. 1995.
- Camarota, Steven, et al. “Too many: Looking today’s immigration in the face.” Ed. Richard Lowery, New York, NY: Capano. 2002.
- Chavez, Linda. “Immigration Politics” *The International Economy*, November-December 1993.
- Glazer, Nathan. “The Closing Door” *The New Republic*. 1993
- Harrison, Lawrence, “Immigration should be reduced to strengthen US competitiveness.” Ed. William Barbour, San Diego, CA: Greenhaven Press. 1995.
- Mills, Nicholas, “Arguing Immigration: Are New Immigrants a Wealth of Diversity...Or a Crushing Burden?” New York, NY: Touchstone. 1994
- Reimers, David. Still the Golden Door. New York, NY: Columbia Press, 1985.
- Rothstein, Richard, et al. “Immigration Dilemmas” Ed. Mills, New York, NY: Touchstone, 1994.
- Sandel, Michael. “Liberalism and the Limits of Justice.” New York, NY: Cambridge Press, 1982.
- Sassen, Saskia, et al. “Immigration Policy should Reflect Economic Globalization.” Ed. William Barbour, San Diego, CA: Greenhaven Press, 1995.
- Simon, Julian “The Case for Greatly Increased Immigration” *The Public Interest*, No. 102 (Winter 1991), pp 89-103.
- Walzer, Michael. Toward a Global Civil Society. Providence: Berghahn Books, 1995

Military and Defense Policy

David Buckley, Andrew Swan, and Joseph Poore

Introduction

What can influence policy decisions throughout the global community, costs about \$300 billion annually to maintain, and contains enough firepower to destroy the world with room to spare? You guessed it, the United States military. In a world of American military dominance, the defense policy of the United States can have unprecedented impacts on the global community. Before beginning with our discussion of major issues in our topic area, it is necessary to understand how the military is structured, who makes decisions, and where the money comes from.

Military Structure

The American military falls under the control of the President, in his role as Commander in Chief. However, realistically, control over the military rests in the **Department of Defense (DoD)**. It is within this government agency that the everyday military decisions are made. The command structure of the DoD is somewhat complicated, involving many civilians and officers in both advising and commanding roles.

The head of the DoD is the **Secretary of Defense**. The Secretary is the chief civilian military advisor to the President and is responsible for carrying out policy. Like any Presidential Cabinet appointment, the Secretary of Defense requires Senate approval. A major responsibility of the Secretary is the Annual Report to the President and Congress. This report addresses various military issues and serves as a valuable reference for military questions. The Annual Defense Report is available on-line at the DoD web site, <http://www.dod.mil/execsec/>. Reports are available through the year 2005 on this website.

Reporting to the Secretary of Defense are the leaders of the various armed forces. The actual operational control of the armed forces lies in the hands of various unified commands. These commands are grouped by geographical region, and are made up of members from two or more branches of the armed forces. They are headed by high-ranking officers from the four major defense branches: the Army, Navy, Air Force, and Marines. These are the individuals who tell troops where to go and make decisions in combat situations.

Another part of the Department of Defense that many misunderstand is **the Joint Chiefs of Staff**. This is a group of advisors to the President, made up of the highest ranking members of the various branches of service. These individuals have no place in the chain of command. They serve only as military advisors; execution of policy takes place through the unified commands. Thus, while the Joint Chiefs are probably the most important military advisors to the President, they have very little immediate control over troops.

Finally, there are various special commands within the armed forces that report directly to the Secretary of Defense. These commands usually concern a more particular issue not falling under any of the geographic unified commands. They range from financial matters to weapons research to ballistic missile defense.

Military Funding

The allocation of funds to the Department of Defense and the subsequent division of these funds among the various branches of service can shed light on the complexity of the modern military. Ultimately, Congress is responsible for appropriating all money, even to the military.

The amount of money to be given depends on various factors. In both chambers of Congress, there is an **Armed Services Committee**, which submits requests for money based on Congressional financial estimates. Whether that estimate is high or low depends on who controls the committee. Traditionally, Democrats have been less sympathetic to big defense spending, while Republicans have encouraged military buildups. Once the Armed Services Committee makes their estimate, the powerful **Appropriations Committee** must decide exactly how much of that request can fit into the budget. Within the Appropriations Committee, there is a **Subcommittee on the Armed Forces**, which usually makes the final decisions. Once the Appropriations Committee finds room in the budget, the budget is passed, and the President signs the budget into law, the money finally appears in the DoD coffers.

Once the money reaches the DoD, it gets allocated in various ways. Some of the money is sent to the various branches of service for their own operational costs. The Navy receives the most money, followed by the Air Force and then the Army. Much of the money is also sent out to independent **defense contractors** who make billions by building and researching military supplies.

The relationship between contractors, the military, and Congress is the final facet of defense funding. The contractors are out to make a profit, and know that the military will pay them for their goods. However, like any business, they are not in the habit of delivering more than necessary, so standards are often not as high as the military would like. The military knows that there is a limited amount of money with which to work, and thus gets bids from multiple contractors before beginning any big project. To stretch every dollar as far as possible, the military would like to take the best offer it gets. However, this is not always in the interest of Congress.

Pork barrel politics, when a Congressman gets government money to benefit his home district, is alive and well in the contracting field. Often, money will be set aside by Congress for products that the military does not necessarily want, but which would be built by constituents of a powerful member of the Appropriations Committee. Thus, the flow of money continues, but not always in the most efficient manner. The complex and sometimes wasteful way in which military money is spent is one of the main criticisms of the modern military. Understanding the military money game and being able to incorporate it into a speech can impress a judge and reveal a problem in the American military. By explaining why political barriers often stand in the way of military spending reform, a speaker can easily and uncontroversially argue for either increases or decreases in military spending, or for greater independent control of allocated funds for the Department of Defense.

Overall Military Readiness

Maintaining a well-trained and well-equipped military proves more difficult when there is no powerful enemy looming on the horizon. Although the US is currently involved in Iraq and Afghanistan many civilians and soldiers alike view these operations as post-war peacekeeping and cleanup rather than all out war. Keeping a force that is manned, trained, equipped, and willing to fight all falls under the category of readiness and is the primary goal of the Department of Defense. Sustaining readiness is a key to a successful military. Thus, the issue is extremely important and could very well turn up in any speech. Even issues of intervention that may come up in either domestic or foreign questions can be related back in some way to continued readiness.

Traditional Views of Readiness

The Department of Defense has some policies concerning readiness stemming from the Cold War or earlier. The blanket statement remains that the United States must be ready at all times to fight and win two concurrent theater-wide wars. In essence, if another world war breaks out, the DoD wants to be sure to win.

This objective sounds basic enough. However, the implementation of this policy takes determination and, above all, money. Readiness has traditionally been measured on a unit-by-unit basis. Thus, a unit made up of men who were well trained, fed appropriately, issued working and up-to-date weapons, and had high morale would be considered ready. An army made up of individually ready units would thus be ready itself.

To maintain this kind of readiness, six key factors must be addressed. Human resources must be provided, equipment must be up to date, spare parts must be available, tactics must be taught, training must take place, and, finally, all of this must happen at one time. This process is extremely expensive. However, under this traditional view of readiness, all units in all branches of service who would be “first to fight” are indeed ready. Despite current struggles in retention and recruiting, **The US Armed Forces remains the most ready in the world.**

Newer Readiness Theories

The old ideas of readiness are still important and still looked after very carefully. However, after conflicts such as the Gulf War and the NATO strikes on Kosovo, military strategists have begun to notice new ways in which forces must be made ready. Individual units may be armed to fight, but what good does that do if communications fail, intelligence is unavailable, and the unified commander cannot effectively transmit orders? Thus, readiness is now measured in terms of the theater commander’s ability to synchronize forces into a capable fighting team. Simply put, the right hand had better know what the left is up to.

To oversee this kind of readiness, the **Joint Monthly Readiness Review** has been established. This commission is within the Defense Department and reports to the Secretary of Defense and the President. It attempts to analyze the effectiveness of mobility, intelligence, communications, and logistics. It also spends much more energy observing the effect of technology on the way an army functions. The JMRR has come to similar conclusions as other readiness reviews. The United States has a military ready to fight and win a two front war. Units in supportive roles are slightly understaffed in some cases, but not dangerously so. The changing nature of war in recent years has shined the light on the critical nature of support and logistics functions in modern warfare. As a result, the DoD has implemented initiatives to bolster technology and readiness of support units. Overall, both combat (front-line) and non-combat (logistics and support) units are ready to fight a war at any moment.

Ensuring Readiness in the Future

The Department of Defense describes readiness as a dynamic process. The goal is never reached, the situation never settles down, and complete success can never be declared. Thus, a high guard is kept against the possibility of relaxed readiness in the future. To ensure that America’s military remains ready, new research is constantly underway to develop new weapons systems. This type of continuous development is nothing new. What is somewhat new is the amount of money being spent on developments in communications, intelligence, and radar.

Lessons were learned and changes made in response to the bombings in Kosovo. The DoD learned that its newest fleet of aircraft was extremely effective at depositing bombs without loss of American life. However, problems emerged. Clouds and fog hampered many of the bombing runs. Some communications systems were revealed to be easily compromised, and have since been replaced. Newer airborne radar stations are already in demand. Unmanned aircraft with transmitters were also revealed to be effective for disrupting communications on the ground. Similarly, following years in Iraq and Afghanistan the service branches are reconsidering how they will train and fight wars in the next century. Urban combat techniques are being perfected, an emphasis is being placed on smaller unit maneuvers, and the critical nature of logistics (convoys) has been realized in wars where there is no traditional front line.

As long as the commitment to readiness remains strong, the US military can be prepared to defend American interests around the world. By combining new and old theories of readiness with financial support for research, development, and deployment, the security of the United States can be effectively maintained.

Morale and Recruitment Issues

As stated above, one of the key aspects of readiness is keeping a military that has not only enough soldiers, but soldiers with high morale. These are the soldiers who will fight most effectively and be willing to sacrifice the most in battle. However, a career in the military is no longer looked up on as favorably as it once was. Because of this declining sense of importance, the military has had to face up to emerging issues concerning both morale and recruitment.

Decline in Morale

The moral of the military hit a peak during and after the Gulf War. It was a war fought superbly from a military standpoint, and America celebrated the deeds of our soldiers. With very little loss of American life, the military had managed to defeat an evil dictator and liberate a helpless country in the process. Soldiers felt good about what they were doing.

However, throughout the mid-90s, the public began to focus less on the importance of the military. Funds were cut from military projects perceived as unnecessary and redirected to other federal programs. Additionally, sexual harassment cases began to appear in larger numbers, serving to further embarrass soldiers. All of these factors combined to produce what the DoD admitted was a decline in moral. The situation had not turned into a crisis, but the drop off in military confidence from the Gulf War high was painfully apparent.

Following the nadir in the mid-90s, there was a recovery. Additional funding was earmarked for the military with the discovery of the budget surplus. The bombing runs in Kosovo, although carried out by NATO, once again made the American public appreciate the effectiveness of the US military. The DoD has also been working to keep troops happier by offering better health care for family members, better living quarters, and increased pay among other benefits. However, the long wars in Iraq and Afghanistan are taking their toll on troop morale. Many troops have already deployed two or three times and face a third or fourth overseas tour in the near future. The constant strain on military personnel and their families over the course of nearly six years of war has substantially impacted more. At this point, the morale of America's troops is once again classified as high by the DoD, but continued vigilance is necessary to ensure that it stays this way.

Recruitment and Retention

Many of the issues that emerged concerning recruitment (getting troops to enlist) and retention (getting troops to stay in the military) are directly related to the factors affecting morale. When moral began to dip in the mid-90s, recruitment levels also dropped off. Civilians simply did not see the point of a life in the military.

There are a couple of key reasons why recruitment has become more difficult. **First of all, the strong American economy provides almost everyone with a job.** Traditionally, recruitment has been strongest among socio-economic groups with little hope for economic prosperity. The military could offer a secure job with prospects for career advancement or for strong job applications after service. Today, more Americans can live very comfortably and securely without a military job. A middle-class life seems more attainable than ever, and without the inherent dangers of military service.

Second, the perceived importance of the military has declined. This one factor cut into recruitment as well as morale. People are not quite so willing to risk their lives for something that does not seem important, nor are they willing to commit their time to an activity they feel does not get the respect it deserves.

While recruitment has recovered to satisfactory levels along with morale, the rate of retention in the military is still a matter of great concern. One of the attractions military service still holds is the advanced technical training. To operate and maintain high-tech weaponry and equipment very in depth training is required. Unfortunately, the military runs into a kind of Catch-22. More training is necessary to make a better soldier. However, once this training is given, there is even more temptation for that soldier to leave for the private sector.

Individuals with advanced military technical training can make huge salaries working either for private defense contractors or elsewhere in the growing high-tech marketplace. As a result, the military continues to lose troops too quickly, and in positions that take time, training, and money to fill.

Third, long wars in Iraq and Afghanistan have placed enormous strain on military personnel and their families. Some young veterans haven't reached the age of 25, but they have done three or four combat tours. With defense contractors offering plenty of jobs many of these seasoned military

Possible Solutions

There are various solutions being put into practice to improve both recruitment and retention. Unfortunately, all revolve around money. Because of this increasing need, it is likely that in the coming years that **the amount of money necessary to maintain the military will continue to grow rapidly.**

The recruitment problems have become less severe, but the results of continuing recruitment efforts are still being watched very carefully. To attract new troops, the government has offered huge enlistment bonuses. Massive television advertising campaigns are also being used to ensure that potential soldiers know that these grants are available. The military also emphasizes the possibility of high-tech training, noting that soldiers will be in a better position to enter the modern workforce after completing their service time.

Yet with this type of advertising, the military plays directly into one of its greatest problems: short service terms and soldiers eager to leave for the private sector – for the very opportunities the service advertises. The theory of military planners goes that soldiers should first be enticed into joining the service, before the work of keeping them there can begin.

And expensive work it is. The difficulty in retention is that there is no way for the military to match the salaries to be made in the private sector. Demand for technically trained employees is too high.

As an example, if the commercial airline industry were able to hire every pilot in any branch of service who became available for discharge, some commercial pilot jobs would remain unfilled. Because of the critical pilot shortages, airlines push up the salaries they offer, to a point where they are often offering five to ten times the amount an individual could be making in the armed service.

Since the military cannot match the salaries offered in the private sector, recruiters try to even the score by offering more extensive benefits. Military health benefits, for example, were recently expanded to cover everyone in a service member's family. Housing for families is available at little to no cost. Retirement benefits packages are substantial. However, all of these added benefits still have not solved the problem. The military still loses large numbers of its most trained personal, the people it has invested the most time and money into.

It appears that these retention problems will never really go away. Through constant financial support, the problem can at least be kept under control and the military can remain adequately staffed.

A key issue for a speaker to stress when discussing military retention is the importance of highly trained personnel in modern warfare. As militaries around the world become less dependent on massive armies and more reliant on high-tech weaponry, these forces need people capable of operating that weaponry. Without people trained to undertake these specialized functions, million dollar planes, bombs, and submarines are useless. The overarching importance of keeping the highest trained personnel – the very people most likely to leave – provides a clear significance to any question about retention.

Homosexuality in the Military: Don't Ask, Don't Tell

Concerns over unit cohesion and morale have also fueled a debate over who should be allowed to serve in the first place. The question of whether homosexuals have a place in the military has divided politicians, military leaders, and civilians alike. The current policy of “Don't Ask, Don't Tell,” can appear at any time, so any speaker or debater should be prepared.

To speak effectively on Don't Ask, Don't Tell, a speaker needs to understand why some argue so vehemently that homosexuality is incompatible with military service, how the current policy was formed, and how that same policy has come to be executed.

Views Opposing Homosexuals in the Military

To many gay rights advocates, those who refuse homosexuals the right to serve their country are nothing more than paranoid bigots. However, there are some legitimate concerns raised in their arguments, that a speaker or debater should at the very least note and refute. Understanding these arguments is paramount in sounding both informed and unbiased when speaking on homosexuality in the military. Military life is unique. The men who fight in combat situations (remember, women still cannot do so) must be willing to die for each other. It is an atmosphere governed by honor, courage, and brotherhood.

It is summed up in the Greek word **philia**, one of the many Greek words for love. However, philia is more specifically translated as comradeship, loyalty, and brotherly love – as in “Philadelphia,” the city of brotherly love. This type of love centers on the good of the group, not of the individual. Men are willing to jump on a hand grenade, dying to save the lives of those around them. It is in this unselfish environment that an army flourishes. This atmosphere of total trust and commitment, of philia, is what the US Armed Forces strive for.

Opponents of homosexuals in the military argue that the presence of homosexuals in the ranks undermines this sense of brotherhood. When homosexuals are present, a different kind of love enters the ranks, what the Greeks would call **eros**. This type of love is based on sexuality, and perceived as self centered in nature. When eros becomes involved, people are not put on an equal playing field. Decisions that must be made in a split second could be swayed by feelings of individual attraction that might cost unnecessary lives.

The culture of fairness essential for good morale, proponents of the policy argue, would begin to crumble, and the unit as a whole would suffer. Cohesion would be lost, and the army would be rendered ineffective. This argument is also used to explain why women are not allowed to serve in combat roles.

Views Supporting Homosexuals in the Military

Those in favor of homosexual enlistment would argue that the preceding logic may appear sound, but in reality could be quite easily overcome. In the time of battle, a true soldier must be willing to put thoughts of worldly loves behind him. **It makes little difference whether this love is waiting back home or in**

the tank on the right flank. A homosexual soldier acting responsibly would have no choice but to put aside the eros and move into battle governed by philia. Thus, a homosexual soldier could still do his job without negatively affecting his performance. Additionally, the current laws governing fraternization would obviously be extended to govern homosexual relationships. Now these relationships would be against military law, and punishable like any heterosexual case.

This argument leads to the conclusion that other existing precautions eliminate the threat of poor performance by homosexuals. The problem comes when trying to address unit moral and cohesion. Because the existing military culture includes a rigid support of heterosexuality, homosexuals could not easily fit into this culture and, as a result, could not function as parts of military units as easily as heterosexuals. A study published by the Rand Institute finds that there is a very simple solution, aimed at using another aspect of military culture to undermine this negative one: instill an acceptance of homosexuals from the top down by essentially having superiors order the men to be accepting of homosexuals.

The theory goes that the military is a place where orders are followed, even into certain death. From men with this kind of loyalty, some respect, tolerance, and even acceptance could certainly be ordered, especially if military leaders followed through with punishments for those who did not meet certain standards of tolerant behavior.

If commanding officers had the determination necessary, the problem of unit cohesion could be solved. **Ultimately, the only reason that homosexuals are not serving in the military is that the high-ranking officers do not want them there.**

Any argument a speaker makes on either side of this use must return to this central idea: A part of military culture today involves the exclusion and even condemnation of homosexuals. By explaining some of this military philosophy, and the ways to overcome it suggested by the Rand Institute and others, you can appear to be well informed and open-minded, something that will be key in a speech on homosexuality.

Don't Ask, Don't Tell: The Formation

When Candidate Clinton campaigned for the White House in 1992, he promised to offer full military service to homosexuals. After being elected, President Clinton found out how hard that promise would be to fulfill. Even with a Democratically controlled Congress, Clinton was only able to get a compromise passed. That compromise would come to be known as "Don't Ask, Don't Tell." **The legislation stated that so long as homosexuals remained in the closet about their sexuality, military officials could make no effort to "root out" homosexuals from within their ranks.**

President Clinton knew that he had failed to deliver on his promise, but also believed that he had struck a deal which would give at least some homosexuals the right to serve. In 1993, the plan was signed into law, and for the first time ever, homosexuals could serve in the military, provided they kept their sexuality a secret. Yet the actual enforcement of the new law proved even more difficult than its creation.

Don't Ask, Don't Tell: The Implementation

What really happened turned out much differently from what President Clinton expected. In actuality, Don't Ask, Don't Tell has resulted in a dramatic increase in the number of discharges for homosexuality. The reasons for this unexpected and unwanted result may vary from unit to unit, but two major factors can be isolated.

- A part of the policy which President Clinton apparently forgot to read has been used in numerous cases. **An individual with the propensity for homosexual acts can be reported and dragged through a very embarrassing and personal questioning period.** Female soldiers have been reported as having the propensity for lesbian behavior because they refused the advances of

other male soldiers. Clearly, this broad interpretation of Clinton's policy has done much more to hurt homosexuals than to help them.

• **The Don't Ask portion of the deal simply is not being upheld.** Homosexual soldiers report on a regular basis that they were confronted about their sexuality before being discharged. However, no disciplinary actions against the questioners were taken. Ever. In the years since the 1993 beginning of Don't Ask, Don't Tell, not a single soldier or officer has been disciplined for inquiring about a soldier's sexuality. This absence of disciplinary response points to the same apathy and lack of concern on the part of commanding officers as was indicated by the Rand Institute study.

Possibilities for the Future

The current system of Don't Ask, Don't Tell is not proving effective. Rather than create an environment of tacit approval, it has instead made it harder than ever to be gay in the military.

President Barack Obama made homosexuality in the military an open part of his campaign, but economic crisis currently overshadows this issue. The President is committed to overturning the policy, but has placed this issue towards the bottom of his legislative agenda in favor of other major items such as economic and healthcare reform.

The Defense Department has itself re-evaluated and changed some of its policy. **Now, Don't Harass has been added to the phrase.** The goal is to drive home the idea of the Don't Tell phrase. Even when someone is suspected of homosexuality, there should be no questioning and no harassment. However, this "change in policy" really does nothing different. If Don't Ask, Don't Tell is going to work, it will be through the determination of those in charge, not through different wording of a catchphrase. Until then, it will be impossible for homosexuals to serve effectively.

In short, homosexuality in the military remains a very troubling issue, in which policymakers must weigh the need to respect the rights of all who want to serve against reasonable expectations of whether a statute will actually be enforced by military officials. While an inability to enforce anti-discrimination laws does not make discrimination right, it makes the process of eliminating it much more difficult. By noting these pitfalls, a speaker can offer a balanced, feasible solution without alienating judges at either extreme.

Strategies for Defense Against Weapons of Mass Destruction

The United States Armed Forces are prepared to meet any foe on the field of battle. However, the threat of a terrorist group or maniacal despot obtaining a weapon of mass destruction (WMD) and using it against American troops or American civilians still poses a large problem.

WMD, also known as Atomic, Biological, and Chemical (ABC) weapons, are becoming increasingly available on the international market. In the hands of Saddam Hussein they were likely responsible for "Gulf War Syndrome," and a cult of extremists used them to attack the Tokyo subway system. The threat is very real, and the defense is very complex. It involves four branches whose activities often overlap with those of other government agencies.

Antiterrorism

Antiterrorism efforts fall entirely under the Department of Defense. **The Department defines these efforts as attempts to defend service members and their families from WMD attacks.** Because biological and chemical weapons are much more accessible than nuclear ones to your everyday terrorist, they are the focus of defense efforts.

All members of the armed forces are issued state-of-the-art protective gear in case an attack takes place. Security on bases, especially those overseas, remains very tight in light of attacks on barracks in the past.

One issue of antiterrorism that the Department of Defense has wavered on is vaccinations for anthrax. Under the original, more ambitious program, every member of the armed forces would be vaccinated against the deadly toxin. Unfortunately, not enough of the vaccine could be obtained to carry out the lengthy cycle of shots, so the program had to be limited to troops in high-risk postings. **The anthrax example could be useful to demonstrate the difficulty of WMD defense. Even when money is allotted and the Department of Defense wants to go ahead, factors out of government control, such as the supply of a vaccine, can derail the project and leave some troops unprotected.**

Counterterrorism

Counterterrorism involves the immediate government response to a terrorist incident. Preparing for this hopefully unnecessary process involves a number of government agencies, all on the federal level, working together. The Department of Justice, through the FBI, and the Department of Defense both maintain twenty-four hour command centers from which domestic terrorism threats can be monitored. Within the Department of Defense, specialized military units can be dispatched anywhere in the country to analyze blast sites and contamination. In addition to this, the State Department maintains overseas terrorism outposts for foreign US interests.

One difficulty with counterterrorism is that so much of the training is theoretical. The FBI runs routine terrorist attack simulations, but even those in charge of this training admit that it cannot completely predict how a WMD attack would play out. Despite lengthy preparation efforts, an actual attack could very easily leave Americans exposed to unexpected dangers.

Nevertheless, the plan of action now in place is much more thorough than any that existed in the past. If an attack occurs on domestic soil, the FBI and Department of Defense would both report to the National Security Council, which would in turn advise the President on how to proceed.

The complexity of the system is both troubling and reassuring: It suggests that the United States is taking possible terrorist attacks very seriously, but that the response to such attacks is still very unrefined, and therefore unreliable. However, all parties involved insist that the United States would have little trouble responding swiftly and effectively to a terrorist attack.

Terrorism Consequence Management

Once the immediate crisis stage has passed, the local governments become responsible for terrorism management. The readiness of local law enforcement is important. However, most experts agree that keeping local hospitals up to date on procedure for WMD attacks may be most important of all. Rapid response is essential if local response efforts are to save lives. If necessary, local governments can appeal to the Federal Emergency Management Agency (FEMA), the Department of Justice, or the Department of Defense for assistance. Efforts to streamline this process, currently underway, strive to ensure that aid is available when it can still be used to the maximum possible benefit. Well-oiled local machinery can do much more to prevent disasters from spiraling out of control than any government agency.

Intelligence

Obviously, the ultimate goal of the Department of Defense is to avoid any WMD attacks on American interests. The best way to handle a terrorist attack is to make sure it never takes place. The Central Intelligence Agency, FBI, and National Security Agency all expend vast resources to ensure that no terrorist plots ever result in actual acts.

Because their work often takes place out of the public eye, judges may not understand the importance of what these intelligence-based organizations do. These agencies face a monumental task in trying to monitor, investigate, and ultimately impede terrorist organizations around the world. A statement made by

former Director of Central Intelligence George J. Tenet, made before the Senate Select Committee on Intelligence, sheds some light on the nature and importance of their activities.

“We have had our share of successes, but I must be frank in saying that this has only succeeded in **buying time against an increasingly dangerous threat**. The difficulty in destroying this threat lies in the fact that our efforts will not be enough to overcome the fundamental causes of the phenomenon – poverty, alienation, disaffection, and ethnic hatreds deeply rooted in history. In the meantime, **constant vigilance** and **timely intelligence** are our best weapons.”

How Can We Become Safer?

After a period immediately following the end of the Cold War when a sense of relief largely overwhelmed efforts to prepare for new dangers, the American public has become increasingly aware of the threat posed by terrorism and WMD. Thus, speakers always have to be ready for a question about our domestic security. In general, the United States is extremely exposed to the dangers of terrorism because of our position of international leadership, which leaves us with many enemies, but also very much protected because of the efforts of numerous agencies and the strength of our military.

To maintain this degree of protection, three main goals must be accomplished:

- **Intelligence gathering must remain a top priority.** As Mr. Tenet stated, the best weapons against terrorism are the knowledge of its existence and of specific plans for attacks. America also should not shy away from utilizing international channels to obtain information. The CIA and FBI may be the most advanced security forces in the world technologically, but allies, especially in Asia and the Middle East, may be able to offer crucial information concerning terrorist activities.
- **Supporters of terrorism must be closely monitored.** Even high-profile terrorist groups such as **Osama Bin Laden’s Al Qaeda network** and **Hamas** need to get their supplies from somewhere. Often, the suppliers are foreign governments with little love for the United States. By keeping an eye on North Korea, Iran, and China among others, the resources of terrorist groups can be revealed.
- **Domestic readiness must be maintained.** Intelligence reports concerning the possibility of terrorist plots should be taken very seriously and pursued across international borders if necessary. Local and federal authorities must stay sharp in rapid response training.

Hopefully, a WMD attack on US soil will never take place. However, if it does, America must be ready to respond with all possible speed. Terrorism is a threat that is still very real and is unlikely to go away any time in the near future. As the world leader, America will remain exposed to international hatred. However, through remaining vigilant and realistic about the threat, terrorism can be effectively combated.

Missile Defense

The idea of protecting the United States from an attack by intercontinental ballistic missiles (ICBM) is one that, on the surface, appears almost irresistibly appealing. In an age of US military domination, a surprise or accidental missile launch remains a very real threat to domestic security. Because of this danger, an organized national system of missile defense is once again in the works. To understand the current situation, it is necessary to examine the history of missile defense, the current missile defense proposal, and the problems this proposal could cause.

History

Most Americans associate the first organized push for missile defense to the Reagan Administration’s “**Star Wars**” plan. However, the idea first surfaced early in the Cold War, when, in 1957, research and development began on a Nike-Zeus intercept program. This primitive system used nuclear explosions in the atmosphere to destroy ICBMs. The system proved effective in 1962, when the first missile-to-missile

destruction took place in tests. The system was later approved under the name Safeguard, and deployment plans began.

However, in May of 1972, the Anti-Ballistic Missile Treaty (ABM) was signed, effectively disallowing the Safeguard program to continue. The ABM is a bi-lateral treaty between the United States and USSR, now Russia, which prohibits deployment of weapons systems capable of knocking incoming warheads out of space. The treaty provided the centerpiece for reductions in offensive warheads. Since no nuclear defense could exist, both Washington and Moscow could remain confident in nuclear deterrence without further arms build-ups.

Then, in 1983, President Reagan embarked on his ambitious, and infamous, Strategic Defense Initiative (SDI). The plans now centered on using space-based weaponry, such as lasers, to eliminate incoming warheads. Amazing technologies such as neutral particle beams and innovative sensors seemed to be only years away. Unfortunately, the plan proved far beyond the ability of modern science. Its proposal may have hastened the end of the Cold War by a financially strapped USSR, but in the end, SDI became perceived by Americans as a mammoth waste of money.

Current Plan

The technical development, execution, and oversight for the current missile defense plan takes place within the **Missile Defense Agency**. The current ballistic missile defense arsenal includes:

- 28 Ground-Based Interceptors
- 21 Aegis warships capable of long-range surveillance and tracking and missile intercepts
- Standard Missile-3 interceptors for Aegis Ballistic Missile Defense warships
- An upgraded Cobra Dane radar in the Aleutian Islands
- Three upgraded early warning radars (Beale Air Force Base, California, Fylingdales, U.K., and Thule, Greenland)
- Four transportable X-band radars, with one currently deployed to Japan
- A sea-based X-band radar now operating in the Pacific Ocean to support flight testing and actual defensive operations

In addition, the US has opened negotiations with Poland and the Czech Republic to further expand the systems arsenal with ground based interceptors in these countries.

The domestic politics of national missile defense are very interesting and could provide some helpful context for any missile defense speech. When President Clinton took office in 1993, he dropped all Bush Administration plans for missile defense systems. With a Democratic Congress, the issue fell off of the political radar. However, the Republican Revolution of 1994 changed the American political landscape in every way, and missile defense was no exception. **With the GOP controlling both houses of Congress, the “Defend America Act” was passed, calling for increased funding to protect the United States from isolated missile attacks.** President Clinton was forced to compromise, but not to deploy any system. He agreed to allot enough money for research into a system that could be ready within three years of a threat being discovered. Intelligence doctrine at the time suggested that any nuclear threat could be spotted five years in advance.

That all changed in 1998. An intelligence review pushed for by Congress determined that “rogue states” such as North Korea and Iran could deploy an ICBM capable of striking the United States with very little warning. Clinton’s hand was forced; he could no longer allow the system to wait on the back burner until a threat emerged. **In 1999, Congress passed and the President supported the “National Missile Defense Deployment Act.”** A test of the system in October 1999 proved successful. President George W. Bush continued support for missile defense and aggressive funding was provided for the Missile Defense Agency throughout his administration.

Problems Caused

Critics of missile defense have no shortage of targets for their attacks. These problems can be roughly organized into those dealing with technology and those dealing with international relations.

The technology of the current missile defense is much more feasible than that of Reagan's dreamy SDI. Nevertheless, its practicality has still not been determined. **Only one of three tests has been successful**, even with the Defense Department knowing everything about the incoming missile and warhead.

Hitting a bullet with a bullet is extremely tricky business, as the failure of two of the tests has demonstrated. Critics argue that a system that fails in friendly conditions could never be relied upon to work in a real engagement. When the flight plan is not already known and decoys could appear at any moment to throw an interceptor off course, the current system would be even less dependable. The failure of the third test was caused by a malfunction in a booster routinely used by the army; its failure to adapt to this new task proves to many skeptics that the current NMD plans would not be reliable enough to be trusted.

Also, even the best of NMD technology cannot protect America from a single warhead brought into the country itself through a loose border or launched from a smaller distance using a short range rocket that could not be intercepted by the NMD system. Both of these scenarios could easily be imagined by a terrorist resourceful enough to obtain a nuclear weapon in the first place. These technological problems are important, but the real meat of the attacks on NMD comes on the diplomatic front. The development of an anti-missile defense system could severely strain relations with Russia, China, and even European NATO allies.

Russia has the greatest right to be upset with missile defense plans. The Cold War may be over, but that pesky ABM treaty is still very much in effect. The planned NMD system would almost certainly violate the ABM, unless Russia allows the treaty to be amended. However, Russian President Vladimir Putin resisted pressure put on him by President Clinton to change the treaty. Putin still sees the ABM as important to keeping a balance of power. He deserves credit for getting the Strategic Arms Reduction Treaty II (START II) passed by the Duma, and also for showing openness to negotiations for START III. **He sees American pleas to amend the treaty as an offense to his goodwill in arms reduction talks.**

Additionally, Russia knows that when mobile missile defense systems are developed, the US would sell them to allies across the world, likely including NATO allies in Europe. This sale would only increase a sense in Russia of international isolation already agitated by NATO expansion into Eastern Europe and NATO bombing of Kosovo. Clearly, if any organized missile defense is to take place, it must be with Russian cooperation and inclusion. If not, Russian disarmament would likely slow or stop completely, and hard-liners would find more sympathy within the government.

Like Russia, China would also feel threatened by a NMD system. However, China's response would likely be very different. Currently, China is estimated to possess about 20 ICBMs capable of striking the US. This arsenal is a relatively small one, serving primarily as a deterrent to other nations' attacks rather than an offensive force. However, its effectiveness could be threatened by even the first phase of the NMD system. A huge arsenal such as Russia's could never be stopped in a full-scale nuclear war, but a smaller one such as China's could be weakened if not neutralized completely. As a result, China would in all likelihood accelerate weapons development and deployment efforts.

Both the size and the effectiveness of China's arsenal would skyrocket. The Chinese would be further enraged by the possible sale of a defense system to Taiwan, an island China still considers a colony and the Chinese desperately want to reclaim. To vent some of this anger, Chinese nuclear proliferation would

almost certainly increase. **It is known that Chinese technology made the nuclear weapons systems in Pakistan a possibility, and, with Chinese help, such systems could be established in North Korea or Iran with relative ease.** The threat posed by Chinese response to NMD is a very real one that should be discussed in any missile defense speech.

The NATO countries, especially those of Western Europe, also feel somewhat threatened by a possible American NMD system. **Eventually, the US may have a system that can be sold to allies, but not right away.** In that gap, America would be at least somewhat protected, and attackers might find the Roman Forum or the Champs-Elysees a much more inviting and easily struck target. This fear is very real throughout European governments, and provides the main motivation for efforts against US NMD. Additionally, Europe still does not like to think of itself as dependant on US technology for its survival. American hegemony is either grudgingly accepted or openly contested in many European governments (France, I'm looking in your general direction). **As a result, Europe does not wish to rely on Washington to provide the defenses necessary for their protection.**

Russia has proposed an alternative plan that could assuage many international fears. The plan is known as "**boost phase defense.**" The difference between boost phase defense and the current NMD plan is rather simple, but extremely important. Boost phase defense destroys missiles relatively close to the launch site, before the warhead has separated from all of its boosters.

The current NMD system is based on American soil and destroys missiles only once they have traveled a substantial distance. The boost phase defenses must be positioned much closer to the actual threat. **Thus, a system could be designed to protect against North Korea and Iran without necessarily eliminating Russian or Chinese deterrence.** America could be somewhat protected, and Russia and China could remain secure in their nuclear capabilities. This plan also is more pleasing to Europeans, since missiles are destroyed before their target can be determined. A system on American soil cannot protect Europe, but a boost phase system would knock out any missile, whether headed for Paris or New York. The United States has begun to develop boost phase defense systems, but has faced substantial diplomatic opposition in attempting to set them up in Poland and the Czech Republic.

Those who favor NMD based in America see one major flaw with the boost phase plan. The plan protects America only from those ground areas that the system can be placed relatively close to. **A terrorist group could obtain a warhead, then launch it from some location not covered by the boost phase system, and there would be no protection.**

Nuclear Lab Security

This issue does not technically fall under the Department of Defense, but it plays a critical role in national security, and thus, speakers should be prepared to discuss it in connection with other military issues. **Our nation's nuclear labs are under the control of the Department of Energy (DoE).** It is the DoE's responsibility to guard the most sensitive secrets concerning the American nuclear arsenal. However, a series of embarrassing security breeches have forced the DoE to completely reevaluate its security strategies.

Nuclear Lab History

From its beginning, the Los Alamos Nuclear Lab, where the first atom bomb was developed and where the recent breeches occurred, has been plagued by security problems. The history of Los Alamos can make an excellent introduction to a nuclear safety speech. The military and civilian scientists in charge of the Manhattan Project to develop nuclear weaponry estimated that a security system would need to accommodate two dozen of the world's best minds. By 1944, there were over two thousand people working at the lab, and no new security features had been added.

It is little wonder that amateur Russian spies delivered the secrets for atomic weapons to the USSR with relative ease. Stories abound about the ridiculously lax early security. In the lab's early days, Nobel laureate for Physics Richard Feynman was brought in for research purposes. However, he found it much more amusing to reveal security problems. At one point, he left through the secure main gate, walked around the fenced in perimeter and through a hole in the fence, only to walk out the front gate again. He repeated this cycle all afternoon, until a guard got suspicious and tried to have him arrested.

These kind of historical examples can be made humorous for the sake of introductions. However, the reason that they are so effective as intros is that they illustrate the tradition of sloppy security that has resurfaced recently.

Recent Incidents

The reason that nuclear lab security, especially at the central Los Alamos Lab, has come under question recently is a series of embarrassing mishaps that could have greatly damaged national security. In order to speak on nuclear labs, a speaker needs to know what these misadventures were.

In the first, and by far most damaging, a scientist named Wen Ho Lee mishandled sensitive nuclear information. He copied secret and top secret files onto insecure hard drives, then took those hard drives out of the lab facility.

The case against Mr. Lee is still under investigation, and seven of the hard drives that contained nuclear information are nowhere to be found. It is believed that the information was passed on to China, although Chinese authorities have vehemently denied any nuclear spying. **The hard drives are believed to have contained detailed information about the dismantling of US and Russian nuclear weapons and plans for the W-80 warhead, one of the most advanced in the US nuclear arsenal which uses technology formerly unavailable to the Chinese.** The extent of the damage may never be known, but Wen Ho Lee's activities were at best extremely careless and at worst extremely damaging to national security.

The second incident is not believed to have compromised any nuclear secrets. However, it was possibly more embarrassing than the Lee incident, and only reinforced calls for security reform. **Two computer hard drives in the top secret section of the lab suddenly disappeared.** Their absence went unreported for a few days, and when they were reported missing, nothing could be found. Finally, after suspicions rose of more spying, the drives appeared hidden behind a copier in the secure part of the lab. The Department of Energy suffered another black eye.

Additional incidents since the Lee controversy include:

- June 2006- computer hackers stole Social Security numbers of 1,500 DoE contract workers. The lab did not notify the workers or the DoE head of cyber security about the attack.
- October 2006- authorities conducting a methamphetamine drug raid discover classified information at the lab. Los Alamos was fined \$3.3 million dollars by the Department of Energy for its negligence.
- May 2007- Los Alamos staffer takes a laptop with high sensitive material on vacation to Ireland where it is stolen.
- June 2007- classified information is sent via unsecure e-mail to a Nevada test site.
- June 2007- lab employee with the highest and most wide reaching security clearance available arrested in cocaine drug bust.

Changes for the Future

In response to all of this negative publicity, the DoE has had no choice but to change its policies in a drastic way. The main change has been the establishment of the semi-autonomous **National Nuclear Security Administration** within the DoE. The NNSA does report to the Secretary of Energy. However, they set their own agenda and make changes as they see fit. Already, the NNSA has begun to make some drastic changes.

Commercially produced encryption technology is being used on any hard drive that could be taken out of the lab. This way, even if a drive does disappear, its contents cannot be accessed. Handprint identification is being installed to replace the easily deceived keypads. Video surveillance is still not realistic, since these feeds can be easily intercepted from the outside, which could prove very damaging.

Finally, the way information is classified has begun to change. During the Bush Administration, new nuclear information was mostly classified as secret rather than top secret. This classification cut down on bureaucratic costs and made it easier for more scientists to participate in research. Unfortunately, it also meant that much of America's newest nuclear research was available to individuals who had not been forced to undergo the stringent background check associated with top secret clearance. **To eliminate this danger, information is being reclassified and more money is being set aside to ensure that only secure individuals have contact with the most important of our nuclear secrets.**

Conclusion

With the above background information you should be well prepared to deal with military and defense topics of all kinds. The Annual Defense Report is a good tool for keeping track of military and defense issues. It is available online, and although it is a little hefty, it is a very useful resource both for keeping informed and to cite. Good luck to everyone and maintain readiness!

United States Intelligence and Security

David Hardy and Joseph Poore

Introduction

Thrust into the public spotlight by the September 11th attacks, the intelligence and law enforcement community has had not only a major gut check, but has faced intense scrutiny over the inefficient bureaucracy, debilitating culture, lack of human intelligence, lack of linguistic skills, and lack of focus on terrorism.

National Security

There are five main national intelligence agencies. All have different budgets, staff, directors, and missions.

National Security Agency

Created in 1952 by President Truman, the NSA is charged with handling cryptology for the US government. Cryptology is the enciphering and deciphering of codes, and as a result, is one of the most veiled organizations in the government.

National Reconnaissance Office

The NRO is charged with handling all spy/reconnaissance satellites for the defense department. It was created in 1960 by President Eisenhower, partly as a result of Gary Powers' U-2 spy plane downing by the Soviets. Eisenhower wanted to fully exploit satellite reconnaissance capabilities, but had to work out the relationship between the CIA and Air Force. At first the Air Force was to handle the launchers, bases, and recovery capability while the CIA would handle research, development, and data analysis. This gave the CIA control over the meaty part of the operations, however, and the two organizations competed fiercely for control of the NRO, something that involved budgets, personnel, and prestige. A three-person executive committee to regulate decision making was worked out in a 1965 compromise.

National Geospatial-Intelligence Agency (formerly National Imaging and Mapping Agency): NGIA (changed from NIMA in 2004) is charged with handling the imaging and mapping sectors for the military and policy makers in Washington. It was created in 1996 by President Clinton to combine the roles of the Defense Mapping Agency, Central Imagery Office, and Defense Dissemination Program Office.

Defense Intelligence Agency

Created in 1961 by Secretary of Defense Robert McNamara, the DIA is the primary gatherer of foreign military intelligence. It links up all the various tactical and strategic intelligence gathering units of the various armed forces.

Central Intelligence Agency

The first national intelligence gathering service was the Office of Strategic Services (OSS), created in 1942 by President Roosevelt after Pearl Harbor; even before the attack Roosevelt had felt the need for better intelligence gathering capabilities. The mandate of the CIA's forerunner was to collect and analyze information required by the Joint Chiefs of Staff, and to conduct special operations no other service could or would. After World War II ended in 1945, the OSS was dissolved and its duties returned to the various military branches. It wasn't until the National Security Act of 1947 that the Central Intelligence Agency (CIA) was established. The CIA is charged with gathering and analyzing information on all national security issues. Included in the mandate for the CIA was a strict ban on collecting intelligence on US citizens. The CIA's powers grew with the Central Intelligence Agency Act of 1949 that gave it great secrecy and flexibility in its fiscal activity. This law gave it a huge cloak of secrecy that allowed it to

withhold names, salaries, officials, functions, organization, or number of employees. In 1953, Congress mandated that the Deputy Director of the CIA be approved by Congress after being nominated by the President; previously just the latter was necessary.

The Intelligence Oversight Act of 1980 required the Agency to report regularly to the Senate Intelligence Committee and the House Intelligence Committee. The CIA is also required to brief the Senate Foreign Relations Committee, the House Committee on Foreign Affairs, and the House and Senate Armed Services Committees. The CIA provides intelligence to various federal departments, and individual congressmen can request information or analysis from them. In 1997, a lawsuit stemming from the Freedom of Information Act disclosed the CIA's budget: \$26.6 billion. This has steadily been increasing although the current total is undisclosed. The CIA is the most widely known of the intelligence collecting agencies. As a result, it is also the most glamorized and politicized of the intelligence community.

CIA reform

The CIA has taken a lot of the heat for September 11th. One of its primary failings is in the area of human intelligence (humint). When it was created, the OSS/CIA had traditional spies and informants like every nation throughout history has had. However with the advent of spy satellites and radio signal intercepting stations, the CIA has gotten lazy, and relied more heavily on the technology aspects that America excels so well in. This is called signal intelligence (sigint). Sigint has severe limitations however, and is particularly ineffective against the al Qaeda terrorist network which relies on low-tech face-to-face meetings and word-of-mouth communications. In short, it can supplement but not replace on-the-ground operatives deep inside the enemy organization.

Under former director George Tenet, now Porter J. Gross, the CIA has been scrambling to redevelop its humint network, but this is a process that takes decades to fully develop. One sign of the nonexistent humint network is the NBC (nuclear, biological, chemical) weapons intelligence catastrophe in Iraq. In lieu of its own spies and informants, the CIA was forced to rely on Iraqi defectors provided by the rabidly pro-war Iraqi National Congress, led by the now-disgraced Ahmed Chalabi, who is believed to have ties with the Iranian intelligence agencies. Iran is the arch-enemy of Iraq. These defectors were debriefed by the CIA and were told of huge hidden stores of NBC weapons, absolutely none of which have materialized, and which Secretary of State Colin Powell acknowledges probably never will.

Another problem is the poor language proficiency within the Agency. Sigint generates huge reams of voice data, but due to the severe shortage of translators, there is a huge backlog of intercepts, rendering most of it void by virtue of its time-sensitive nature. Solving this problem is easier said than done, as there are thousands of languages in the world, many spoken only in isolated regions. Within the languages of Arabic and Farsi (Persian), for instance, there are dozens of regional dialects that give completely different meanings to the same words. To recruit CIA translators for their various dialects requires extensive background checks, which, given the region of the world they are coming from, isn't likely to turn up spotless. Finally, the private sector has equally high demand for translators, as they often do work in these areas, or work with companies of that region's origin. In general, the private sector is more competitive because it pays more with no intrusive background checks.

In October 2004, the Senate voted 96-2 to establish a National Intelligence Director and National Intelligence Centers. The Director would have a strong budget and personnel independent of any other agency. Furthermore, the bill sets up multiple Intelligence centers for individual issues like NBC weapons or the Middle East. It also sets up a new Counterterrorism Center to coordinate intelligence and operations in that area. All these measures were recommended by the 9/11 commission, and are also supported by President Bush.

Domestic Security

Department of Homeland Security

The Department of Homeland Security (DoHS) was established by the Homeland Security Act of 2002. At first it was created as an Office of Homeland Security, but pressure from the Democrats and Bush to make it a full-fledged department brought about the largest reorganization of the government since President Truman. Its mission is to prevent terrorist attacks within the United States, reduce the vulnerability of the United States to terrorism, minimize the damage, and assist in the recovery, from terrorist attacks that do occur within the United States. Previously, terrorism protection had fallen upon a hodgepodge of organizations, including the FBI, CIA, Secret Service, and state and local law enforcement, but no one agency was charged with protecting the country from terrorism. The DoHS consolidates 22 existing federal agencies and 170,000 employees. Included in these are the Coast Guard, Customs Service, Federal Emergency Management Agency (FEMA), and Transportation Security Administration. The current director is former Pennsylvania Governor Tom Ridge, who has held the role since it was first established as the Office of Homeland Security.

One of DoHS's most significant roles is now immigration management, taking over from the wretchedly incompetent Immigration and Naturalization Service (INS) in 2003. Although there have been significant organization and procedural changes to immigration laws, it is still too early to determine whether it has made the country more secure.

The DoHS has instituted a color-coded warning system to alert the public on the risk of a terrorist attack.

- Low Condition – Green
- Low risk of terrorist attacks, the following Protective Measures may be applied:
 - Refining and exercising preplanned Protective Measures
 - Regularly assessing facilities for vulnerabilities and taking measures to reduce them
- Guarded Condition – Blue General risk of terrorist attack. In addition to previously outlined Protective Measures may be applied:
 - Checking communications with designated emergency response or command locations;
 - Reviewing and updating emergency response procedures; and
 - Providing the public with necessary information.
- Elevated Condition - Yellow Significant risk of terrorist attacks. In addition to the previously outlined Protective Measures, the following may be applied:
 - Increasing surveillance of critical locations;
 - Coordinating emergency plans with nearby jurisdictions;
 - Assessing further refinement of Protective Measures within the context of the current threat information; and
 - Implementing, as appropriate, contingency and emergency response plans.
- High Condition - Orange High risk of terrorist attacks. In addition to the previously outlined Protective Measures, the following may be applied:
 - Coordinating necessary security efforts with armed forces or law enforcement agencies;
 - Taking additional precaution at public events;
 - Preparing to work at an alternate site or with a dispersed workforce; and restricting access to essential personnel only.
- Severe Condition – Red Severe risk of terrorist attacks. In addition to the previously outlined Protective Measures, the following may be applied:
 - Assigning emergency response personnel and pre-positioning specially trained teams;
 - Monitoring, redirecting or constraining transportation systems;
 - Closing public and government facilities; and increasing or redirecting personnel to address critical emergency needs.

Proponents have said it allows the intelligence community to clearly and simply convey to 290 million citizens the risks they face. Critics, however, have ridiculed the system. First, all of the alerts have occurred without any specific information on what or when or how terrorists might strike, thus states have been forced to spend millions of scarce dollars in overtime costs to police to stand outside any public building, infrastructure, military installation or possible terrorist target. This in and of itself is little more than a symbolic gesture as the terrorist attack would almost certainly come from a hidden bomb, not a frontal assault by terrorist guerillas on a bridge.

Second, there is very little the average citizen can do to prevent a terrorist attack; the terror alert should only really be going out to law enforcement agencies.

Third, from the psychological standpoint, it's hard to tell people to get anxious and more alert than they previously were over and over again, up and down. In addition to that, the constant raising and lowering without any (public) results to show for it have left the general public more apathetic toward such alerts.

Fourth, critics assert that the DoHS will never lower the code to Green, because then citizens would theoretically get lax (assuming they paid strict attention to the alerts at all), or raise it to Red in a period of calm because then citizens would panic, or if there was a terrorist attack, it couldn't be raised any higher. Moreover, the DoHS would certainly raise the level to Red immediately after a terrorist attack because of the nation's automatic concern and fear level. Yet this would be the least likely time for a terrorist attack, since one has already occurred, and least useful since the public is already consumed with terrorism awareness.

In addition to this public relations flap, the DoHS further tarnished its image by advising people to horde duct-tape in order to seal up their houses in case of a chemical or biological attack. Officials forgot to say how you'd be able to breathe if your house was completely sealed off. Not that this was a particularly bad plan as duct-tape is amazingly versatile, but it was ridiculed on countless talk-shows and internet message boards.

In forensic events, feel free to criticize any action the government takes. This is a tremendous reorganization in government in not a lot of time; thus there are bound to be areas which have been bungled, or maybe the entire plan was wrong. As with all policy opinions, provide plenty of evidence and even some good analogies to make such a complex issue easier to grasp by the lay judge.

FBI

The Federal Bureau of Investigation has also taken a hefty share of the blame for anti-terrorism failures, much of it quite deservedly.

History

Created in 1908 by Attorney General Charles Bonaparte under President Teddy Roosevelt, its job was to investigate federal crimes. Previously this job had been the responsibility of the Secret Service primarily because there had simply not been that many federal crimes to warrant an entire agency being created to investigate them. At its inception, the crimes it investigated were mainly white-collar crimes like bank fraud, bankruptcy, naturalization, antitrust, and land fraud. Bear in mind this falls in line with Teddy Roosevelt's legacy as a trust-buster who broke up big corporate monopolies.

This model continued until 1924 when J. Edgar Hoover took over as director. Hoover instituted a complete overhaul by immediately firing all incompetent agents, abolished promotion by seniority, and instituted regular field inspections. He created a formal training program for prospective agents. As crime soared during the Great Depression, President Franklin D. Roosevelt pushed for more federal action to fight such crime, and the FBI was the tool. Not only did the agency expand from 650 employees to 1,795

total employees by the end of the 1930s. During World War II, the FBI expanded on its traditional roll to include counter-intelligence, hunting down and rooting out Nazi spies and informants. Hoover also turned the FBI from a relatively obscure federal agency into one of the most feared. Using wiretaps and blackmail, it went where the CIA couldn't--spying on American citizens.

Lending truth to these fears was the role the FBI played in the McCarthy era, hunting down suspected Communists in the government in a paranoid frenzy whipped by Senator Joseph McCarthy. Later, its image was further tarnished by surveillance of civil rights leaders like Martin Luther King. However, the Bureau vindicated itself by aggressively fighting civil rights violations, actions no southern law enforcement agency would take.

Since then, the FBI has existed as the top law enforcement agency in the country, retaining its original purpose of fighting white collar crime but also violent and—most recently—information technology-related crimes. Preventing terrorism was also part of its mandate, but this was a secondary job for it, one it shared with numerous other agencies such as the US Marshals and Alcohol, Tobacco, and Firearms (ATF) agents. Moreover, the few resources devoted to fighting terrorism were against homegrown, right-wing, anti-government nuts like Timothy McVeigh or the militia at Ruby Ridge, Idaho in 1992, not international Jihadists. Compounding these problems was the complete shock that Robert Hanssen, one of the Bureau's top counter-intelligence officers, had been selling secrets to the Russians for 22 years.

Reform

Robert S. Mueller III was sworn in on September 4th, 2001, and remains director as of 2009. The FBI Reform Act of 2002 made several key changes. First, it extended the Whistleblower Act to include FBI employees. Essentially, it gave complete anonymity to any employee revealing illegal or unethical practices in the Bureau. Second, it opened senior management positions to a much wider pool of agents, and required that the FBI publish the requirements for such senior positions. Third, it greatly expanded the use of polygraph, or lie-detector tests for agents or contractors, including anyone with access to secret data.

Other than the congressionally mandated changes, the FBI is reforming itself. The most important reform has been to make preventing terrorism its top-priority, with this new priority manifesting itself in many tangible changes:

- More intelligence collectors: Part of the FBI's own humint increase, the Bureau is adding field agents to the tune of 1,395; intelligence-gathering is being made an integral part of their mission. In fact, in line with the shifting priorities to counterterrorism, counterintelligence, and cyber crime, roughly half of these were simply permanently reassigned from the FBI's previous focus.
- More intelligence analysts: Before September 11th, only 159 of the over 1,100 intelligence analysts were devoted to counterterrorism; now 475 are. In 2004 alone, the FBI hopes to hire an additional 900 analysts. It's also established a College of Analytical Training to train these news hires.
- More intelligence sharing: This applies to sharing of information with state, local, and other federal agencies that are often in the best position to implement the information. The FBI has established an Office of Law Enforcement Coordination to increase the dissemination of intelligence, and to coordinate the efforts to gather and use it.
- Improved technology: Through a three-step program aptly called Trilogy, the FBI has installed new hardware and software, setting up local and regional networks to share information, but the third part of setting up a nation wide data-sharing network remains woefully behind schedule and over budget.

USA Patriot Act

No piece of legislation has caused more controversy in the last decade than the USA Patriot Act, hastily passed six weeks after September 11th. The Act granted broad powers to law enforcement agencies. Spanning 342 pages, PATRIOT is actually an acronym for Providing Appropriate Tools Required to Intercept and Obstruct Terrorism. It was voted on 356-66 in the House, and 98-1 in the Senate. The quick passage and extremely lopsided vote show how little debate or opposition there was in the face of overwhelming pressure from the White House, and the vocal panic-stricken public. There are three major provisions of the Patriot Act:

Secret Searches

Known as “sneak and peak” operations, the law eliminates the existing statute that individuals had to be notified within reasonable time of any search of their home. In other words, judges can authorize police to search a home without ever telling the person in question. Moreover, this power is NOT limited to terrorist investigations; it can be applied to any criminal activity where the judge “finds reasonable cause to believe that providing immediate notification of the execution of the warrant may have an adverse effect.”

Multi-point authority

Also known as “roving wiretap” authority, this section allows law enforcement to get a warrant to tap ALL communication devices of a suspect, not just each individual phone line or cell phone. While proponents of this amendment say it’s necessary for convenience and to keep up with paranoid suspects who use a multitude of phone lines, opponents assert that it is a major breach of civil rights for innocent civilians. For example if a suspect is even thought to use a public computer such as one at a library or cybercafé, the police could tap that, and in the process intercept the communication of dozens of law-abiding citizens. Furthermore, constitutional lawyers say the section does not comply with the Fourth Amendment with mandates that a “search warrant particularly describe the place to be searched.”

Nationwide observation and search warrants

Similar to multi-point authority, this amendment broadens observation warrants to include the entire country, not just the county in which the observation would take place. This section also fails to limit the power to terrorism investigations, which was the whole point of the Patriot Act. One of the main problems with this is that it makes it more difficult for a cable, phone, or internet provider to come before the court of issuance and protest possible legal or procedural mistakes. The second part authorizes nationwide search warrants, although this time it includes a provision that limits the scope of application to terrorism.

Among the many other segments of the Patriot Act include: the expanded scope of electronic information subpoenas (not limited to terrorism) and the ability of the FBI to order the disclosure of all medical, business, educational, and—most controversial—library records without showing probable cause, although they still must obtain a court order. It is also illegal for anyone involved to disclose that these records have been obtained by the FBI. However, the Act does include a sunset provision meaning it will expire on December 31st, 2005.

Soon after the Patriot Act passed, it came under relentless criticism from the American Civil Liberties Union (ACLU) and other civil rights advocates who noted the quick passage and draconian language as evidence of Congress eager to look tough. Many legislators have come to regret their vote for it as an increasingly skeptical populace has created a backlash. This was evident not only in the Democratic primary debates, but in the numerous symbolic anti-Patriot Act resolutions passed by city councils including New York City, which joined 246 municipalities and counties nationwide in opposing the law.

The Patriot Act is one of the major dividing or “wedge” issues between liberals and conservatives today. Liberals tend to feel it is an unconstitutional encroachment on their civil liberties, whereas conservatives

tend to feel it is a necessary tool in the fight against terrorism. This is an overly broad generalization as Libertarians who staunchly oppose government intrusion into their lives loathe the law, but are far from liberal. Moreover, several Democrats have reaffirmed their support for the law. But when talking about general political philosophies, this is how the debate breaks down.

Conclusion

US Intelligence is one of those topics that is guaranteed to come up at any tournament. It is imperative that you maintain up-to-date files on this issue, especially since it's a living, breathing, evolving issue. It also happens to be a huge political icon; the holy grail of issues in an era where security and terrorism is top priority for many. Good luck discussing it!

Bibliography

- Pike, John. US Intelligence and Security Agencies. 4 June 2004. Federation of American Scientists. 3 Oct. 2004 <<http://www.fas.org/irp/official.html>>.
- Cong. An Act to Establish the Department of Homeland Defense. US 107th Cong., 2nd sess. HR 5005. 2002. 3 Oct. 2004
- Chang, Nancy. The USA Patriot Act. Nov. 2001. Center for Constitutional Rights. 5 Oct. 2004 <<http://www.ccr-ny.org/v2/reports/report.asp?ObjID=BdSKj6pXDC&Content=159>>
- The USA Patriot Act. 29 July 2004. Electronic Privacy Information Center. 5 Oct. 2004 <<http://www.epic.org/privacy/terrorism/usapatriot/>>.
- Smith, Donna. "Senate Approves Spy Agency Overhaul Bill." Reuters 6 Oct. 2004. 6 Oct. 2004 <http://story.news.yahoo.com/news?tmpl=story&cid=584&e=7&u=/nm/20041007/pl_nm/security_congress_dc>.
- Cumming, Alfred, and Todd Masse. FBI Intelligence Reform Since September 11, 2001: Issues and Options for Congress. 6 Apr. 2004. Federation of American Scientists. 6 Oct. 2004 <<http://www.fas.org/irp/crs/RL32336.html>>

Topics in Economics

Introduction: A Foundation as Important as Any

Jesse Nathan, Andrew Korn, Andrew Swan, and John Mondragon

Emma Goldman once contended that, "Economics are the reflex of the political sphere." Economics provides the foundation, or the lack thereof, for war and peace; for political stability and social reform; for institutional repression and governmental stagnation. As such, any forensic competitor hoping to achieve the level of analytic sophistication necessary to attain success must have a solid understanding of economics. Despite the wisdom of Goldman and others, which helps us grasp the inherent importance of economics, we seem to forget its relevance. Often dismissed as bland and boring, it is one of the most underestimated and understudied concepts in extemporaneous speaking. This book, written by some of the best speakers and thinkers that the forensic community has to offer, provides insight into economic concepts, understanding, analysis, and reasoning that you will find essential in the answering of so many different questions.

Before we can go any further, however, it is important that we understand what this mystic concept known as "Economics" really consists of. Most Econ 101 professors tell their students that economics "The study of making choices." This definition is almost as unhelpful as it is short. A somewhat more useful authority, the Economic Education in Schools Report by the National Task Force on Economic Education, noted that, "Everyone must to some extent act as his [or her] own economist in his [or her] private life and as a citizen--and both he [or she] and the community will be better served if he [or she] is well informed and can think clearly and objectively about economic questions." This, of course, is a personal definition. The more relevant, central problem that both defines economics on a larger scale and relates it more succinctly to you, is simple, yet infinitely hard to address. The central economic problem that all governments, policy-makers and persons of the globe face daily is that people, as a whole, have a limitless continuation of wants and desires in terms of goods and services, but one that cannot be fulfilled because the necessary resources are always inherently finite. This problem forces people at all levels of government, not to mention many aspects of the private sector, to make "economic" decisions about which wants and desires will be met and which will have to be forgotten.

University of Southern California Professor James Calderwood and former Associate Director of the Joint Council on Economic Education George Fresh, lay out the logical progression of related facts which, taken together, define economic study:

1. Economics is a branch of the social sciences, which in general are concerned with human behavior.
2. Specifically, economics is concerned with man's activities as he tries to satisfy his wants for goods and services.
3. People have never-ending and ever-increasing wants for goods and services.
4. Goods and services do not 'grow on trees' but must be produced.
5. In order to produce goods and services, productive resources—natural resources, human labor, and capital equipment--are needed.

6. Productive resources are scarce relative to the need for them. Choices must continually be made among alternative ways of using them in production.
7. The process of choosing among alternative possibilities for the use of scarce productive resources is known as 'economizing' or 'allocation.'
8. Since all societies are faced with the basic economic problem of economizing, or allocating scarce productive resources among alternative uses, every society must have some organized way of making the decisions. The organized method of decision-making is called the society's 'economic system' (Calderwood and Ferish 7).

With this progression in mind, we can take an even deeper look into the essential aspects of economics as it applies to you.

At the heart of the economic problems of our world lies the nature of wants, consumption and production. Every nation, as with every person, has unlimited wants and desires. These are not so much intangible, as they are the physical, real need for clothing, daily food and water, luxury, and other things. As each basic want is met, other, less necessary but equally coveted desires spring forth. One eats a meal but wants more food later. One buys a car, but it wears out eventually. One buys a computer, but it is out of date soon. Similarly, on a national scale, a government builds roads, but they eventually wear out. A nation feeds its hungry, but they soon require more food to live. Such needs and wants are never satisfied and never will be satisfied. Economics is the study of how, in the short term, each entity tries to satiate its particular wants and of what they can do, in the long term, to satiate more of these wants.

The economic process, then, consists of consumption and production. Consumption is quite simply, "the process of satisfying one's wants" (Calderwood and Ferish 9). Consumption is inherently a vague and open term: one consumes the services of a barber just as much as one consumes the food on one's plate. Both relate to economics, although one is more difficult to pinpoint. Some goods and services are utilized very fast -- food and water, for example -- while others -- computers, books, houses -- expire much slower, thus attaining a longer life-span.

Production is "the process of providing both consumer goods and services and capital goods" (Calderwood and Ferish 9). Production is the hang-up in most economic questions (the distribution of produced goods is the hang-up in many of the other questions). This is because goods and services cannot be simply created endlessly on demand -- the process of production can be long, difficult and, at the very least, costly. Effort must always be present: food has to be grown and prepared; cars have to be built; roads must be constructed and so on. Almost everyone in every nation is a producer to some degree. Thus, every facet of a national economy is critical to the satisfaction of that ever-important central economic problem.

This book provides you with the means necessary to learn the fundamental economic concepts and ideas necessary to successfully answer relevant topic questions. Economic reasoning -- the ability to determine how to address that age-old problem of production and consumption -- is important in many contexts. Thus, you should strive to better grasp that skill, difficult as that may seem at times. Like any other aspect of our modern world, economics will continue to be relevant and complicated at the same time. One who masters the following chapters will thus be better equipped and consequently will have a subtle, yet clear edge over other speakers. We cannot guarantee any particular level of success for the person who masters this book, but we can guarantee that such a speaker will improve his or her own personal abilities dramatically. Please note that this is, at its heart, a theory text. Economic and fiscal fluctuations can and do happen with rather little predictability. Treat this book as what it is—a theoretical grounding in the important world of economics. We wish you good luck!

Economic Systems

Jesse Nathan and John Mondragon

Introduction

A ruthless executive died and went to hell. When he got there, he saw one sign that said 'Capitalist Hell,' and another that said, 'Socialist Hell.' In front of Socialist Hell there was an extremely long line, while there was absolutely no one in front of Capitalist Hell. Puzzled, the executive asked a nearby guard, "What do they do to you in Socialist Hell?" "Well," replied the guard, "they boil you in oil, whip you, and then put you on the rack." "And," asked the horrified executive, "What do they do to you in Capitalist Hell?" "The exact same thing," responded the guard. "Then," exclaimed the executive, "why is everybody in line for Socialist Hell?" "Because in Socialist Hell," the guard wryly answered, "they're always out of oil, whips and racks."

As debaters and extempers know, the ideological war between socialism and capitalism has played a major role in the politics of world history's most violent century. But the politics of economics is not limited to those two particular systems, or even to modern history. The differences described in the above anecdote would indicate that one system, capitalism, is superior to another, socialism. While most Americans would probably agree with that characterization, not every nation in this world has embraced the free market. Because while every nation uses its resources differently,

All societies are faced with the basic questions of what, how much and who should produce various goods and services. And every nation answers them differently. In order to solve these fundamental needs that every nation must address, economic systems have developed and evolved throughout history. No matter which economic system you tend to espouse, it is clear that each type and variety has shaped the world and will continue to do so.

Thus it is no surprise that questions relating to economic systems come up frequently in tournaments. To prepare for such topics, you must have knowledge of economic history, evolution, several basic financial structures and present-day variations of these economic formulas. Indeed, a basic understanding of the various world financial systems will help you deal with almost any question regarding. While this chapter is by no means a complete study of all the economic approaches and their history, it does attempt to provide a fundamental understanding that is critical to answering such questions intelligently.

The Basis, History and Evolution of Economic Structures

Before you attempt to answer and explore questions regarding various economic systems, you must canvass the extensive history of economic structures and understand why economic systems develop and then how they do.

Four Basic Economic Questions

There are four general questions that every economic structure must answer. When one determines the historical context that gave rise to certain systems, these four questions become tantamount to such discussion. Certain historical situations bring the spotlight on one of the questions and thus the economics of the time are shaped based on those circumstances. The four questions are outlined in Clemson University Economics Professor Roger Leroy Miller's book *Economics Today and Tomorrow*. They are: What and how much should be produced? Who should produce what? How should goods and services be produced? Who should share in what is produced?

What and How Much Should Be Produced?

Every nation and society has its resource strengths and weaknesses. And of course, every economic transaction, production or consumption involves a tradeoff with other resources or products. Thus an economic infrastructure must focus on the type of good or service to be produced and then how much of that should be created. There are signals and indicators within every financial structure, such as prices or

directives, that tell those involved in the economy what exactly they should and should not do in regards to resource production. In Japan, for example, a nation with very few natural resources, its economic architects have developed a capitalist system focused largely on exports— technology, automobiles and the like. In a historical sense the evolution of each and every nation’s economic formula revolved around what it had and what it needed in terms of production.

Who Should Produce What?

Capitalism answers this question by advocating freedom of career and choice in what economic role one plays in the economy. In other economic systems, this decision is made differently. In the Indian economic infrastructure, much is determined based on what ‘caste’ or social status one is born into. This shapes their economic outcomes. Many would blame caste economics for the widespread poverty and economic degradation facing the nation.

How Should Goods and Services Be Produced?

This question goes to the heart of some of the major economic variations and disputes among systems. Employers and laborers are constantly in conflict over the answer to this question. In a Capitalist economy, the profit motive and the desire for efficiency means that the employer may choose technology and skilled labor over unskilled labor. In an economy focused on providing for the means of workers, this question is approached much differently. Our economy has been greatly shaped by this issue. The Labor movement beginning at the turn of the last century was focused on the question of how production should be accomplished. Indeed, every time the government sets new labor or environmental standards it is responding to this basic query. Thus, you must understand the way both our economic system has been forced to answer this question, and how others worldwide are doing so.

Who Should Share in What Is Produced?

This is perhaps the most explosive question. The age-old debate between rich and poor, Upper-class and lower class has revolved around this issue. Beyond just a discussion of who gets paid what, you should realize that this relates to the amount of food, healthcare, education and other resources each person gets in a given financial structure. This question spawns numerous follow-ups: Does one person have the right to greater resources than another? If so, how much more and why? And how is this distribution accomplished fairly and justly? What about those people who face disabilities or cannot work to earn a wage? Should resource distribution be based on the amount of work a given person does, or should it be a fixed amount? And what is the government’s role in all of this?

From a historical perspective, during the tumultuous time of Marx and Lenin, this question was a focal point. As I mentioned earlier, historical situations often give rise to a certain question being asked particularly loudly. In the case of Marx, his attention to this very issue—sharing—led to the rise of an entirely new economics system: socialism. He felt that such a system would more adequately address the needs of who should share in the goods and services of an economy. In America, as I also said before, we have developed a mixed market economy. Whenever the government utilizes programs such as welfare or financial aid, it is attempting to more adequately and fairly share our resources. Thus, a fundamental understanding of this question is one of the most basic issues that you will face—just as economic engineers have for all of history.

The Complete History of Economic Structure...Greatly Abridged

Now that you have grasped the basis for any economic systems, we can understand how such infrastructures develop to answer these questions. There are many factors that shape exactly how a nation addresses those four questions. Among them are cultural, social and political issues facing the country or society. Adam Smith observed in his book, Wealth of Nations, “nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog.” Smith was discussing, “a certain propensity in human nature: the propensity to truck, barter and exchange one thing for another.” Given

that it is such a distinctive human idiosyncrasy, we should not be surprised to learn how very ancient this characteristic is. Evidence points to bartering and trading even before the Ice Age. Russian woolly-mammoth hunters traded tusks, and, on the desolate, barren moors of Pomerania in Germany, explorers have found clear evidence of a Bronze Age “traveling-salesman.” These archaeologists discovered a small wooden box with tools, weapons and domestic products fit for sale in the time of the caveman. But the difference between now and then is that we have an integrated economic structure. In those days of yore, the economic system was not a means to address and alleviate the financial issues that the primitive societies faced. Trade was a tangential societal element, whereas today that and other similar economic actions are part of our American socio-economic infrastructure. Thus, economics has traversed a great distance over the centuries, beginning with the economics system, if it may be called that, of antiquity.

Economic Organization in Ancient Civilizations

Interestingly enough, there are, in a purely economic sense, a great many similarities between our society and those of old. Even though we live in a technologically advanced era where nearly everything is industrialized and mechanized, everything is indirectly a product of agriculture. The only difference between an agricultural society and an industrialized one is the primary focus of that economy. Thus, it is important that we note the agricultural foundation of antique economic systems. These farmers (and most people were farmers) were primarily subsistence producers—making only enough for their families to survive. There are still many millions of people who are still described as subsistence farmers. Indeed, a recent edition of *Human Rights Quarterly* documents the eerie similarity between ancient economic systems and those in action in the poorest regions in Africa. This parallel is indicative of just how far behind many financial infrastructures are, in nations like Zimbabwe, Sudan and Somalia.

Another important aspect of ancient economic structure was the integral role human servitude played. In fact, one thousand years ago, the basic economic system depended wholly on slavery. Greece, like nearly every other large evolving financial network, maintained and supported a force of nearly 20,000 slaves—massive for the time period. Even as Athens tried to become totally “democratic,” one third of its population was enslaved and the economy grew to greatly depend upon slaves. In its purest form, this was the start of a rigid style of economic command and control. Obviously, nothing is more “commanding” or “controlling” than human bondage.

The driving force that slavery began and continued to play cannot be ignored. As financial “markets” grew in Greece, Rome, Turkey and Egypt, so to did slavery. As recently as the 1800’s, of course, our own southern United States had an economy that relied heavily on slavery. Above all, however, are the amazing disparities regarding wealth in ancient civilizations. The entire financial infrastructure was rooted in a totalitarian notion that for the dictator, the ruler or the king, the ends justified the means in his or her quest for supreme wealth. This issue goes to the heart of how power was managed in these times. Once again, it is clear that economic systems in antiquity were not about solving the financial problems of everyday people in a given society (some would argue this has not changed today, of course). Rather they simply fed the culture of the time, and most often that was feeding the elite and those in power.

Ultimately, the most important feature of all economic systems prior to modern systems is the absolute poverty. Except for a miniscule fraction of the population, one’s life was cruelly short and hard with little (if any) time for recreation, education or leisure. However, it is important to note that during Classical times, the Mediterranean and Middle East displayed incredibly complex and deep trade structures. Goods traveled between the far East and Roman England while credit markets operated across governments and civilizations in an age when it took months to travel.

Medieval Times

As the evolution continues, the next great period of economic transition is obvious.

Beginning after the fall of Rome and concluding at the dawn of the Renaissance, the period of time we call the Middle Ages brought substantial and long-lasting economic change. These Medieval times were marked by a new and only slightly more different structure called Feudalism. This proved to be a stepping stone toward the economic structures that we find today. The economic advancement of the time period was greatly stunted by numerous social and health crises. The Black Death struck in 1348, killing off more than a third of the population in urban areas. A devastating one hundred-year war marred England and France. And all of these problems slowed economic development, in some ways tightening the grip of Feudalism.

At this point, however, a discussion of what Feudalism is may be helpful. Initially it is important to note that with the fall of Rome, the large-scale breakdown of political organization spread across Europe and across the world. Any semblance of law and order that existed previously was replaced with a haphazard network of laws and rules, enforced by small-time political and military goons, employed by lords and landowners. Currencies, languages, and other unifying symbols broke apart as various lords, knights and power brokers formed their own structures to consolidate both wealth and power. Essentially, the defining economic trait in medieval times was the way financial structure was confined to the smallest possible entity. In other words, large scale, centralized economic structure was replaced with localized financial anarchy. Thus, the peasants turned to the closest available entity to guide them and lead them.

This marked a tremendous and distinct difference from years past. Whereas in the past economic life was nationally and internationally growing, now it became difficult for a merchant to trade his wares with Italy if he was from Germany, for example. One could compare this situation to the “warlord” syndrome found in Africa and other parts of the world today. Small time warlords replaced not only the politically unified power, but also became the very economic infrastructure that people’s lives were bound to. Money has lost its value and each person is dependent on a close knit political and economic community, headed by an often-dictatorial leader. In Russia today, the Mafia acts, in a sense, like those ravaging political forces of the Middle Ages. The Mafia controls much of the economy, and through various gangs, affiliations and associations has brought the Russian economy to its knees. Just last year (2004) various members of the Russian parliament warned that Russia risked a massive de-stabilization of the national economy if the factitious financial forces splitting the country were not reigned in.

Understanding that this Feudalist-dominated the landscape of those times gives us an interesting look at what the economic structure was and indeed a definition of feudalism applicable today in parts of the world. Feudalism, for peasants, was the adoption of the most defensive economic system: a system designed for sheer survival. To survive, they depended on wealthy lords and ladies, becoming ‘serfs’ whose wealth and very being belonged to the estate. The substantial economic consequences of such a situation are clear, because trade was stymied and international or even large-scale local economic expansion essentially died out. But the serfs got what they needed. In exchange for the fruits of their labor, they obtained a degree of self-sufficiency and perhaps more importantly, physical security. Of course, this type of economic system was far from “free” or free-market. It was a combination of command and barter economics. One may ask why serfs, peasants and the like, the people who created the demand for feudalist economics, adopted and supported such a system. The answer is simple. Besides the numerous health and social catastrophes, the Middle Ages were not particularly peaceful. We can hardly imagine the degree to which peasants had to fend for their life, constantly facing grave danger. Of a specific family line, traced from 1330 to 1479, fully forty-six percent of the descendants died violent deaths. Scarier still, this was typical! Life expectancy was approximately 24 years for most males and no more than 31 years for females. Strangely, according to a recent edition of *The World Press Review*, African nations are becoming more feudalist in nature. Unfortunately, the life expectancy in poor African nations (not those necessarily stricken by AIDS) has declined to an average of 50 years. Or perhaps it’s the decline in life expectancy that has give rise to the need for feudalism. As in Medieval times, the need for security meant people then and now in third world nations preferred physical security to financial

freedom—albeit there was a degree of financial security. Above all, however, exploitation defined the relationship between lord and peasant. Most importantly for you as a debater or extemper is the fact that from this situation we can derive just how much culture and situation affect the economic systems of the nation or society. Indeed, as you read on, you will find that it was factors like these—culture and situation—that gave rise to the economic systems we see at work today.

The Role of the Church

A profound part of medieval economics was the fact that the financial sphere still had not evolved as its own specific aspect of life. It was still intermixed with social, political and religious activities in a way somewhat foreign to us today, subverted as a pawn for a given issue or ambition. As Heilbroner notes, “In medieval society, economics was a subordinate and not a dominant aspect of life.” The world was getting a preview of the free market in the traveling fairs, and in other aspects, it was getting a dose of command economics through the feudalist system of control and local centralization. Interestingly, the Church, a pillar of political strength and constancy, was also a factor in encouraging this command and control in the realm of economics. The demeanor of the Church back then, in regards to economics, is adequately and rather sardonically summed up in the old motto, “Homo mercator vix aut numquam Deo placere potest”—the merchant can scarcely or never be pleasing to God. (Pronounce that in a round and you will either receive the ‘one’ for wowing the judge or ‘six’ for scaring him or her to death). Thomas Aquinas epitomized this attitude by condemning the then novel idea of monetary transactions, equating such trade with stealing from one’s neighbor. Thus, the Church interjected a new element of control—command from a higher entity, beyond small-scale lords or even governments. It was this that bound peasants so tightly to the present system. While by no means was every citizen skeptical of moneymaking and exchange, the pious voice of the Church slowed the progression towards a fully integrated economic structure. It is little wonder then that in Europe at the time the economic phenomena facing the region were not particularly uplifting or enhancing.

Medieval Economics: Beyond Europe

Worlds away, in another source of great socio-political power—the Middle East—economic infrastructures were also being shaped by the contemporary culture. In the Middle East, the predominant religion—surviving the Crusades—was and still is Islam. From a cultural perspective this religion, like Christianity in Europe, molded and crafted the financial structure of the time in that region. Islam, of course, like Christianity to the north, became the way of life for most Middle Eastern citizens. According to Middle Eastern Theological Professor J. Hortem at the University of Bonn, “The spirit of Islam is so broad that it is practically boundless.” He goes on to explain that the legal practices and lifestyles of the faithful are embodied in what is known as “Sharia” law. To Muslims, Sharia is the divine law given by an Eternal Order by way of the Prophet Mohammed. Essentially Sharia is supposed to transcend any other boundaries: social, political, governmental and, relevant to us, economic. These rules and regulations affect everything about the life of a devout Muslim and are the epitome of Islamic thought. Thus, we can understand why this affects the financial structure of the area.

After the Crusades, many Islamic nations began to enforce Sharia quite strictly and heavily. They were reacting to the fact that their religion had suffered because of its supposed “inferiority” or weakness to Christianity. Thus they attempted to bolster its power by imposing the laws harshly. From a disciplinary perspective, this meant cutting off the hand or ear of thieves, prostitutes and arsonists. And from an economic perspective, it meant the harsh sanction of fraud or cheating on taxation and debt. But even deeper it became rooted in the very dealings of the people. As in the European Churches, financial trade was scorned and looked down upon. It was better to serve one’s master (similar to the Serfs) than to try and increase one’s own wealth. (Again the small-time lord was more important than the national government, although national power was much stronger at this time in the Middle East than in Europe). The unfairness of this position is obvious to us, but because Sharia was being enforced the people assumed their role in society was of some divine nature.

While Middle Easterners had many trades and crafts that were actually more advanced than those of their European counterparts, the idea of trade in the Middle East was not much further along. This attitude still characterizes the economies of some Islamic nations today. A May 28, 2001 edition of Washington Post pointed to the case of Saudi Arabia. While its economic system, a command and control structure to be exact, is rapidly expanding due to oil revenues, 'Sharia' continues to slow growth and greater free market development—something western capitalists decry while Islamic traditionalists praise. One mall owner, for example, wanted to open glamorous restaurants and arcade centers. This activity would likely bring substantial investment both local and international, yet it was shut down because the center was deemed sacrilegious—and probably an affront to some Islamic sensibilities in general. Saudi Arabia actually hopes to diversify \$140 billion in nationalized property. But like many Middle Eastern and African nations then and now, these countries are constantly seeking to juxtapose Koranic law with that of the modern world economy. The contradictions are constant and thus cause conflict. For example, Saudi Arabia's strict enforcement of Sharia has led to the rejection of the practice of any other religion. Thousands of Christians, Jews and Buddhists, among other religions, have fled the country to find a more hospitable environment, taking with them billions in investment and trade. Thus the command style of politics has led to a very command economic structure, once again substantiating the influence of culture on financial systems.

Economic Evolution

So what changed in these ancient structures? How did economics become more prominent as a unique aspect of society, rather than just a tangential issue? The answer lies in several dramatic world shifts in both politics and thought. Change was not simple, and to be sure it required a massive adjustment on the part of the people. But like most great evolutions, this one was slow, almost imperceptible to most.

The Crusades and Exploration

While the Crusades directly affected changed Islamic economic structure as we noted earlier, the most long-lasting and the most indirect impact of these wars was the instigation of the downfall of medieval economic life. The supreme irony of course, was that the Crusades were a religious conquest, yet one of their greater impacts was on economic history. While failing miserably to spread Christianity (as noted earlier it actually enhanced Islam), the Crusades began a period of exploration, economic development and exploitation, and worldwide travel by many people. Indeed the economic goals of the Crusades began to drive some European soldiers to corruption. In the Fourth Crusade, the Doge of Venice, instead of fighting the moors, successfully attempted to make a moneymaking enterprise out of the war. By taxing, imposing tariffs and exacting exorbitant fees on the locals he managed to profit greatly. This direct enterprising, however, is only the tip of the iceberg. This was the dawning of the age of Knights for hire. These mercenaries returned from the Crusades to find their manors gone and wealth dissipated. Thus they sold their only services: their swords and gallantry. There are stories of Knights being given certain amounts of gold for each head they brought back from a battle or quarrel. These payments, rewards and financial transactions were unique and, in a way, revealing to the people. They demonstrated a structure of trade—and a service economy—that soon became the norm.

The Crusades merely represented a larger phenomenon in the evolution of economic structure: exploration. There was Columbus, Vasco da Gama, Cortez and Magellan, as well as many others. These great adventurers did not set out as enterprising financial traders, but rather as people searching for the unknown; seeking something to conquer and colonize. Yet it was precisely this attitude that initiated the beginning of commercial Europe.

Explorers like Columbus brought with them an imperialist attitude and left with gold, silver and other precious metal. They opened up vast supply lines allowing these valuables to flow directly to Europe and elsewhere in the world. While such gold and silver was probably wrongfully taken from the natives of each particular land, it did provide the impetus for structural change. Because, even further down the

road, the colonization and the “New World” that was begun by such explorers cannot be underestimated in the economic sense. As trade flourished in the New World, Europe, the Middle East and even the supposedly ‘primitive’ Far Eastern nations of China and Japan, began its own commercial activity. Some would say that our economic structure today is still being dramatically changed by exploration. Not exploration in the physical sense, to some lost city, world, or even the Moon, but rather the exploration of cyber space. The expansion of the Internet continues to break down barriers of command in nations like Iran and China and even erode the national power of our own federal and state governments. Globalization, as it is being called, at its core is about exploration, economic dominion and to some, the same medieval exploitation that underlay the Crusades. According to William Greider in his book *One World Ready or Not: The Manic Logic of Global Capitalism*, “The entire volume of publicly traded stocks and bonds, totaling 12 trillion dollars, turns over [or changes hands] every 24 days.” Just as exploration changed the economic life of the medieval world, so to is it radically changing our own financial sphere.

National Power Expands

As we noted earlier, national power had slowly disappeared after the fall of Rome. Although governments existed, it was the individual lord or baron that ruled the fractured societies. Perhaps the greatest barrier to positive economic change, development and trade was the patchwork of various territories ruled by numerous small-time governments and lords. While it took hundreds of years, the slow unification of political entities in Europe and the Middle East led to the economic development of certain systems we still see in use today. Monarchs began to consolidate power and national armies developed with each conquest. New borders sprang up, this time with strong national powers enforcing their existence—though still, nationalism in the sense we understand it today was barely beginning to develop.

The greatest benefit in an economic sense, was the development of specific structures. The prerequisite to a given system, was the need for national governments to unify currencies and economic laws. In the Middle East, the region that was called Persia began to develop its national power around an economic goal. Indeed, for the first time in history, one of the tenets of the government was to provide financial support to all citizens in need. Altruistic as this was, it was a signal that financial structure was no longer a part of the political or social sphere, but had developed into its own area of interest.

Of course, these national powers ultimately began to see the benefits of trade, just as across the Atlantic, the American colonies were. And because inter-governmental trade became a financial as well as political boon, it flourished. Thus, the combination of nationalization and governmental strength brought the needed foundation for real economic structure to develop. Interestingly, national power is also relevant to you in understanding that the fluctuations of sovereign influence are important in our financial system today. We live in a slightly different situation, however: in our time, the new predominant governmental factor is the rise of international power. International trade and development are taking precedence over national sovereignty, something unique in world history, both politically and economically speaking.

The Collapse of Feudalism

The final factor affecting the economic evolution of all modern financial structures, is the decline of the Feudalist system. With exploration opening the doors of trade, trade broadened everyone’s horizon, including the peasants. The rise of national power diminished the local nobility and the idea of impoverished serfs slowly disappeared from Europe. Currency transactions became a reality for example. Now, because of national currencies, serfs were paid in money, rather than with the intangibles like security. With money they could trade or even start their own business. Soon the once powerful noble folk became sandwiched between a rising working class and the national government itself. While in the past Feudalist economics had dictated that the serfs perform services, those services were now converted directly into monetary payment. Thus, a financial structure developed that sought trade, capital and labor

expansion. Instead of the rigid network of nobility controlling the patchwork of economic life, alternative systems developed.

Four Basic Economic Systems

So with the foundation laid, economic structures developed into the four fundamental systems that we know and attempt to classify economies into today. These systems have their own unique history, far too extensive to fully cover. By putting each system in the context of the history we have just discussed, you should be able to adequately analyze both the present and the future of a given system or structure.

The Traditional System

Traditional economic structure revolves around culture, history, custom, religion and tradition. A traditional economy will typically lack a fiat currency, worker specialization, large volumes of trade, and financial markets. While some might claim that this economic structure is the most primitive, if you look back at the four basic economic questions, this system answers them all—and appeals to those in the population who prefer a more informal, community based structure. Currently, this system is used in parts of Africa, the Middle East, Russia and Latin America. For example, in Russia, in the shadow economy that we discussed earlier, the underground economic system of trade is largely dependent on barter. Direct exchange of goods is much cleaner and much harder to trace than monetary transactions.

In Africa and Latin America, tribes exist today that still depend wholly on the traditional economic system, just as many Native American clans did in this country. Professor Miller points to the example of the San people of the Kalahari Desert in South Africa. These people are itinerant travelers, roaming the countryside as hunters and gatherers. They find a given area and there they hunt antelope, gather plants, roots and berries and barter, trade and exchange goods with other tribes. Subsequently, the food supply will run out and they move on to find other customers and other sources of food. This type of economic system essentially revolves around the ideal of economics as a traditional aspect of the society, just as other social and cultural customs are passed down through the generations.

The Command and Control System

Few philosophies, economic or otherwise, have gotten as bad a reputation as socialism, the primary contemporary manifestation of command economics. As we discussed earlier, Karl Marx and Vladimir Lenin both helped to develop and define control economics during the last two hundred years. Command economic structures thrive on centralization. The goals of certain command systems are, of course, different. The Marxist approach was to provide centralization so that wealth could be equitably distributed. The command style of a King or Monarch, while definitely command and control economics, is not often designed to ensure popular welfare. Rather, this type of economic centralization is merely to perpetuate the financial stratum. India's Caste system was, for many years, their primary economic structure. In a sense, it was a command system designed to keep wealth at certain levels and away from others. Thus, in the strictest sense, command and control means that the individual has little to no control over any of his or her economic decisions.

Variations of this system involve command by a group of people, an organization or a particular individual. Socialist economics, like most command and control systems, supports financial rules and regulations designed to control the way wealth is distributed and the way it is attained. In a sense, the Middle Ages were about command on a very small scale. Because, however, there was no trade and no monetary transactions involved, this system didn't last long. Since that time, however, command and control structuring has manifested itself in numerous places from Cuba to China to the Koreas to Israel, and from the Soviet Union to Southeast Asia.

By understanding socialist economic policies, you can pinpoint solutions and issues that lead to various economic quagmires. But like any economic system, socialism is not entirely good or bad. The idea of

supporting the working class, stamping out poverty and ensuring health and welfare through centralization is wonderful, but due to human greed and the complexity of economies we would be naïve to assume it will ever work in that exact manner. China, while still officially a communist, socialist nation, has begun liberalizing some aspects of economic policy to encourage both international trade and national economic development. They have discovered that the idea of international trade for the goal of strengthening competition is beneficial. On the other hand, North Korea still shuns most international development because of its paranoid governmental policies—policies that have more to do with dictatorship and less to do with socialist, or any, economics. Of these two countries, you can understand why one is becoming stronger and the other is becoming weaker financially. China would like to maintain its strict governmental controls on financial trade—it said as much during the debate on its accession into the WTO some years ago—but it also realizes that this goal is no longer possible. North Korea, facing severe famine and poverty, is learning this lesson the hard way—just ask the families of the millions who have already died of starvation or malnutrition.

It is unlikely that command economics will ever disappear. Rather, it will change and fluctuate just as it has for centuries. In some form or another the idea of financial centralization for various purposes will continue to answer those four basic economic questions in varying ways.

The Market Structure

On the other end of the economic spectrum is the free market, or capitalist, economic system. In the purest form, this system requires the government to maintain a totally laissez-faire or “hands off,” attitude. In other words, everything is left to the market or what Adam Smith in his book *Wealth of Nations* called, “the invisible hand.” His idea was that much of human action is guided by the profit motive—the need to make a profit and enhance one’s own standing. This guidance was an invisible force, and according to Smith, is the basis for competition. Because all companies, corporations and people will seek profit and improvement, they will do the best thing possible for their economic status, thus enhancing the financial condition of the entire society. Thus the free market is an idea, an intangible, defined as the financial forum for every individual to look out for their own economic needs. Government planning found in a socialist or command system plays little to no role.

Most of the world automatically associates democracy with capitalism because of their focus on freedom. While this is misleading (socialism can be liberating, capitalism can be quite oppressive) it is typical in most wealthy nations for the two to be found together. In many ways the question is no longer whether the free market will triumph over socialism, but rather how free will it be? From Europe to Taiwan to the United States, capitalism is espoused to varying degrees. Questions of how this “free” market functions on the ground, however, are hotly debated.

The Mixed Economic System

The pure capitalist or pure socialist structure will probably never exist in a fully functioning economic system. Thus the structure most commonly utilized is a compromise. In other words, it has features of a command structure and a free market society. Of course, in most cases, each economic structure is related more closely to one basic paradigm or another. For example, the United States is predominantly a free market economy. Yet our government has imposed numerous regulations on the economy that pure capitalists would scorn. The reason is that these rules, whether environmental, economic or social, all require government intervention. Instead of allowing the profit motive to fix our problems, the US government plays a role. This type of economic thought is based on the writings of John Maynard Keynes. Keynes advocated the idea of a mixed market economy in the sense that the government should play a role in guiding the economy, instead of utilizing total laissez-faire or total command. This compromise forms the basis for many modern economies. As you will find out later on, Keynes understandably concluded that in some cases the profit motive does not adequately address economic problems and dilemmas.

China is much more of a command economy, as discussed earlier, but it is also becoming more mixed. For example, it has increased its economic trade with free market nations by 15% and it has begun to privatize a limited number of nationalized properties and companies. It seeks entry into an organization focused fully on free trade and the free market: the World Trade Organization. In China, government control remains tight. For example, regulations for owning, starting, or selling a business cost the nation hundreds of billions of dollars. While economists generally categorize economies into several classifications based on structure—command, traditional or free market—it is apparent that due to the numerous variations in systems, no two economies are alike.

Contemporary Structure

After understanding the basis, history and evolution of economic structures, it may be helpful to explore current regions in this context. The various regions are replete with examples of why classification of economic systems is so difficult. Furthermore, you probably now understand that the difficulties any given economy or structure is experiencing are due to its inadequate approach to one of the four basic questions asked at the beginning of this chapter: What and how much should be produced? Who should produce what? How should goods and services be produced? Who should share in what is produced? Perhaps the economic system is unable to meet the production needs of its population or maybe there are massive inequities in the sharing of those products that are leading to destabilization. By evaluating each of these regions using that template you should be able to develop a very valuable grasp on the current economics system, structure and situation of a given area.

The United States

It may seem obvious, but it must be stated: the United States is one nation that is very close to pure free market in terms of structure. As I mentioned earlier, rules and regulations made by our government affect how ‘free’ the market is. Wonderful as this freedom sounds, it is not entirely a positive force. For example, while Adam Smith is correct that the guiding hand of the ‘profit motive’ will encourage competition and promote businesses that seek their best interests, it is not always such a liberating force. Unfortunately, corporations and companies seeking the highest profit sacrifice the well being of their laborers or the environment. This has played its role in the United States.

During the last one hundred years the rise of the labor movement is a response to the pure capitalist approach. Businesses were so driven to profit that their own laborers were not paid fair or adequate wages or provided with safe working conditions. Upton Sinclair sent this message loudly in his book *The Jungle* when he took on the meatpacking industry. The eventual and continuing solution to this problem was for the government to get involved in the economy by laying down rules and regulations regarding fair pay or working conditions (though there has been research suggesting that these rules actually followed behind improved wages and labor conditions that had already developed). These regulations are embodied in the Minimum Wage Act and Fair Labor Standards Acts of the early twentieth century. Thus the government may have limited some of the freedom of the market but it was clearly a positive move, enhancing our economy and providing a better, albeit modified market economic structure.

While we definitely have better working conditions in this country today, the environmental and social aspect of this free market/control clash still plays a role in our economic structure. The Environmental Protection Agency has long been harassed by big business powers to stem its enforcement of environmental policies that infringe on the financial and developmental freedom of their business. The current struggle over whether to allow development in the Alaskan National Wildlife Reserve revolves in part around the struggle between business development and governmental protection (at the expense of the ‘free market’). Other social issues that continue to force compromise in our economic structure include the debates over air pollution or auto safety. The auto industry fought the move by the federal government to mandate the use of seat belts for many years, eventually accepting and even profiting from

its use in vehicles. More recently, federal regulations on auto emissions or miles per gallon standards have evoked complaint from the business world. They complain that federal standards unfairly infringe on their business needs, and once again this struggle is played out.

One could look to the California energy crisis as a financial structural question. In a larger sense, the issue is really deregulation. While some may argue that it was the kind of deregulation that led to this particular crisis, it is clear that deregulation has failed in some way. The companies had claimed that competition would help consumers, but in California that does not appear to be the case. The issue then is whether to allow deregulation or more practically, to what degree should deregulation occur. The dilemma of price caps has also surfaced in regards to deregulation, but more specifically to the energy crisis. Price caps, of course, are a form of governmental intervention and thus compete with the ideals of staunch free marketers about the need for competition. The merits of either issue can be debated heavily, but it all comes down to essentially one question: how involved should our government be in guiding our economy?

More recently, the question of social security privatization takes us to the heart of the issues we have been discussing. Some want to allow citizens to put their share of the social security program into the stock market, in the hopes that there, in the hands of investors and stock traders, it will make enough money to pay off future benefits (it currently faces an enormous financial crisis). Those in the laissez-faire camp see this as a good way to use the market for the benefit of the American populace; on the other hand, many economists worry that putting social security into the hands of flighty investors and a whimsical stock market mean that social security is on the chopping block, waiting only for the next economic disaster to fully destroy it. These issues will continue to shape the economic landscape in the United States.

Central America

For the most part Central America has embraced free enterprise. This, however, is both misleading and incomplete. With the exception of Cuba, nations like Guatemala, El Salvador, Panama and Costa Rica have expressed interest in furthering the free expansion of globalization. Yet all this expansion has not been without difficulty—and in many cases little improvement for the working population. The political turmoil that has engulfed the region for so many years has seeped into the financial structure. Corruption is rampant. In Mexico for example, thirty percent or more of the top governmental officials, many of them economic ministers, take bribes regularly. So while the government purports to have no influence, a black market has developed. In many nations this is still accepted from the days of absolute dictatorial command economics. As in many other fledgling democracies, there is no history or foundation for capitalism to flourish upon.

In another sense, the economic structures of the past are being shaken dramatically by globalization. In Guatemala, for example, farmers that had depended on government subsidies during the command years are suddenly now forced to face international economic competition. This has been a shock to say the least. They have been forced to compete at a level they never have before and they must do it without any of the subsidies, in order for Guatemala to meet international trade rules. Needless to say, most farmers have gone bankrupt and poverty has spread quickly. Additionally, in 2004 the government of Guatemala (not known for its democratic representation of the indigenous peoples) began selling off “empty” agricultural land to multinational companies eager to develop it. What they did not account for was that this land has been farmed by indigenous peoples for thousands of years. While the indigenous have no legal documents or deeds to prove land claims—this is a relatively new, European concept, just ask Native Americans—they have been using the land. Now, however, their land is deemed “unclaimed” and “empty” and given away to foreign companies. Already the signs of a revolution are beginning to show up and instability may further stunt the nation’s growth. This issue goes to the core of just how ‘free’ the market should be, and how wonderful free trade really is.

Finally, there is Cuba. The entire Cuban economy is based on a command structure with him at its core. Castro has been at the head of a massively centralized economy. The economy has been under extreme duress, however, due to the sanctions placed upon the nation by Jesse Helms and the United States. Without those sanctions the results would be much better (although it is interesting to place the blame for a socialist nation's failings on its not being able to trade with the world's largest capitalist countries). Given the circumstances, however, Cuba's experiment with socialism has been mixed at best. The financial sphere is failing, although as discussed earlier, Castro has been able to fend off unrest by meeting some of the primary social needs of his people. Cuba is one of the last bastions of command economics, and unless it evolves quickly—or has oppressive United States sanctions removed—its economics system may vanish into the history books.

Latin America

Like Central America, Latin America is being exposed to radically new economic winds, which have battered the financial structures of these nations. Brazil's economic collapse in 1998 was largely due to its poor economic management that was only revealed when globalization exposed the problems. Brazil, among other nations, has managed to shift its economic system primarily to capitalism. In many ways it has done this in a much more successful way than its neighbors to the north in Central America. The trade block MERCOSUR, involving a few Latin American nations, has been a mixed success but has at least solidified the free market as the best option for these nations. Several nations, notably Peru and Colombia, continue to find themselves mired in political conflicts. These problems shake their economic infrastructures. Peruvian governmental corruption has left the nation struggling to maintain a strong currency, and among other things, has shaken the popular confidence in the free market system. As for Colombia, as long as the war on drugs and the civil conflict continues to pervade Colombian economic life, the system will continue to fall apart. In many ways, Colombia still resorts to a traditional economic framework because of the drug trade. This trade often occurs in a black market, barter, direct exchange system. The irony is that we are just reinforcing this system rather than encouraging free enterprise by continuing to crush local economic life through the repressive war on drugs. Chile, an early adoptee of what would traditionally be called free market economics, is one of the large success stories from Latin America and has achieved the highest increases in quality of life.

Europe

We can hardly classify the entire European continent into one system, but with the fall of the Berlin Wall that is becoming decidedly easier. Western Europe has been a bastion of free market economics for many years. England, Germany and France, the three great powers of Western Europe have all adopted fairly strong policies embracing the market.

At the same time, many of these Western nations have strong Socialist roots. France, for instance, has had Socialist leaders, like Lionel Jospin. He promoted the socialist ideals in the context of both capitalism and democracy. For the most part, England and Germany are also less laissez-faire than the United States. In other words, they have chosen to enforce much tighter controls on the market. To them, the United States' market is too free. French environmental regulations are far greater than American ones and German regulation in every industry from telephone to airline is much more in depth than its American counterparts that have been entirely deregulated. Thus, the economic structure of these nations, while definitely closer to capitalism, is a much more modified, compromising system than the United States or any other pure capitalist system. Recent tensions between Bush and European Union leaders over the war in Iraq, for instance, are only exacerbated by economic clashes based on the systemic differences mentioned.

Indeed, the European Union adds another dimension. For now, the power base of the EU is all in Western Europe. The next few countries that will hold the rotating presidency are all West European. As we discussed earlier, one of the great governmental changes of our time is the rise of international economic

power. The European Union is a primary example. This Union is an attempt to supersede federal power for the betterment of the economic spheres of all nations involved. In effect, it creates a huge market for all nations in the Union to share in. The EMU or European Monetary Unit is an example of the struggles this Union is facing. All of the nations try to manipulate and control it to enhance their own national economies. Thus a great debate has taken over as to how much the EU should regulate its currency, once again pitting control versus the free market. However, one must also realize that entry into the EU forces economic adequacy. For example, the requirements of entry include the fact that the public debt cannot exceed 60% of the Gross Domestic Product; the budget deficit of the incoming nation cannot exceed 3% of that country's GDP; inflation and exchange rates must be constant and stable. The European Union is reshaping the entire structure of Europe.

Once again governmental and political changes are instigating the evolution of the European financial landscape. Eastern Europe is a different story altogether. Taking one step back, we can remember that the Soviet Union subjugated these nations politically and, of course, economically.

They were forced to embrace a command and control system in which an elite power centralized all economic planning. They are still making adjustments due to the sudden change of the end of the Soviet system. Some are more successful than others: Czech Republic, Estonia, Hungary and Slovenia have all been considered the probable 'first wave' of nations to gain entry into the European Union for their stable (relatively speaking) economic performance. They have managed to focus on political stability and economic unity and thus stabilize their individual markets and currencies.

Other nations have had a much more difficult time. Corruption, cronyism and governmental interference in the economic system continue to slow growth and stabilization. Belarus, for example, has been unable to properly eliminate the elements of control that have for so long damaged its economy. The government owns more than three-quarters of all property and businesses, and individual property rights are still unheard of. Furthermore, a deviant economic system has arisen: the Kleptocracy. A Kleptocracy is essentially financial and political rule by criminals. In Belarus, the Mafia has the power to manipulate the currency, to redirect government subsidies to their industries and to bribe politicians and business managers. This type of economic structure is basically a command system, but in many ways real financial structure is subverted. Like in the Medieval systems, real growth cannot occur because development is completely and irrationally stymied. Thus the unfortunate reality for most of Eastern Europe is that development will continue to be slow as the area continues to be a battleground for the constant struggle between control and capitalism.

Russia

Russia, covering twelve time zones and thousands of miles, has been the source of one of history's greatest economic and ideological struggles. The Cold War was not just a political conflict, but also a war between the two great economic systems: capitalism and socialism. Yet centuries before, Russia, like most of Europe, developed Feudalism as its economic system. The difference is that the end of the Middle Ages brought the end of the Feudalist system for Europe. In Russia, however, Feudalism ended only a little over one hundred years ago. Thus there is no history in this vast nation of any sort of economic development in terms of individual financial and intellectual property rights.

The reaction to this 'oppressive' social system was Marxism. Financially speaking, Marx thought that every citizen could be equal. So followed the revolutions leading to communist Russia. Vladimir Ilich Lenin was only the first in long line of socialists that advocated centralization for economic equality and state planning. Soon Iosef Vissarionovich Djughashvili, also known as Joseph Stalin, perverted the dream of Marx and Lenin into something much more sinister. While all of the Soviet Union's strongmen advocated the communist, socialist, command and control economic ideals, they were fundamentally just autocratic dictators. Once again, Russia was in the grips of authoritarian leadership—both economically and politically.

This command system began to crumble when Mikhail Gorbachev introduced glasnost and perestroika, under the premise of promoting openness and reform. Soon the people of Russia could own property, earn

and save wages, and have some say in the operation and functioning of the economy. The fall of communism in the Soviet Union soon followed and Boris Yeltsin proclaimed the need for fully guaranteed individual property rights. His support of capitalism seemed to offer hope that Russia would rebuild economically, but the problems still persist. Very few of the property or other economic rights are actually enforceable. Thus Russia continues to experience widespread chaos and instability. The transition has been long and difficult. Indeed recent polls indicate that 80% of Russians wish the Soviet Union were still in existence. Even today Russians are rallying around a government and a president, Vladimir Putin, who is very focused on centralization—economically and politically. The Russian Mafia has brought Russia closer and closer to being a total Kleptocracy. The mob is a ferocious group of individuals committed to controlling the supplies, products and trade routes. Essentially, this means competition has been destroyed in many areas and industries, even as Russia attempts to strengthen the free market. For example, in the case of Gazprom, a Russian energy company, the mafia has been able to gain control of energy distribution in Russia, thus gaining political and economic leverage over many other issues. The ability to turn off someone's electricity is a powerful tool for blackmailers and gangsters. Additionally, Russia in, according to the Financial Times of London in early 2005, continuing to seek economic influence over Caspian Sea neighbors like Kazakhstan or Eastern European former-satellite nations, like the Ukraine. Once again, this vast nation is flirting with authoritarian economic control of a different sort.

China

The other great communist power, advocating socialist financial structures as well, is China. From the beginning China has been an economic power closed off to the Western world. Despite the attempts of numerous explorers to gain access to China's markets, every effort was rebuffed. These attempts, however, offended the Chinese, and played a part in the 1906 Boxer Rebellion. Even today this pride has closed the doors of socialist China from most outside development. It is the tantalizing dream of vast Chinese markets that keep the West searching for access. Like Russia, most of China's economic history has been about command and control. In this nation that is because of the focus on the Confucian model of philosophical thought, which puts a focus on stability over freedom and individuality. After Mao Zedong's rise to power, China centralized its financial structure based on Marxist thought as well.

Today China remains highly closed off and centralized. In reality, however, China's government is beginning to realize the political and social consequences of such an economic system. Thus liberalization is slowly occurring. The Communist party is attempting to appease the demands of its people by allowing some individual economic freedom. Yet it also realizes that the more freedom it offers the more unquenchable the desire for total economic autonomy will become. Regardless, today the great structural debate in China is not whether to open up but rather how much should China open up?

As its accession into the WTO becomes more likely the focus on opening up China's markets to capitalism has become a political tool as well. If we can gain access to China's markets, the thinking goes, then perhaps we can gain leverage over the nation's political and social sphere as well. In that manner, we may be able to influence China's egregious human rights violations, for example. A recent edition of Foreign Policy magazine offered an answer to why China is being forced to open up. The article, entitled "China's Dot Communism," explains the liberating power of the Internet—something China is hard pressed to stamp out. Because China understands it cannot shut out such forces, it has attempted to revitalize communism for the twenty-first century, making it more glamorous and attractive. In fact, this summer China imposed a ban on all Western movies, to open the door for a new film series to celebrate and glamorize the 80th anniversary of communism in China. So now, instead of American movies like Last Action Hero and Star Wars, the Communist Party will unveil movies called Mao Zedong in 1925 or Silent Heroes, documenting Chairman Mao and his 'successful' and 'liberating' campaign of communism. Despite all of these efforts, socialist thought will either vanish soon or be dramatically changed. Additionally, census reports from 2004 indicate incredible population growth again—despite China's official end to the "one-child"

policy—meaning that demographics will increasingly play a role in the economic structure that China maintains. The human resources in China are growing at such a rapid rate that investors are increasingly turning their eyes to China as a source of great economic benefit. The Chinese economic structure is undergoing yet another significant evolution.

Southern and Eastern Asia

The southeast part of Asia has long been a source of constant financial structural turmoil. Vietnam is a case in point. During the French occupation of the nation, there was a degree of financial freedom, soon replaced by socialist ideals. Yet even with the Vietnam War leading the United States into an ideological quagmire, many nations in the region followed similar paths. Even today in Burma, the ruling Junta exercises dictatorial power under the guise of being a socialist nation. Such is the nature of the region. In other surrounding countries like Taiwan and Singapore, capitalism reigns but individual freedom is stifled. These nations encourage the free market but also try to maintain rigid legal controls. It is a strange and often contradictory economic structural combination.

However, economic unification has been developing. On the other hand, India and Pakistan have developed different styles of free market control. Pakistan maintains a military government but tries to stabilize the free market. India also encourages capitalism, but the rigid caste system enforces a stifling amount of economic control and traditional structure. In Southern Asia, The Association of South Eastern Asian Nations (ASEAN) has finally begun to develop meaningful platforms about ascertaining a degree of stability in a universal regional free market. At one recent meeting the economic minister of Thailand proclaimed that ASEAN must help solidify capitalism so that nations of Southeast Asia can compete on a global level. With the December 2004 Tsunami wreaking incredible destruction on the economic life of the region, many have begun to wonder what the long term structural effects may in fact be. Nonetheless this area will continue to play host to several varying styles of market, command and mixed financial structures.

Africa

Africa is one of the most complex and economically convoluted continents in the world. For most of the continent's recent history, the people have been subjugated through colonialism. Colonialism is essentially the conquest of many European nations to control and colonize Africa politically, socially and of course, economically. Due to Colonialism, rigid yet artificial boundaries were drawn, separating indigenous peoples and enclosing quarrelling tribes within the same borders. Consequently numerous civil wars, political instability and social crises have stymied economic growth. In addition, the number of different variant economic structures is as great as the number of languages spoken across the vast continent.

Africa suffers from 'strongman syndrome.' This is the tendency for a corrupt and powerful individual to take control of the entire political and financial apparatus of a given nation. African colonialism subverted the culture, society and identity of the region leaving nations ripe for exploitation by strongmen. Eventually, European colonization of Africa tried to westernize the economics of the continent as well. By attempting to treat these African countries as mere subsidiaries of Europe financial might, Europe also instilled a command economic structure, paved the way for strongmen to assume power over financially weakened countries and caused African's to be viewed as 'second-class' citizens as they still are today.

While it would be impossible to detail all of the individual economic structures found in Africa, we can look at several examples. Unfortunately, there are no nations with a model African system of solid economic development. South Africa is the most advanced, but it is still feeling the problems left behind by years of apartheid and rigid authoritarian political and economic control. In Zimbabwe, land disputes between black squatters and white farmers highlight the need for individual property rights or at least some governmental intervention. In Zimbabwe, however, chaos reigns. The government has tacitly

approved of the violent seizure of white farmland by squatters. In general, political instability is rooted in the backlash against economic and social control by one ethnic or political group against another. In Burundi, Namibia, Ethiopia, Rwanda, Somalia, Nigeria and others this is one of the key elements of the conflicts. In the Sudan, a peace deal proposed late in 2004 may help bring socio-economic stability, that will allow the population to build some sort of lasting financial system—probably a mix of barter, command and capitalism all at once. Culturally, western-style economics does not necessarily work for a culture that is completely different than the European world that Adam Smith's free market was born of. People around the world are beginning to realize that the free market is an idea that is not universally applicable—and perhaps Africans can develop their own economic system that will make sense for their particular cultures and regions. Above all, as Africa begins to experience the benefits of a mixed or modified free market as they define it, combining elements of traditional, socialist and capitalist systems, it will be able to regain some economic stability.

The Middle East

Economically, the Middle East has retained many of the aspects of the medieval times. Sharia law, as discussed earlier, still plays a great role in the economic life of Middle Eastern peoples. Arab nations like Jordan, Syria and Saudi Arabia maintain some individual property rights and financial freedoms on the one hand, but prefer strict socioeconomic controls on spending, saving and thrift on the other. Iraq and Iran are the epitome of this strict control in which the state has centralized all aspects of local and national economic life. As opposed to socialism, this central planning is not designed to liberate people but rather to strictly control them and allow this state power to thrive.

Eventually, Soviet Russia, like all of the other communist nations, destabilized into nothing more than this, but at least they started with a different ideal. In the case of Iran, Islamic clerics continue to shun Western trade—of Jeans, Television Media, Foods—in an attempt to keep 'religious purity.'

Israel on the other hand, while obviously not an Arab nation, is the opposite. One reason that it is the number one receiver of foreign aid from the United States is its staunch support of capitalism (although it retains a strong socialist structure). Currently, Israel is facing a severe economic crisis that lead to the Dovrot Report released in 2004 detailing massive educational cuts as a result of financial difficulties nation-wide. For many Israeli's, the economic woes of the structure itself are becoming pervasive enough that they are threatening many other aspects of life, such as education. In many ways, while religious biases affect social life and politics, economics has remained secularized. Given the close proximity of these nations to one another, the economic differences are magnified, especially in the context of the intense political conflicts going on in the Middle East.

Final Thoughts

Economics is a uniquely difficult concept. As such, you would do well to realize that you will need to put a fair amount of work into understanding it. Economic systems are an essential foundation for realizing and understanding other economic concepts. The history, evolution and basis for such structures will provide an essential underpinning in every speech on economic development. The materials that such knowledge can be drawn from includes, economic books as well as several periodicals. Publications like *The Economist*, *The Financial Times of London*, *The Washington Quarterly*, *The National Review*, *Business Week* and *The Wall Street Journal* are all top quality economic sources that can aid your search for information.

Modern Macroeconomics

John Mondragon

Some of the other chapters of the book describe macroeconomics in Keynesian or Hayekian terms. This is the language in which most high school economics is taught and in which most policy is discussed. However, since the 1970s macroeconomics has undergone a fundamental change that has altered the standard models that are used to understand the economy. Therefore, the language of most policy discussions is not the language of modern economics. In order for you to be able to seriously grapple with issues of the macro economy it is necessary for you to be somewhat familiar with the modern approach. It is slightly more difficult, but the returns are significant.

General Equilibrium

The fundamental difference between modern approach to macroeconomics and those of Keynes or Hayek is the emphasis on understanding the market in an equilibrium in which “markets clear.” This phrase simply means that the economy is a state where quantities demanded are equal to quantities supplied and where prices reflect this state. This is important as it is a very strong assumption about the state of the world. However, most economists would treat it as a technical approximation to the world that allows some very sophisticated techniques to be used. We will not worry about those techniques, but you should be aware of the foundations of this approach and the results to which it leads.

General equilibrium methods are especially important because of the emphasis they put on representing all aspects of the economy. Producers, consumers, and all markets are considered and their actions must be consistent with each other in order to be in equilibrium. This is called rational expectations. It is an idea introduced by the famous economist and Nobel-prize winner Robert Lucas. Essentially, it says that people in the economy respond to the policies and the actions of other people. So, any attempt to understand the economy must expect that people will change their actions and expectations based upon what happens in the economy. This is a powerful notion and gets to the heart of modern economics. Today economists place a premium on understanding the incentives of any policy or environment and incorporating these into replicating the economy.

An example of how rational expectations has caused problems for the older type of economic analysis is illustrated by fiscal and monetary policy. Consider if the government increases spending in order to stimulate the economy. Old style Keynesians would say this stabilizes the economy by encouraging employment and propping up demand. In a general equilibrium setting consumers would see the injection of money as simply shift of their own money. They know that in order to pay for the stimulus the government will have to tax them and so consumers reduce spending in order to save for future tax hikes. There is evidence that certain elements of the population act in this way, although not all.

Now let the government decrease interest rates in an attempt to stimulate the economy. In most general equilibrium models money is neutral, meaning that prices adjust quickly to changes in the money supply so that the supply of money has no effect on the real variables in the economy (consumption, investment, etc). For example, if \$10 enters an economy with only one good then the price of that good increases by \$10 dollars. This will only be true if prices can adjust quickly, if they can't then Keynesian mechanisms can still apply.

A final note on prices. In general equilibrium prices are signals between producers and consumers that encourage the most efficient allocation to take place. Interest rates and wages are two examples of prices. If interest rates in an economy are high then it signals that consumption in the future is relatively more valuable than consumption today. This tells us something either about the preferences of the consumers

or about their environment (maybe they expect a natural disaster in the near future and are saving so as to prepare). Similarly, high wages signal that workers are being especially productive and in order to maximize this productivity more agents should start working. It is very important to think of prices in these terms. That way, when you attempt to evaluate a certain governmental action or a set of prices in the market you can look for the signals at work. These signals carry a lot of information and distorting them can carry very high costs.

Two Major Models of the Economy

Currently, despite challenges posed by the current crisis, there are two major general equilibrium models in macroeconomics. These are the Real Business Cycle (RBC) model, founded by Ed Prescott and Finn Kydland in the 1980s and for which they shared a Nobel prize and the Neo-Keynesian models. Here I will discuss a coordination failure model as it represents the major trends in Neo-Keynesian work and is relatively simple. Both of these models match the data equally well but have severely different policy recommendations.

The central tenet of the RBC model is that changes in output are a result of *real* shocks to the economy from a source called total factor productivity. To produce any good there are three elements. Labor or the people hired to do whatever jobs are necessary, capital, or the machines and other physical resources used in the process of production (this could be donut-machines, cars, pencils, auto robots, etc) and total factor productivity (TFP). TFP is the contribution from skills, the environment, technology, or disasters. When workers have learned a new way to produce something this is a shock to TFP.

The way this affects the economy is that a shock to TFP makes labor or capital more or less productive. For example, let's say accountants in a firm have learned how to use computers and so can do their job faster and more accurately. This means that if the firm invests in computers each employ it has will be able to do more work. Moreover, the firm will hire more workers by offering a higher wage because each worker brings in more money. So, an increase in TFP made labor and capital more productive and so increased their use which then increased output. This would be a boom in the economy. Conversely, a negative shock to TFP such as an increase in burdensome governmental regulations causes workers and capital to be less productive. The firm cuts back on its employment and investment and so the economy experiences a recession.

This is the mechanism by which business cycles are produced in the RBC model. A shock to TFP alters the productivity of the major inputs in the production aspect of the economy which then affects variables like employment, consumption, wages, etc. This model has succeeded in qualitatively replicating all aspects of the business cycle data, meaning that all of the relationships in the data can be reproduced with the model. The policy recommendations for this model are quite controversial because it says, basically, we should do nothing.

To understand why we need to look at how the model views governmental actions. In general, the model assumes that people choose the best decisions for themselves. So the amount that people work is the best decision given the wages being offered. When a government increases taxes on wages workers realize that they will make less for each hour worked and so will work less. So, in the RBC model the role of the government is to tax what it absolutely must tax in order to pay for necessities and then to stay out. If the government attempts to engineer the economy by spending and taxing in response to shocks to TFP it will end up distorting people's actions away from their optimal paths. Instead, the RBC model argues that we should recognize that business cycles are the results of people changing their actions to economic realities of new technologies, slow learning processes, and coordination. Interfering with this simply results in losing more welfare.

There are significant criticisms of the RBC model. The primary one is technical and has to do with how TFP is measured and problems that might bias the measurement to the benefit of the RBC model. If the measurement is incorrect then it may not be the case that there are actually significant shocks to productivity and so the increases or decreases in output are not optimal or rational. The second has to do with the current crisis. The RBC model, as discussed, requires a negative shock to TFP to create a recession, but current data shows nothing along these lines. Productivity has hardly moved but the economy is in a free fall. So, the RBC model cannot be an accurate picture of all recessions, even if it is accurate for some.

The Neo-Keynesian Coordination Failure model (CF, but this is not a standard abbreviation) is founded on the idea that it is difficult for agents in the economy to coordinate their actions and that there are “strategic complementarities” to coordination. This means that if agents can overcome the collective action problem then they will be more productive than if they had not been able to coordinate. A simple example is of a football game. It's no good if only a couple people on each team show up to the game. Moreover, if each person on the team believes only one other person will show up to the game then no one will show up. However, if they all believe that everyone will come to the game then everyone will be much more likely to arrive.

The CF model uses this mechanism except on a much larger scale. One producer is much more likely to produce and hire people if she thinks that other people will be likely to produce as well. For example, people selling software are more likely to sell software if people selling hardware are also selling hardware. If both producers think that no one is going to be producing much then they both cut back and so cause less production. If they both believe that there will be a lot of production then they will prepare for this and produce more.

To achieve this we must assume that there are increasing returns to scale, meaning that as you hire more people or invest more in capital then the return to labor or capital increases. The last worker you hired is more productive than the worker before because of externalities between the workers. Having this mechanism enables the model to achieve “multiple equilibria” meaning that there can be states with high employment and high production as well as states with low employment and low production even though all of the people are acting in their best interests. In fact, in this model there are many possible causes of recessions that capture important aspects of reality. Changes in consumer confidence, wars, expectations, and fluctuations in stocks can all cause a recession. This is especially compelling given the causes of the current recession.

The CF model matches the data just as well as the RBC model, but it has wildly divergent policy prescriptions. In the CF model it is possible to be stuck at a bad equilibrium, one where employment and output are low. If this is the case, then it is the role of the government to encourage optimism and confidence in the economy and so bump it to the higher equilibrium.

The largest criticism of this model is that it uses increasing returns to scale. The empirical evidence for this assumption is mixed and without relatively strong increases in returns the model won't work at all. Therefore, despite the model's ability to capture important elements of the real world, it does rest on some relatively weak foundations.

It is important to note that while the conclusions of the Neo-Keynesian model and the old Keynesian model are similar, they are reached in a fundamentally different manner. The brevity and technicality of this book don't allow us to really examine these mechanisms, but if you keep in mind the general equilibrium approach adopted by the Neo-Keynesian models and you review discussions of traditional Keynesian models then you will be able to identify the divergences.

Conclusion

This section was intended to give a brief introduction to some of the modern approaches to macroeconomics. The techniques used in the field are incredibly complex and have many ramifications, but it is hoped that this survey allowed you to see the perspective and its consequences for economic analysis. The use of general equilibrium is the dominant methodology in current economics and so, if you hope to actually grapple with real economic analysis, then you must be familiar with the fundamentals that method. If you wish to explore this literature further the text *Macroeconomics* by Stephen D. Williamson is accessible and relatively comprehensive.

The American Economy

Mike Pomorski, Andrew Swan, and John Mondragon

Issues in the American economy are amongst the most exciting and important that can be debated. Almost every policy action the government makes affects the economy in one way or another, even when those policies are not designed specifically with the economy in mind. This chapter seeks to help you understand the structure of the American economy and some important issues currently being discussed in economic policymaking circles. It is by no means the only thing you should consult in order to learn about the economy. This paper is meant as a springboard, not a finish line.

The American economy is not a static entity and keeping abreast of economic events as they occur is essential for success in extemporaneous speaking. The chapter will begin by asking some questions about the structure of the economy. It will define the economy at large and explain what makes the American economy a modified market as opposed to a totally free or a socialist market economy. It will then discuss the ways the government makes both fiscal and monetary policy, and why those types of policies are important. The private sector's influence on the economy is then discussed, followed by a discussion of America's influence in the global economy and finally, key economic issues will be addressed. The paper is structured so that the theoretical explanations in earlier sections are applied in the issues sections, so it is a good idea to read the entire paper before referring to specific sections.

Defining the American Economy

The first question we should ask about the United States economy is what is it? Is our economy one of free markets? Is it one of government intervention? Or is it one of central planning? Most people would correctly identify the American economic system with a free market, but there are certain caveats to economic freedom in the United States. For example, in a totally free market people would make all their own budget allocation decisions and not have to pay taxes. In a totally free market there would be no government intervention in the economy, but the American minimum wage is an explicit price control. If we look around us we can easily see that the U.S. is not a perfectly free market. Instead, the United States is rightly called a modified market economy. All that means is that the government will interfere in the marketplace on certain issues – like collecting taxes for the development of a common defense. There are many ways a government intervenes in an economy. In the United States, the primary intervention is the collection of taxes from its citizens and corporations. The government then spends that tax money in ways it sees fit. However, there are other types of intervention in the economy. For example, subsidies are monies transferred from the government (or public sector) to various businesses (the private sector). The most recently passed Farm Bill includes several of these subsidies. The government passes subsidy legislation for reasons that are often not economic in nature. Like a minimum wage, sometimes the government feels that preservation of the free market is not the most important thing a government can do. These external, non-economic factors are what make the U.S. economy a modified market economy instead of a “free” market economy.

Aside from taxes and price controls, intervention occurs in the form of environmental and labor regulation of business. Generally speaking, business in a free market economy has the incentive to minimize costs in order to maximize profits, and because environmental and labor protection can be very expensive, these policies are not always pursued in a perfectly free market. Like in the case of taxes and subsidies, environmental regulation is an area where the government feels there is a social need that is greater than the desire for free markets. It should be noted that government intervention is not always a bad thing. We all support regulation to prevent manufacturing from polluting our drinking supply for example.

Despite some important economic intervention however, U.S. policymakers generally pursue a hands-off approach to economic management. In fact, the government also acts to make sure that markets remain free. The anti-trust lawsuit against Microsoft is a good example. The government regulates business to ensure that unfair and monopolistic business practices do not arise. This is another instance of believing that there are things that are more important than a perfectly free market.

It does not take a leap in logic to think that everyone in America is part of the American economy. Really, because of the interconnectivity of global markets and the position of the United States as the world's largest economy, almost every person in the world plays some part in the maintenance of the American Economy. The first step to understanding the American economy is to realize that everything that happens in the United States has an economic impact, even if it is a small one. The loosest groupings of players in the American economy are the government sphere (public sector), business and industry (Private sector), and individual citizens making economic decisions (household sector). All these different players make economic policy both implicitly and explicitly, and understanding the various processes is essential to grasp the modern American economy.

Governmental Economic Policy

There are two basic types of economic policy that a government can pursue, fiscal and monetary. Defined simply, fiscal policy consists of government spending and taxes. Monetary policy is centered on controlling the supply of money in the economy. So, President Bush was making fiscal policy when he signed a tax cut into law. Ben Bernanke and the Federal Reserve Board made monetary policy each time they lowered interest rates in the last several years. Because fiscal and monetary policy encompass the entirety of what the government officially does in the American economy, a good working knowledge of the people and process of these policies is essential.

Fiscal Policy

As stated, fiscal policy consists of government spending and tax collection and rebates. As you probably are thinking, fiscal policy is not often aimed at an economic goal. After all, the government spends money on things not explicitly tied to the economy all the time – things like the war on terrorism. Many people associate taxes and economic spending with the establishment and maintenance of various social programs in the United States. This view is certainly not false, but it is incomplete. The most visible player in making fiscal policy is the President. The president's fiscal policy-making primarily lies in his influence in the budgetary process, which at its core is simply a record of how much the government spends on various things. The president also influences fiscal policy by supporting or opposing various tax law changes. It is important to note that this process is an inherently political one, and so the aim of different policies may be as much about political gain as economic improvement. As we will see, this is a stark contrast to monetary policy, which is ostensibly apolitical.

The Budgetary Process

The government determines its budget in much the same way you and I – we make a guess about how much money we will have and we make spending decisions accordingly. Needless to say, the estimation process the government goes through is considerably more complex than that of individual citizens. The government can receive money and spend money just like its citizens. The revenue the government receives comes from five major sources: individual income taxes, corporate income taxes, payroll taxes, excise taxes, gift and estate taxes, customs, and other miscellaneous sources.

When people think about taxes, they will generally think about personal and corporate income taxes and with good reason – these outlays are the main sources of government revenue in the U.S. Payroll taxes are the amount of money employers have to pay based on the amount of money they pay their employees. Excise taxes are simply national sales taxes paid on things like gasoline. Gift and estate taxes refer to tax obligations associated with the transfer of large gifts or estates. Customs, also referred to as customs

duties, are the charge levied on imports that come into the U.S. A good example is the recent decision to implement a 30 percent tariff on steel imports to America. All that means is that if a foreign government wants to sell 100 dollars worth of steel in the U.S. market, they must first pay the government 30 percent, or 30 dollars.

Aside from direct revenue, the U.S. government can also borrow money. The government borrows primarily by selling bonds. Think of a bond as an I.O.U. The government receives money from a bond buyer and, in return, promises to pay back the initial amount in full at the end of a certain time, plus a given interest rate every year. The most often discussed bond in the United States is the Treasury bill (T-Bill), which typically matures in 30 years. The revenue acquired from the buying and selling of government bonds is part of what the government estimates in making its spending decisions.

Once the government has an estimation of its revenues, it can begin to make decisions about spending money. U.S. law dictates that the President must submit a budget to Congress by the first Monday in February. This budget applies to the next fiscal year (abbreviated FY) which begins on October 1st. To write the budget, the President and his staff enter into detailed and intense scrutiny of different federal programs and budgetary priorities in order to determine what to support in the next fiscal year. This process involves federal agencies submitting a budgetary wish list to the Office of Management and Budget (OMB). The President and his advisers work with the OMB making changes to individual agency requests as necessary in order to write a reasonable budget proposal.

You may have heard the saying “Congress controls the purse strings.” If you have, you are probably wondering why the Congress has not been mentioned in the budgetary process. Though the President is the person who writes his budget request, the Congress is the group that ultimately decides its fate. During budget season, Congress passes a resolution that indicates its targets for spending on specific programs, government revenue, and the position of the budget as a whole (whether in deficit or surplus). After Congress passes a resolution and the President submits the budget for consideration, the real work of budget writing begins.

When the final budget is written, it includes two types of spending, discretionary and mandatory. Discretionary spending, which makes up about 1/3 of total government spending, includes all the money that the President and Congress allocate for their various priorities, whether it be the military, education, research, etc. The level of discretionary spending is determined in the writing of 13 appropriation bills, which correspond to different aspects of what the government does. For example, the defense bill is a specific appropriations bill that is debated and ultimately agreed upon within the budgetary process.

Mandatory spending is spending that increases or decreases based on previously enacted law. For example, if the people in the U.S. eligible for unemployment benefits increases, then government spending in these areas must by law increase. Another example is payment of the interest on government bonds. If there are more bonds that are sold, interest payments increase, and the government must spend the money to pay those it owes. Though the Congress can change things like unemployment eligibility, it is not under legal obligation to do so in the budgetary process. Social security payments are by far the largest portion of mandatory government spending.

Once the Congress agrees on all of the 13 different appropriations bills and has completed any changes to mandatory spending law, the budget for the fiscal year beginning October 1st is passed. The budgetary process is the most important aspect of fiscal policy, especially because it is something debated and thus subject to change every year. After the budget passes, money is transferred to various government agencies under the watch of the General Accounting Office (GAO), which is the non-partisan government body that assures that budget laws are being followed. Aside from being the most important vehicle for

fiscal policy, the budgetary process is the most visible of all economic policymaking, even though a small portion of the budget deals with economic issues directly.

Non-Budgetary Fiscal Policymaking

Though writing the budget is the most important fiscal policy in the American economy, it is by no means the only one. For example, when Congress passes a large tax cut. That is fiscal policy that is not directly related to the budgetary process, though it certainly affects the budget. When congress increases the debt ceiling, the maximum amount the government can borrow – that is also fiscal policy because it affects revenue, but not directly budget related because it is not tied to spending on specific programs. President Bush imposed tariffs on steel imports to the United States. These tariffs are customs duties, and relate to government revenue. The list of examples can go on almost without end.

Monetary Policymaking

Have you ever really thought about the money in your pocket? Look at a dollar bill. Why is it worth a dollar? What does that even mean? What determines its value? Most people are surprised to learn that money in the American economy has no intrinsic value. The only thing that makes a dollar worth anything at all is that other people in the economy think it is worth something. The government makes sure that the dollar is accepted as the currency for every transaction in the United States, even though the dollar is worth nothing by itself. Most people are surprised to learn that the dollar is no longer convertible to gold at a government-backed price. A currency like the dollar is said to be a fiat currency. This means that the value of the dollar is said to rest on nothing more than the full faith and credit of the United States government, which means that people believe that the government will ensure the value of the currency. Keeping the dollar at a stable price is one of the very important things monetary policy hopes to achieve.

Where the President and the Congress are the institutions in charge of fiscal policy, the Chairman of the Federal Reserve Board (FRB) is in primary maker of monetary policy.

The Chairman of the Federal Reserve System (The Fed) is currently Ben Bernanke. The Fed is based in Washington D.C. but includes twelve Federal Reserve District banks in economically important locations throughout the United States. Bernanke, though by far the highest profile member of the Fed, does not make monetary policy himself. The FRB, of which Bernanke is the Chairman, consists of seven members of the Board of Directors and the presidents of each of the twelve regional banks. Fed policy is done by vote, though the FRB can vote to give the Chairman unilateral monetary policymaking powers for short times. Members of the Fed are political appointees and not popularly elected. The appointment process exists so Fed members do not have to concern themselves with winning elections and can instead focus on making economic policy. The Fed is often referred to as the fourth branch of government because it is independent from the Congress and the President and because it is responsible for such an important part of U.S. economic policy. The Fed does not have to rely on the budgetary process for funding, as it is one of the only government agencies that is self-sufficient, earning necessary operating expenses through its portfolio of tradable securities and its ability to print money. The Fed has often pursued economic policy that was contrary to the wishes of the President of the United States, which is perfectly within the Fed's purview. Central bank independence is one of the hallmarks of the American economy (the EU central bank is also independent).

The Federal Open Market Committee (FOMC) drives monetary policy. The FOMC consists of the seven members of the Board of Governors, the President of the New York Fed branch, and 4 other Fed Bank Presidents, who serve in rotation. The FOMC meets eight times a year, and their primary task is to fix short term interest rates in the United States. The structure of these rates is one of the most important facets of the modern American economy.

To understand the importance of these short term interest rates one must know a little bit about banking regulation. Ever since the economic regulations imposed in the Great Depression era, banks in the United

States have had to maintain certain amounts of cash on hand at the end of a given business day to ensure that the banking system did not run out of money under liquidation pressure (i.e. to withstand a “run on the bank” ala “It’s a Wonderful Life”). This is called a reserve requirement, and it is usually between three and ten percent of the total value of checking accounts a given bank holds. That means that if a bank holds checking accounts totaling one thousand dollars, the bank must have between thirty and one hundred dollars in cash at the end of each business day.

Needless to say, banks will not always meet this target through normal operations. Banks make money by lending, so they have an incentive to lend as much as possible to ensure future revenue in the form of interest payments. Therefore, banks often fall short of the legally required reserves at the end of the day. When this occurs banks have two options. They can either borrow money overnight from other banks at a given interest rate (called the federal funds rate), or they can borrow money directly from the Federal Reserve System at a given interest rate (called the discount rate). The FOMC sets both of these interest rates through what is called open market operations. If the FOMC and Ben Bernanke vote to lower the federal funds rate then they will instruct the trading desk at the New York Branch of the Federal Reserve to purchase bank securities which increases the availability of capital to be lent to other banks, and thus decreases interest rates. This complex process can be explained using a simple analogy. Suppose you are in the lemonade stand business and because of your sales prowess you earn 100 dollars. Also suppose that you are planning on buying yourself a new jacket that costs 75 dollars. If a friend asks to borrow 30 dollars you may agree to lend him the money, but you might ask him to pay you back 35 because you are going to have to wait to buy your jacket. This is not at all unreasonable. But suppose that you suddenly come into 20 more dollars. Now you have \$120 and you can buy your jacket for \$75 and lend your friend \$30 and not ask to be paid back \$35. You may think that you would still charge your friend five dollars for the convenience of borrowing money, and you are right, but suppose you are not the only person he can borrow from. Suppose there are thousands of other lemonade stands in your neighborhood and your friend can borrow from whoever will make him pay back the least. This is essentially how the FOMC uses open market operations to lower interest rates. Think of your lemonade stand as a bank, buying a jacket as a reserve requirement (it is getting cold!), and your friend as another bank that has to meet his own reserve requirement (buying himself a jacket). Before you made your extra \$20, you would only lend if the interest rate was very high, but after you got more money (or after the FOMC’s New York trading desk bought some of your securities), you had the money to lend at a lower interest rate.

Though it may seem like a lot of trouble to change an interest rate, it is important to remember that the government tries to stay out of the economy whenever possible – remember our definition of the modified market economy. Strictly speaking, the Fed does not set the interest rate, but rather, the Fed provides the market incentive for certain interest rates, buy buying x number of securities from y number of firms.

Though it is the most important interest rate that the Fed sets, the federal funds rate is not the only one. The FOMC also can change the discount rate, which is the rate at which private banks borrow directly from the Federal Reserve. Though an important indicator of interest rates in general, the discount rate is not nearly as important as the federal funds rate because banks have a tendency to borrow from other banks before they borrow from the government (it is often considered a bad sign for a bank to be borrowing at the discount rate). Thus, when someone asks about the “interest rate,” they are almost certainly talking about the federal funds rate that is influenced in open market operations by the Federal Open Market Committee.

The reason people make such a big deal about the federal funds rate is because it is the benchmark by which all other interest rates are determined. Every time someone lends money they are taking the risk that the borrower will be unable to pay that money back. You have probably seen car commercials advertising to people with “bad credit” or “no credit.” That means that these people are more likely to not

be able to pay back loans. Because of the risk associated with lending more money to people that may not be able to pay, those people have to pay what is called a risk premium, or a higher interest rate than someone with “good” credit. What is true of the person buying a used car is also true of lending to large corporations. The higher the risk associated with a loan, the higher the interest rate payment will be. But a bank borrowing only to maintain a reserve requirement is not a very high risk at all. In fact, there is almost no chance that that bank will not be able to pay back its loan.

If one bank borrows money from another bank, and there is no real risk associated with that loan, then the overnight lending rate between banks (the federal funds rate) is a good indicator of the interest payment of a zero risk loan. And as stated, when risk increases then it is necessary for interest rate payments increase. A bank may charge the federal funds rate (currently 1.5 percent) to other banks that want to borrow to meet reserve requirements because there is very little risk involved. Likewise, if a bank is lending to a large international corporation like Nike, the rate may only be slightly higher because though there is more of a risk that Nike will default than another bank, the risk is still small. As loans become more and more risky, interest rates will get higher and higher, but they will always be based on the federal funds rate. If you have a credit card with a variable annual percentage rate (APR) and you read your credit card statement you will see that the interest rate you pay will be some percentage “plus prime.” The prime rate is directly based off the federal funds rate, so when Bernanke and the FOMC increase the interest rate at which banks lend to each other, there is a real impact on the amount you have to pay Visa at the end of the month. Because the fed funds rate is so powerful, it is the most often used tool of monetary policymaking. The Fed uses monetary policy to maintain a balance between economic growth and the general prices of a various basket of goods. Generally, the Fed tries to keep interest rates low when there is no inflation risk and higher when there is a chance of price increases. Given the disastrous consequences of hyperinflation and deflation (see interwar Germany) it’s possible that the single most important thing the government does is maintain interest rates via the Federal Reserve Board.

The Private Sector

It should be obvious enough that there are two main parts of the American economy, the government sector and the private sector. The government conducts fiscal and monetary policy in order to maintain things that it believes are socially valuable, like taxation, to promote the common defense. The private sector in a free or a modified market economy like the United States makes its economic contribution by acting in its own economic self interest, letting the “invisible hand” of market forces drive it where it will. The private sector comprises the bulk of U.S. economic activity. When thinking about the private sphere, it is helpful to remember the difference between households and businesses. Households refer to individual, private economic units of consumption, and business (firm) refers to private units of production in order to turn a profit. Because the people in the household sector also work for business, they make the money to keep the production/consumption cycle robust. All economic activity in the United States is a variation of this theme: an entity sells something to another entity in order to make the money to purchase something from yet another entity. Because the number of economic agents in the private sector is virtually limitless, there is an endless possibility of transaction multiplication and thus the modern free market is born and grows.

It is often said that consumer spending drives the American economy. This means that the buying and selling that typical Americans do every day is the both the gasoline and the lubricant that keeps the economic engine running. To understand the importance of consumer spending, think of the economic impact of purchasing a fast food meal. If you break down the seven dollars you spend on your extra value meal you can see how that money ripples through the economy. A portion goes to the people on a farm somewhere that actually produced the food. Another portion goes to the processing faculty that put together the hamburger. Another portion goes to the shipping company that moved the food to the store where you bought it. Part of your money goes to the person who put together the hamburger in the store in the form of a wage, and part of it went to the corporation that owns the restaurant. Of that portion,

some goes to pay the people that advertise the product, and some goes to pay bill from the computer the receptionist at the corporation uses to answer the phone. All of the people involved will receive a wage, and they may buy a hamburger, beginning the cycle all over again.

The willingness of the consumer to spend is fundamental to almost every economic decision made in the American economy. That is why when people debate about economic policy the effect on the consumer is often the most important factor considered.

It is generally the case that consumer based purchases make up two thirds of U.S. gross national product.

Producers occupy the other side of the economic coin. People demand certain goods, and production is the mechanism by which demand is met. That production via a wage cycle translates into more consumer spending, which increases purchasing power, increasing production and propelling the cycle forward, at least theoretically. Production generally measures the ability to make tangible objects for consumption, as opposed to intangible financial assets in the banking sector which will be discussed below.

Several factors influence the level at which a firm chooses to produce. The most obvious factors are the demand for the product and the price of producing that product. It would be an inefficient use of resources for a firm to produce something that no one wants to buy, and it would be just as inefficient to produce something which costs more to make. Therefore, firms make output decisions based in part on projected demand (an estimation of how much consumers will be willing to spend on a product) and the cost of production.

It is difficult to understate the importance of productive capacity in the American economy, primarily because unlike other economic outcomes, productivity growth's impact on the domestic economy is almost always net positive. A thorough evaluation of any economic policy should include a discussion about that policy's impact on production capacity.

While production of material goods is extremely important in the American economy, the financing of the companies that produce those goods and the consumers who purchase them is also fundamental to the workings of the economy. One of the defining characteristics of the American economy is its openness to private ownership of everything, including giant corporations. This ownership manifests itself in the form of publicly traded stocks. The main tool of corporate finance is a bond, which allows a corporate entity to borrow from the public at large.

The Stock Market

If you open up the business section of any large newspaper in the United States, you will come across pages and pages of tiny numbers and letters aligned in neat little columns.

These are stock quotes. Stocks are what define ownership of publicly traded companies in the United States. Anyone can buy shares of stock with a personal computer and a little bit of money. Stocks are certificates of ownership in a firm. Naturally, the value of a firm fluctuates over time, and thus the value of a stock will also change over time. The letters you see in financial pages refer to different companies, and the numbers show their stock's share price.

People in the media, business, and the public devote so much time to the stock market because there is so much money to be made. Because the price of stocks varies so often, an investor can buy a stock when its price is low and then sell it when the price increases, making a tidy profit in the process. And because stock trading has become so accessible in the United States, millions of people do it. So the opportunity to make (and lose!) money is large.

Owning a stock makes an investor a part-owner of a company. As an owner, that investor has the right to share in the profits of that company. If a firm is publicly traded, then at the end of its fiscal year it has to pay every shareholder their portion of the profits. This payment is called a dividend. The simplest way to

determine dividends is to divide the total profit of a company by its total number of stocks. The result is the amount of money the company has to pay out for each share investors hold. Suppose a company makes a million dollars profit. Also suppose that this company is publicly traded and that there are one million shares in circulation. The company must then pay one dollar (one million divided by one million) for each share owned. So if an investor owns forty shares of this company's stock, he or she will get a check in the amount of forty dollars (one dollar per share multiplied by forty shares). That is the investor's right as an owner of the company. Fundamentally it is these dividend payments that make various stocks worthwhile. Theoretically dividends are also what determine the price of a stock. But this is not always the case. "Capital gain" is a term that is often used in relation to the stock market. Capital gains are simply the money made based on the selling of a stock at a higher price than for what it was purchased. If an investor purchases one hundred shares of a company when the stock is valued at ten dollars and then sells that stock when its price is 15 dollars then the investor made capital gains equal 500 dollars. The possibility of capital gains is one of the reasons investing in the stock market has been so popular in modern America. Stock prices are determined entirely by convention. That is, a stock is only worth as much as another investor is willing to pay. If the demand for a company's stock rises then its price will rise as people are willing to pay more for what they want. Likewise if the demand for a stock decreases then sellers of that stock will have to accept a lower selling price. There are no rules to the pricing of stock. The only thing that provides intrinsic value to a stock is its dividends. Theoretically then, dividends would be the determinant of a stock's value. The possibility for capital gains however makes this logic a bit tenuous. When people talk about stocks they often will mention the price to earnings or P/E ratio. The P/E ratio is simply a number determined by taking the current price of a stock and dividing it by its dividend payment. When investors say that a stock is overvalued it usually means that the P/E ratio is too high. Overvalued stocks have a tendency to come crashing down when investors realize that the company is not profitable enough to justify such an inflated stock price.

The dot-com fiasco is a good example of stock overvaluation. Because of the future promise of earnings and massive profits in the "new" economy, share prices for unprofitable internet business went through the roof, with P/E ratios occasionally frequently in the several hundreds. Share prices rose so high because so many investors wanted to jump on the dot-com wagon and ride it to robust capital gains. Because share prices continually rose, and because no one saw a reason why they would stop rising, everyone wanted a proverbial piece of the action – to buy a rising stock now and sell it later after its value had increased. This is an example of a valuation cycle in which high stock prices are justified by the desire to have high stock prices. Because the price of a stock is not subject to any rules, price inflation continued unabated.

Eventually the price of dot-com stocks was high enough that some investors began to believe that their valuations were no longer sustainable. This belief, combined with other economic forces caused investors to begin selling off dot-com and other technology stocks. The valuation cycle described above began to work in reverse. As the demand for stocks decreased, the price of shares also decreased. The desire to sell before prices decreased further only quickened the pace of decline as the market developed far more sellers than buyers. As stock prices tumbled the incentive to sell surged, and prices plummeted to below the level at which most investors purchased stock. The end result was capital loss instead of capital gain, made possible by unsustainable speculative euphoria. It is these types of events that lead to terms like "stock market bubble." As the value of stocks (the bubble) inflates, prices eventually become impossible to sustain, and the bubble bursts.

There are two main economic implications of stock market popularity in the American economy. They can be described as the initial public offering (IPO) and as the wealth effect. The IPO is primarily business oriented and the wealth effect is consumer oriented.

An IPO is the selling of a private company to public shareholders and it includes all the guarantees of share ownership like dividends. A company makes an IPO primarily to finance expansion. The wealth

effect is related to capital gains, and refers to the increase in consumer spending associated with receipt of money from the buying and selling of stock. In the transaction described above the investor would have 500 dollars in disposable income to spend, which as we know has important ramifications for consumer spending. Conversely, an investor who got hammered by the dot-com burst had less money with which to buy various goods and services in the American economy. In both instances, because of the high percentage of Americans that are exposed to the stock market, different policies effect on the market are important economic questions, much more so than only ten years ago.

The Bond Market

When the average person in America wants to buy something like a home or car they go to the bank and try to get a loan. Many business loans are conducted in the same manner. However, the bond market provides another opportunity for business and government to borrow. The defining characteristic of the bond market is that bonds like stocks are frequently tradable. One can purchase bonds as easily as one can purchase stock. A bond is simply an official IOU. The lender agrees to give the borrower a sum of money and the borrower promises to return that money at a specified time in the future. The borrower also agrees to pay an interest rate (payable yearly, quarterly, monthly, etc.) to the lender every year until the bond matures, at which point the face value of the bond is transferred back to the lender. For example, let's say you purchase a government bond with a maturity of 30 years and an annual interest rate of five percent. That means that at the end of every year you will get a check from the government equal to five percent of the face value of that bond and, at the end of 30 years a check for the original face value of the bond.

Like shares of stock, bonds can be bought and sold in the open market, even after they are first issued. Bonds offer the seller a quick inflow of cash and they offer the buyer a steady stream of income over time in the form of interest payments. Like stock, bonds carry with them certain risks. The primary risk is that of default. If a government or a corporation defaults on its loans or declares bankruptcy then its bonds are literally worthless. Default risk is one of the reasons that bonds from emerging markets (places like Thailand and Argentina) pay a higher interest rate than bonds from the United States. The risk of default is higher in emerging markets than in America. Inflation is another risk associated with bonds. Because they pay over such a long term, inflation can quickly eat into the price of a bond. For example, if a bond pays five percent annually but the economy is experiencing four percent annual inflation then the real interest rate on that bond is only one percent, hardly an impressive return. This is why bond prices move in the opposite direction of inflation.

Any government or corporation can issue bonds as long as they meet regulatory requirements. The U.S. federal government issues several different types of bonds.

State, local, and even municipal governments frequently issue bonds (also called paper) to finance various government activities. International governments are no different. Corporations, both in the United States and the rest of the world engage in the buying and selling of bonds. As in stocks, bonds can serve different functions to investors. High risk bonds are associated with high yields which are attractive for an investor willing to tolerate risk. U.S. government bonds, considered the safest in the world, are an attractive avenue of investment for those seeking financial safety. Thus, U.S. government bonds do not pay as high of an interest rate.

The 30 year U.S. government bond, also called a treasury bill or T-bill is the barometer by which all other bonds are measured. Because the risk that the United States would default is functionally zero, the T-bill represents the safest risk free return bond investors can receive. The "bond spread" is the term often used to describe the difference in interest rates between a T-bill and another bond, whether it be a U.S. corporate bond, an international government bond, an international corporate bond, etc. Because it is such a safe investment, global economic trouble usually ends in more demand for U.S. government bonds. As demand increases, bond interest rates decrease because the government no longer has to pay as much interest to attract money. T-bills provide one of the few safe places to turn for international investors. T-

bills also represent the long term interest rates that are so important to the American economy. Banks for example use T-bills to finance home loans. If the interest rate on T-bills increases then the interest rate on home loans will also increase, meaning that new home buyers do not have as much disposable income with which to drive consumer spending. The same is true of long term interest rates' relation to car loans or credit card rates. Like the wealth effect, the implications of long term interest rates on the consumption patterns of the American consumer is extremely important to the functioning of the American economy.

American Influences in the Global Economy

The United States economy is the largest and most influential in the world. Because of its preeminence, it has a great effect on the economies of other smaller nations and groups of nations. American economic influence is embodied in the strength of the dollar, America's willingness to import, and American influence on global economic policymaking bodies like the International Monetary Fund. Though it would be unfair to say the United States "runs" the global economy, it is no stretch to say that America is the most important global economic player.

The Dollar

To understand the importance of the U.S. dollar to the international economy it is first important to realize that there is no intrinsic value to the dollar or any other currency. As mentioned above, the value of the dollar simply reflects what people think it is worth. It is a fiat currency which means its value is guaranteed only by the full faith and credit of the United States government. Because the risk of the United States failing to guarantee the value of the dollar is functionally zero, all other currencies can be easily compared by comparing them to the dollar. Comparing the Turkish Lira and the Argentinean Peso to the dollar for example yields an easy comparison of those two currencies.

Aside from being a comparative device, the U.S. dollar is important in the international economy because most international transactions are made in U.S. dollars. This reflects the fact that, because the U.S. is the world's largest economy, the U.S. is the most likely player to be involved in economic transactions. Like a fiat currency, this is only a matter of convention, and could change over time. However, the dollar should continue to dominate international transactions into the future. The dollar also adds to U.S. international influence because foreign central banks (international equivalents of the U.S. Federal Reserve) tend to hold dollars in reserve more than any other currency. Again this can be attributed to the large size of the American economy. Central banks use reserves to balance fluctuations in monetary policy and, because actions of the United States are the most likely to end in local economic imbalance, central banks have an incentive to hold dollars to deal with problems as they arise. The fact that the dollar is the most easily convertible currency provides another reason why central banks hold dollars instead of other currencies.

Dollar convertibility was once a structure of the international economy. In the post World War II Bretton Woods era, the United States and the rest of the world entered into an economic agreement in which each nation would guarantee their currency value vis-à-vis the dollar and the United States would guarantee the dollars convertibility to gold at a certain price. This system was known as the gold exchange standard and it catapulted the dollar into the role of the world's most important currency. The dollar was the crucial link between international currency and gold. Though the gold exchange standard is no longer international law the influence of the dollar has not diminished.

The dollar is important in international economic affairs for one other main reason. As we know, other nations have experienced difficulty keeping their currencies at a guaranteed value. Currencies in Russia, Argentina, Thailand, even England have all fluctuated wildly in the past. The experience of the U.S. dollar is somewhat different in that there have been no major fluctuations of dollar value since the Great Depression. Central banks, governments and large firms will gravitate toward the dollar in a search for this monetary stability so that the value of their debts and assets will remain stable.

Trade

The United States is and has been experiencing a widening trade deficit. This means that Americans buy more from international sources (import) than we sell to the international economy (export). The willingness to import products is probably the most important factor determining America's international economic influence. When sectors of the international economy experience turmoil they can usually export their way out of recession by selling more and more products to the United States. This is also one of the reasons why people often say "when the United States sneezes, the whole world catches a cold." If the United States is in a recession then it is less likely that the international economy can rely on the U.S. to buy their products. Less demand in those countries may end in domestic recession.

Why are Americans so willing to import? This is a question partially answered by the American culture. We are a people of mass consumption and, because of the strength of our economy we can afford to continually buy more and more international products. The U.S. policy of pursuing a strong dollar is another reason why we can continue to import. A strong dollar simply means that a dollar can purchase a high number of international currency units. For example, if you want to travel to Mexico you will need to purchase pesos to participate in the Mexican economy. U.S. dollars can purchase so many pesos that consumption abroad is relatively cheaper than consumption of the same bundle in the U.S.. As a general rule the dollar is strong, although it is relatively weaker than the Euro and the British pound.

It is important to understand that the having a strong currency is not necessarily good or bad. In fact, it depends on your role in the economy. Having a strong dollar means that foreign goods are relatively cheaper. This is good for foreign producers (they sell more) and for domestic consumers of that production (they spend less). This is bad for domestic producers and foreign consumers of domestic goods for exactly the same reason. Now, American goods are more expensive to the rest of the world. So, when the U.S. dollar depreciates in value, we typically find that exports increase as foreign consumers can now afford to purchase more American goods.

International Financial Bodies

The headquarters of the International Monetary Fund and the World Bank are both in Washington D.C. Needless to say, this location translates into enormous U.S. influence in the making of international economic policy. The great strength of the U.S. economy is another reason why we wield such influence over these bodies. Where the influence of the U.S. through the dollar and international trade primarily affects developing and developed nations, influence through international financial institutions primarily affects less developed nations. This is particularly true of the World Bank.

The United States has an incentive to shape the global economy in such a way that U.S. growth is maximized and the standard of living of U.S. citizens is sustainable. In the past, it has been argued that an approach known as the Washington Consensus was the dominant intellectual policy in these bodies. It was defined by free-market principles and openness. The extent to which this approach actually influenced policymaking is uncertain, but today it is certainly less influential. So much so that even the person credited with defining the term and what it encompassed (John Williamson) has argued that the common understanding is incorrect and ill-defined.

Issues in the Modern American Economy

The American economy is not at all a static entity. Though the structure of the economy rarely changes, different actions by different agents in operating in the economy can have profound effects on other actors and the economy as a whole. The age of information technology means these changes can happen extremely quickly. There are a number of economic issues that extemporaneous speakers will need to understand before giving any speech about the American economy, especially because all economic issues are interrelated.

The “New” Economy

The United States economy has recently experienced its greatest change since the industrial revolution. The advent of computer technology has revolutionized the way that Americans do business both as workers and as consumers. Goods can be ordered online to custom specifications in personalized retail stores, data management is now handled instantly via the touch of a mouse button, and the inner connectivity of global markets means consumers can more easily compare different types of products and prices. This revolution of economic affairs has been termed the “new” economy. To have a new economy one must first have an old one. The old economy was slow. It was labor intensive and based on the manufacture of large durable goods. Most bookkeeping had to be done by hand. Orders and bids for orders came either over the telephone or by hand. Information exchange was also slow as people could not turn to the internet to answer basic questions about different industries.

Despite being new, the current economy is still subject to forces that acted on the old economy. The recent U.S. recession is telling evidence that the U.S. is still susceptible to the business cycle, and that ridiculous stock overvaluation is not forever sustainable. The most important change brought about by the new economy was an increasing capacity for production growth. As is discussed above, productivity growth is almost never bad. Although the new economy is not an economic cure all, it is certainly net good.

The Dot-Com Bubble and Its Recession

The United States recently experienced the longest uninterrupted economic expansion in its history. Unfortunately, the economy entered a recession at the end of 2001 and the beginning of 2002. The exact cause of the recession is still being debated, but the essential reason was overinvestment.

The thing to do in the American economy of the 1990’s was to invest in anything technological. These investments were made by both the business sector and the household sector in the form of business purchases and stock purchases respectively. That investment was what led to high levels of productivity growth (business integrated computer systems into production to produce cheaply and quickly) and to inflated stock prices (high demand for stock led to rising equity prices). Economic history in America teaches us that periods of very high market confidence are usually followed by periods of economic stagnation, and that story was, although delayed for a time, repeated in the late 1990’s.

No one really thinks investment euphoria can last forever. Eventually there comes a point where people no longer believe that their investments will return at an acceptable rate. In the 1990’s, that point came when businesses realized that there was no reason to continually update and upgrade computer systems. In fact, the biggest impact of computers in the workplace and on the factory floor was felt when they were first introduced. For example, the revolution of productivity was not something that would occur every time someone upgraded to the next version of Windows. As businesses slowly moved into high tech applications, individual stock investors no longer felt that investing in high tech companies was as lucrative as it once was. As more and more people took their money out of the market there was more of an incentive for everyone else to move out their money as well. This cyclical feedback was responsible for the plummet of the U.S. stock market at the end of the 1990’s. A general lack of business investment, coupled with numerous instances of layoffs, contributed to an economy lacking confidence and rearing for high growth. The most important lesson of the 1990’s was probably that high tech spending will not sustain an economy alone. A second lesson was that business productivity cannot grow as fast as the business and investment community would like.

Terrorism

As it affected almost every other sector of life in the United States, the events of

September 11th had significant impacts on the U.S. economy. Most of the effects were primarily psychological, things like canceling shopping trips because of a fear of terrorism or rising insurance costs in large U.S. cities considered to be prime targets for terrorism. While the economic fallout from the September 11th attack was minor compared to what it could have been, any subsequent attacks will have a much greater impact as people begin to believe they are not protected. There can be many types of economic impacts related to terrorism. Terrorism against infrastructure could destabilize the regular flow of goods from point A to point B, or an attack on a major public center may be crippling to consumer spending with all of the associated economic impacts. People who feel unsafe will not go to the mall. Consumer spending declines translate to economic impacts as described above.

Debt

Toward the end of 1998, the United States household sector recorded its first ever negative savings rate. This simply means that Americans owe more money than they have. On the whole, U.S. citizens are in debt. This debt is due to things like home mortgages, car loans, home equity loans, credit cards, and a number of other financial instruments. It has become less popular in America to save money, and so an increasing number of purchases are financed by debt instruments. This debt is sustainable as long as the international economy continues lending the United States money.

To understand this phenomenon, assume that there are 10 citizens in the United States, and there is only one other nation in the world. In order for the United States to have a negative savings rate, money must come to U.S. citizens from the other nation. This situation is sustainable as long as the international economy thinks it is in their interests to continue lending to the United States. While very simple, this example illustrates the household debt situation in the United States. International investment is the mechanism by which a high level of debt is possible in the United States. This of course raises one of the most pressing questions about the American economy today. Are these levels of debt sustainable? Many academics and economic pundits fear that the domestic U.S. economy will begin to attract less and less foreign capital as investors begin to believe that U.S. debt is unsustainable. At that point the international community will have a real incentive to pull money out of the United States to avoid what will be inevitable bankruptcies. Decreasing capital flows to the United States will translate into a decreasing value of the dollar (dollar weakness), which would implicate both the domestic and the international economy. A weak dollar means that the real price of goods *in* the United States would increase because imports would become more expensive. This would end in less consumer spending and possibly economic malaise. Although we have mentioned that the export sector in the U.S. would experience a boom.

On the international side, a weaker dollar means fewer exports to the United States, and that export growth is critical for the sustainability of many smaller economies. As with all other things in economics, there is not a consensus on consumer debt being a problem for the American economy. Many economists see debt as a healthy indicator of robust spending and they believe that any consumer spending correction would be minor enough to not implicate the economy as a whole. These economists also believe that any change in the trade deficit would be a natural, normal, cyclical correction and is not of any real concern.

Tax Cuts

Some of the most controversial political events for the U.S. economy are tax cuts like those President Bush made. Taxes were cut by more than a trillion dollars over the next decade. As much of the decision to make tax cuts was economic, there is still a robust economic debate over whether the tax cut was good economic policy and how it affects the present American economy. While there are certainly important political questions about tax cuts like big government versus small government, our concern here is about its economic ramifications.

Conservative economists unsurprisingly support tax cuts. Their primary argument is that a tax cut boosts consumer spending, which they see as crucial to continuing the economic expansion. Their other argument is that when the United States was in a budget surplus, meaning the government brings in more money than it spends, economic efficiency would be maximized if individuals made their spending decisions instead of the government. These economists point the quick turnaround away from the recession as evidence that their economic logic was correct.

More liberal economists believe that the tax cut was misguided economic policy. Their belief is that the budget deficits to which the tax cut contributed will end in higher interest rates and general economic pain. Their other fear is that quickly rising consumer spending will end in price inflation as demand for goods exceeds the capacity to produce them. Liberals point to the recent move into budget deficits and the associated problems of debt as evidence for their view. There is also the argument that these tax cuts sequestered wealth in the hands of the rich where it will not be spent and so will not “trickle down” to the less wealthy.

Recent Trade Decisions

There are domestic economic ramifications to U.S. trade decisions such as the Bush administration’s decision to impose 30% tariffs on the importation of steel to the United States. The international retaliatory action – sanctions on the import of United States goods – could have contributed to a widening trade deficit and a more pressing consumer debt problem. There is also a general economic benefit to free trade, and tariffs are never fully in line with free trade. The other side of the sanctions coin is a concern that international steel producers were accused of dumping steel into U.S. markets. Dumping refers to the illegal practice of selling in international markets at a lower price than is charged domestically in order to drive out competition. Successful dumping moves can end in economic collapse via the insolvency of large, economically important industry like steel in the United States.

President Obama had, during his presidential campaign, promised to renegotiate NAFTA, the North American Free Trade Act. This is an agreement between Canada, the U.S., and Mexico to allow free trade in goods between these three countries. It was passed by President Clinton. Its critics claim that it has caused hundreds of thousands of American jobs to be lost and that it has opened the way to economic exploitation of Mexico. The best economic research indicates that the net effect on U.S. jobs has been slightly positive and while jobs certainly have been lost they have tended to be replaced by other jobs. Now, it is unclear if President Obama intends to renegotiate the agreement as doing so has been strongly opposed by both Canada and Mexico.

Supply and Demand

Joe Hoelscher, Andrew Korn, and John Mondragon

The relationship between supply (the quantity of a product available) and demand (the amount of that product desired by consumers) is something that we all intuitively understand to some degree. It is a part of our everyday experience. Whenever we engage in some transaction in which we trade one thing, perhaps money, for another, like a Big Mac, we are part of this relationship. Even when we decide not to engage in such a transaction, we are still making a decision that influences supply and demand. But, we often fail to realize the complex ways in which we, and others, shape this fundamental aspect of our economy. The purpose of this chapter is to give you insight into the power of supply and demand so that you can speak about any economic issue with a true understanding of its context within our world.

This chapter is an introductory chapter. I have deliberately left out the charts, graphs, and equations that are the special joy of economists. After all, you're not going to be drawing them for your judges. Nevertheless, it is critical that you study this chapter well, even though it may seem simple. Supply and demand are the foundations of economics, and the subsequent chapters in this book will only make sense if you grasp these foundations. And, yes, believe it or not, supply and demand does impact nearly every facet of our lives. That's the first lesson you should take away from this chapter. Economics is not so much a system we use as the environment in which we exist.

To help you understand supply and demand in a way that you can apply easily to any situation, I will use a case study approach in this chapter. After a discussion of the basics of supply and demand and the relevant jargon, I'll lay out a few different scenarios for you to think over. Each will lay out a situation and then discuss it according to different economic perspectives or describe what actually happened historically, if possible. My advice is to read the set up for each scenario, think about it, and then read my analysis.

There are different paradigms, as I'll discuss later, within economics. They are often mutually exclusive, so you need to be able to tell which paradigm your source material represents. You need to engage the material critically because I believe in a specific economic paradigm. There just isn't any escaping it. If you study economics long enough, you may find yourself agreeing more and more with a specific economic theory. I will give you a good background in theory generally but my conclusions will be influenced by the fact that I am very libertarian in my economic views. As we will later see, that means I think, generally, that government intervention in the economy is a bad idea and that I have strong faith in the power of market forces (supply and demand) to yield positive results for everyone. Within the field of economics, especially as it relates to business, my views are not unusual. In fact, they are mainstream, except that I go a little further than most. However, outside of the academic discipline, my views are rare indeed. Your high school texts probably do not take the same point of view that I do and neither do most people, even academics, outside of economics. So, when you're reading my opinions, which I will try to present as such, you need to understand where I'm coming from.

Basic Supply and Demand Theory

Theoretically, there is a price at which the supply of a product (the amount producers are willing to make at that price) equals the demand for the product (the amount consumers are willing to purchase at that price). If the supply and demand are equal at that price, then the market is said to be in "equilibrium", a state in which the price and quantity sold will remain stable. If the price of the product is higher than the equilibrium price, supply will exceed demand and the price will fall to return the market to equilibrium. The inverse is also true. When the price is lower than the equilibrium price, demand exceeds supply and

the price increases towards equilibrium. Therefore, supply and demand will always tend towards equilibrium. The interaction that causes all of this to be true is very complex, however.

There are a number of factors that affect supply and demand, but the most critical aspect of their relationship to remember is that it is a human process. When we speak of supply and demand, we are referring to a process that occurs as a result of human action and thought. In fact, a precondition for equilibrium is the existence of a “market economy.” This means that rational consumers must be free to choose among products. Unfortunately, people are not always rational. Any of us who’ve read a large number of ballots will probably have already figured that one out. But many sophisticated economic models will attempt to replicate different conditions and types of consumers so as to understand how supply and demand actually operate in the real world.

How Supply and Demand Work

Supply and demand work because people make decisions based on their self-interest, at least most of the time. I would argue that rational people always make decisions based on their self-interests. In my mind, even altruistic behavior is an expression of self-interest to some degree. I donate money to charities, for example, because when I conceive of the hardships endured by those my money or labor helps, I, like most people, experience a sense of sympathy with them. I know I would hate to be without food, shelter, clothing, etc. and I don’t want people to have to experience what, to my mind, must be truly awful. So, even while giving, I’m still serving a personal need and I think most people are the same. Economists have no problem with this. If people behaved without concern for themselves, their behavior would be difficult or impossible to predict. When you combine self-interest with the ability to think and behave rationally, you get consistent and coherent actions.

So, the other day I decided to have a party. The day before the party I went to my grocery store and bought all the stuff I needed. Now, there were about thirty people coming and I had promised barbecue by the pool. While my friends all offered to chip in, I still had to handle the basics. First, I had to buy drinks. Do I buy brand name soda or the store brand? I decided on “Cola” and “Lemon-Lime”, rather than “Coke” and “Sprite”. Next, I needed the food. I like my friends, so I wanted to put out a decent spread. Nevertheless, I didn’t have an infinite supply of money. In economics terms, this is called “scarcity.” Since resources are limited, or scarce, we have to make decisions. I bought a cheap brisket, even though it would take me more time to prepare than the precooked stuff, because it was cheap. I bought basic white bread, generic sauce (and added my own seasonings), raw vegetables, ingredients for potato salad, and no chips or desserts. The lawyer who lives down the street from me, on the other hand, usually has a caterer handle his parties. Why were my friends pouring 99 cent Cola into plastic cups while the lawyer’s guests were being handed glasses of champagne by white-gloved attendants? Rational self-interest. He’s got more money than I do and uses his parties to network. I have thirty friends who are cheapskates and just want to have a good time. Both of us were choosing products (whether goods or services) that met our needs as we understand them. Both of us got what we want because we are fortunate enough to live within a well-functioning market that provides us with options. And, both of us contribute to that market by making rational decisions about what we want.

How do producers (anybody who provides a good or service) know what we want? At the macroeconomic (big picture) level, it doesn’t matter. If an entrepreneur (someone who starts a business) makes a product that nobody wants, his business fails and the product goes away. If someone produces a product that people do want, at a price they can afford, it hangs around. I’m not the only cheapskate in my neighborhood, so there are generic sodas by the truckload. There are far fewer wealthy lawyers, but they’re willing to pay more, so there are plenty of caterers, too. Random chance alone can account for much of the variety of products available, especially over time. The more products that get tried, the more we will see on store shelves permanently, even if most products fail.

At the microeconomic (little picture) level, things are different. Companies spend a ton of money to figure out what people want. In the process, they become consumers, too. When they think they have a new product that will sell, they have to make it. That creates jobs, making them consumers of some laborer's labor (even intellectual labor). In the modern economy, there really aren't any pure capitalists anymore. Everyone relies on someone else for something. This interdependence means that nearly every aspect of our economy is influenced by supply and demand.

The great miracle of this state of affairs is that all these self-interested folks manage to get along. Of course, they don't have choice. If producers raise their prices too much, some people will stop buying their products. That is, supply will exceed demand, leaving produced goods on the shelves. The producers will lose money as a result. So, they have to reduce their price to get more people to buy their product. That is, they need to bring demand back into line with supply. On the other hand, producers will never charge too little, as they could simply raise prices and reap a larger profit. So, the producers have incentives to seek equilibrium (remember -- when supply and demand are equal). Meanwhile, the consumers have an obvious incentive to purchase products representing the best values. As long as everybody watches out for "Number 1", we all come out ahead.

When They Don't Work

This system only works as long as there is competition. Products must compete for consumers' attention on a level playing field. For example, if Pepsi hired a bunch of thugs to go beat the heck of anyone with the gall to make my "Cola," I would be deprived of an option. If Coke developed a virus that burned the hair off the "New Generation" like Michael Jackson filming a video, they would end up the only game in town, a "monopoly". At that point, they could jack up their prices because consumers wouldn't have a choice. Of course, sodas are not a necessary good. They're what economists call "luxuries." So, consumers could just walk away. But, we're all better off if there is competition to keep producers honest. As it stands now, both Coke and Pepsi must keep their prices low or they lose sales to their competitors.

Another way the market can get out of whack is when there is only one purchaser of a product, called "monopsony." Assume everyone, save me, develops a terrible allergy to sodas. We can assume also that I develop an incredible ability to consume as much soda as I like. At this point, every soda manufacturer on the planet will desperately seek my business. That means I can set whatever price I like, at least until there is a cure or until the soda companies all shift production to fruit punch and lemonade. If they don't play by my rules, they go out of business. Let's not forget the human cost of that. People will lose jobs. Even the lucky vendor that gets my business will lose money. Worse yet, all the businesses that serve the soft drink industry will be hit, too. Even Britney Spears' career will take a hit. Well, a bigger hit than it has taken already. Many economists study Wal-Mart as an example of a monopsony because it has such massive purchasing power with its suppliers that it can more or less set the price it wants.

There are other ways the market can go awry, too. Hurricanes that wipe out production facilities, lawsuits from bald people with scorched heads, and bad citrus harvests can all interfere with the relatively straightforward relationship between supply and demand. There is also the ever-present threat of government intervention in the economy. Personally, I don't think government intervention ever works out in the long run. Most liberals will admit that poorly planned government intervention can make things worse. Well-intentioned regulators will make errors, and the constant change occurring within the economy can make even good rules obsolete. On the other hand, the failure of government to act also has hazards. For a market to function property rights must be protected, for example. At the global level, government action, or the lack thereof, is particularly problematic for business and consumers because there are so many governments, all with their own rules. On top of that, many governments aren't even trying to be fair and many are shaky, at best.

Finally, like many natural processes, supply and demand have no conscience. Abstract notions of supply and demand are divorced from reality and fail to recognize that this is always a human process. In the real world, when prices increase there are people who cannot afford to purchase things they want or need, such as food. When the supply of a product is too high, some producers will not be able to make money and their businesses will fail, leaving people without jobs.

Paradigms of Economics

The natural question to ask is, “How should government deal with these problems?” Well, that’s where things get ugly. I, as a libertarian, would ask, more fundamentally, “Should government deal with these problems?” These two questions define mainstream economics and separate mainstream paradigms from each other.

The first paradigm is called laissez faire economics. It is also often referred to as free market, libertarian, Chicago School, or Austrian School Economics. It holds that that government should do little beyond protecting basic rights (like property), protecting its citizens from foreign aggression, and enforcing contracts. Government should stay out of the business of business. In other words, it answers the second question posed above with a resounding “No”, thereby escaping the first question entirely. Although this theory needs to be discussed first here for instructive reasons, it doesn’t tend to win rounds. Judges tend to want to hear recommendations to do something, not a proposal to do nothing, even if well-reasoned.

Libertarians note that government agencies are insulated from competition. They are not elected, rarely exposed to public scrutiny, and are funded by tax dollars. They compete for funding by demonstrating a need for it, not by demonstrating efficient use of it or even effectiveness. The FBI and CIA are both well-funded agencies but both were asking for more money three years ago, and getting it, because it was obvious that they are both seriously messed up. Private companies are judged by results and compete with other, similarly judged companies. They will tend to do a better of job of whatever it is that they do.

Government is not as good at discerning consumers’ true priorities as businesses. People will tend to ask for things they want and can be very vocal. Government responds to that pressure, especially if the views are expressed in polls. Business relies on actual purchases for feedback or when people “vote with their feet.” Consumers may like a good or service in principal, but a true test of how much they want it is their willingness to pay for it. Government action circumvents consumer choice because the cost of goods and services is largely hidden from them. Taxes are allocated without scrutiny from consumers at an individual level and consumers cannot choose to not pay taxes. Government tends to be slow to respond, except in crises, when it tends to be too hasty. Consumer access to government decision makers tends to be limited, especially at the federal level. Most of their needs will tend to go unnoticed until a very large number of consumers organize to demand something. Then, decision makers will argue and reach a compromise which they apply to everyone. Bureaucratic inertia also slows things up and often prevents unneeded programs from being eliminated. Businesses integrate numerous evaluative measures into their processes to ensure constant profitability. At any time a business is not providing a good that is needed, or even one that is as good as similar products, it will lose money. So, businesses tend to work faster. When a crisis develops, businesses still must be cautious about how they respond because they are risking their own money, possibly their own existence. Government uses other people’s money and the specific politicians have an interest in looking productive or shifting blame. This makes them less cautious exactly when it matters the most. The government’s job is to foster an environment suitable for business and then stay out of the way. The problems created by supply and demand will work themselves out – government will only make them worse. As a mentioned before, this theory is accepted by many economists and shunned elsewhere. Most commonly accepted theories are concerned with the human cost associated with economic interactions and hold that government should intervene to solve problems. These theories differ, however, on exactly what type of intervention should take place.

The first of these interventionist theories, Keynesian (pronounced “kanes-e-an”) Economics, is the most popular today. This is what gets taught in schools, this is what most non-economists endorse, this what many prestigious economists advocate, this is what you most often see in the media. It is very intuitive. You can’t go wrong with this stuff in a round. Even people who don’t like it (me) are used to hearing it. It is also easy to reduce to a few basic principles, lending itself to ready analysis and organization. Keynesian economists are often called “liberals”. While this is fine in political circles, be careful! It is true that Keynesians tend to believe in a set of moral, political, and economic beliefs that we have collectively termed “liberal”. In economic circles, however, calling a Keynesian a liberal is a one-way ticket to humiliation.

John Maynard Keynes (notice this paradigm is named after him) revolutionized the field of economics by attacking the first paradigm we discussed, laissez faire economics. Keynesian economists today advocate government intervention in the economy to reduce the negative impact of market forces on people. More specifically, they focus on consumer’s needs and encourage intervention to artificially lower or raise demand. As such, this came is also called “demand side” economics. Keynes saw the massive toll that sudden changes (called “adjustments”) and recurring trends in the economy took on everybody involved and proposed some ways that government could alleviate clearly massive suffering. Modern advocates of Keynesian economics frequently go even further than Keynes did, though, advocating a great deal of intervention to provide goods to consumers. The economy follows a boom-bust cycle. This is called the business cycle. Basically, good times (expansion) are followed by bad times (contraction) in a never ending cycle. Keynes argued that during the bad times, government should spend more money than it has (budget deficits) by taking on debt. That money, he said, should be spent on things like roads and power plants (infrastructure). The projects will increase demand, thereby helping the economy pull out of the recession. The debt the government ran up could then be paid off when spending was reduced during booms. FDR followed this advice during the Great Depression.

Keynes also described what he called “public goods.” These goods are defined by two characteristics; people can’t be prevented from using them without paying (the “free-rider problem”) and many people can enjoy these goods without depleting them. Examples include roads, armies, public health initiatives, and civil pest control. Armies, by their very nature, can’t pick and choose which citizens they defend. Since these goods suffer from the free-rider problem, private businesses will not provide them. If people don’t have to pay, they won’t. Any private business that attempted to provide these goods would fold faster than (insert hackneyed simile here). These things, he argued, are better provided by the government through taxes.

Keynes also argued in favor of “transfer payments.” The idea, is that poverty is bad and that people who get help to get back on their feet, especially during tough times, will become productive, tax-paying citizens. Keynes mainly wanted to keep people from starving during economic busts and assumed that they would naturally get jobs when they could. Modern theorists also cite the crushing power of poverty, in and of itself, to destroy the human spirit. They argue that the poor, and other groups, should receive aid, not just to help them during tough times, but simply out of respect for their dignity as humans. Welfare and Medicaid are both examples of transfer payments.

Keynes argued that the market is not necessarily a smoothly operating, self-regulating system; occasionally competition does not occur. The government’s job is to intervene in the interest of competition. This actually was not entirely his own idea. Businesses had tried to circumvent market forces long before Keynes. He just said it was an inherent feature of capitalism that only heavy government action could resolve. This intervention can take a huge variety of forms, including truth in labeling laws, price controls, trust busting, and environmental regulations.

The second interventionist paradigm, supply side theory, focuses on artificially adjusting supply when the economy is in a recession. Supply-siders are often called conservatives, but again, this is only an appropriate label in political circles as there are extremely few academic economists who would label themselves supply siders. This broad theory encompasses many different points of view, and few actually agree on which is correct. Many supply-siders assert that the theory differs from laissez-faire only in degree. Supply-siders recognize a need for some intervention by government but only in very few cases, and only when absolutely necessary. Many economists see supply-siders as practicing a modified version of Keynesian economics, replacing public works projects with tax cuts and investment stimulation. Whether you agree with the policies or not, supply-siders propose a cohesive set of policies.

Demand is not the key to economic growth, as Keynes would have you believe. Investment and supply are the keys to economic growth. Taxation, on balance, discourages investment and economic growth. Higher taxation leads to less than optimal growth. Tax rates, especially for businesses and the upper class, should be lowered. These cuts will encourage businesses to innovate, spurring technological growth, which produces jobs, thus leading to increased prosperity for all.

Free trade and the free movement of capital are essential. This goes hand in hand with their view on taxes. Moving towards free trade reduces restrictions on business, allowing them to become more proactive and increase their supply.

The last paradigm I want to examine is what I'll call the "radicals." This category includes an assortment of theories that don't fit into the two major paradigms. I don't think they are terribly applicable to the U.S. economy, but they are prevalent internationally and their advocates are very vocal. These theorists, though varied in their particular beliefs, communicate heavily with each other and it is not uncommon for radicals to fit into more than one of these categories.

Marxist theory informs nearly all radicals to some degree. Not surprisingly, there is a lot of variation in modern conceptions of Marxism. Pure Marxists believe that capitalism has certain inherent contradictions that will ultimately cause the capitalist system to fail, though it is a necessary step on the way to communism. Marxists believe that workers are exploited under capitalism because they are not paid as much money as the goods they produce are worth. They are also alienated because they work on assembly lines and don't make a thing from start to finish and so have no ownership or relationship with the goods produced. This failure will be achieved when the workers (proletariat) refuse to be manipulated by the people (capitalists or bourgeoisie) who control the means of production (land, factories, etc.) and seize control of the means of production for themselves. At this point, there will likely be some violence as the necessary catharsis of oppression. Afterwards, the workers will not repeat the mistakes of the past by preserving individual property rights but will own everything collectively. This will be tough over long distances, so society will likely become organized around local communities. The important thing to remember is that without private property nobody will have an incentive to be self-interested and everyone will express themselves spiritually in their work and get along. Some Marxists have no particular problem with capitalism, Marx was awed at how much capitalist systems produce, but it is flawed and will necessarily fail. All Marxists share these ideas to some degree, but they tend to differ over their own role in creating the "end of history." Some Marxists want to hurry it along a bit, others are content to wait.

Anti-globalization theorists argue that the continued integration of the global economy is bad. Usually their critique is based on the Marxist model of capitalist oppression but expanded internationally. For them, Western trade with the Third World is an exploitative activity. These theorists often argue that developed nations, especially the United States, control international economic regimes and use them to advantage themselves over lesser developed countries. They see Western companies as destructive

culturally and economically, and Western government's economic policies as invasive of Third World sovereignty, perhaps even as a modern form of colonialism.

Feminist theorists examine the role of economics in creating and supporting power structures that repress disadvantaged groups, especially women. They are such a diverse group that generalizations are difficult. The central belief is that traditional women's work is not counted as productive labor since no money changes hands. A person who cooks and cares for children in her home is not productive and not included in GDP or GNP, according to traditional theory. Some theorists argue that as women enter the labor market, a shortage of caring labor is created. Some people, like orphans and the elderly, may not be able to afford the care that they need. Generally, these theorists tend to give greater credence to qualitative research, such as testimonials, than do mainstream theorists. They are also more interested in a holistic understanding of economics, preferring not to separate economic discussions into isolated concepts. Typically they will embrace the ideal of thinking globally and acting locally.

Case Studies

All this abstract discussion probably has your head spinning. If not, congratulations. You got it quicker than I did. Either way, these case studies should help you understand how to actually apply supply and demand to a given situation. They are based in part on actual events but have been adapted for convenience. Try to think through them with the information provided.

Scenario 1: Rent Controls in New York

The question is "How should New York City cope with rising housing costs?" You know from past reading that the cost of renting an apartment in New York has risen dramatically over the last decade to the point where many people cannot afford to live in the city and even those who do are unhappy. Thinking of supply and demand, how would a laissez faire economist answer the question? A liberal? A conservative? How would you answer the question? Stop reading until you've answered these questions.

There are many ways a liberal would respond to this situation. Undoubtedly, they would all involve some sort of government intervention in the economy. In fact, that is exactly what happened during the 1970's in New York. The specific policy put in place set a cap on how much rent could be charged and how much it could be increased each year. This type of "price control" is called a "ceiling." When governments set a minimum price it is called a "floor."

Laissez faire economists and many conservatives would likely take a "wait and see" approach while analyzing the causes of the rent increases. In this case, rent was increasing naturally as an effect of supply and demand, so they would let the market sort itself out. However, if the cause had been governmental, say a lack of zoning for residential use or overly burdensome taxes on apartment rent, they would advise undoing the policy. Whatever they advocate, conservatives will almost never look to government to intervene.

In this case, rent was increasing on apartments because demand exceeded supply. This "shortage" was very severe and so price increases were very rapid. The reason for the shortage was that developers thought they could make more money building commercial buildings (offices) instead of residential buildings, in part because the city was giving large tax breaks to developers of commercial property to bring in more jobs. With everyone building skyscrapers instead of apartments, the supply of housing couldn't keep up with the increased demand as more people moved into the city. Landlords quickly found they could charge outrageously high prices.

The price controls did make housing more affordable, but the long term effects were even worse than being overcharged. Landlords eventually found that they couldn't properly maintain their buildings without raising the rent. Prices of everything were increasing (called "inflation"), except rent. Many

landlords neglected their buildings until they became unsafe. Others tried to get their tenants to move out so they could convert the buildings for more profitable purposes. Others simply walked away. Corruption in housing reached an all time high. Superintendents took bribes to decide who got an apartment when they were available. Inspectors were bribed by landlords who couldn't meet safety requirements. Tenants were often intimidated, either by desperate landlords or by desperate apartment seekers. The housing shortage only got worse as some buildings deteriorated and were not replaced. Fewer buildings were constructed for apartments because now rent was so low that no one could make a large profit. The price controls depressed supply but did nothing to reduce demand. The symptom of the housing shortage, higher rent, was dealt with but the problem itself only got worse. Rent controls have mostly been lifted now and the housing shortage in New York is much better. Once producers saw the possibility of profit again, they rushed to earn it by supplying new apartments. As consumers had more options, they became less willing to pay whatever was asked and the rent increases stabilized.

My recommendation for you is to use three points: problem, cause, and solution. A Keynesian influenced approach might be: rent too high, construction resources are all committed non-residentially, hire other developers to build public housing. A supply sider approach might be: rents too high, suppliers have been discouraged from residential construction, eliminate the government program (tax breaks) that discourages them.

Scenario 2: We Can Grow Sugar, Too.

You are the American government. Castro has just nationalized American owned property in Cuba. You decide to strike back by declaring an embargo on Cuba but quickly realize that other nations would still deal with Cuba because it was the world's primary supplier of sugar. Sugar is important as an ingredient in many products, so disruption of the sugar supply would impact a number of industries and virtually all consumers. Yet, Castro's abrogation of individual's property rights is a threat to the capitalist economic system we all know and love. Besides, it isn't fair to take people's stuff without paying for it. There is a compelling social interest to respond. Assuming you have decided to deal with Cuba's sugar monopoly by taking over the sugar market, what do you do? The demand side response is to make consumers not want Cuban sugar. An embargo is the ultimate way of making consumers choose other products because it simply eliminates the undesirable choice. To reach consumers outside the embargo, however, you will need to reduce demand. You can either make Cuban sugar more expensive (not terribly practical since you are no longer a factor in the exchange of sugar) or you can provide a comparable product at a lower price. The latter was the U.S.'s choice. The problem was that there was no U.S. sugar industry. So, the federal government paid American farmers to grow sugar. This "subsidy" caused farmers to make a rational, self-interested decision to grow sugar and rake in the money. Of course, with so much sugar being supplied, prices fell dramatically. Since our farmers were guaranteed federal tax dollars, this was not a problem. Even selling their sugar below cost, they still made profit. Consumers had to pay for that profit through their taxes, but they had no other choice. As the bottom fell out of the sugar market, Cuba's economy was devastated, especially since U.S. sugar was much less expensive.

The laissez faire approach is tricky. This theory would object to government manipulation of the economy for purely political ends. Instead, they would look to the government to use its other powers. For example, the government could try diplomacy or military force. But, these theorists would not want to have the government artificially create and support an industry that consumers did not really want. Today, the federal government still subsidizes the sugar industry. American consumers are essentially paying taxes so that sugar farmers can get rich and citizens of other nations can have cheap sugar. Moreover, the U.S. sugar industry has not been well served. Because it has been insulated from competition, our sugar producers are inefficient in that they produce sugar at a more costly rate than foreign producers.

A radical theorist, incidentally, might argue that the U.S. sugar policy seeks to continue a neo-colonial relationship between Cuba and the U.S. by forcing Cuba to do what we want. They would also argue that

“dumping” (selling below cost) our sugar on the world market destroys the possibility of competition and makes other nations dependent on the U.S. for sugar (got that monopoly thing going). Feminists, specifically, would point out the human cost of wiping out a nation’s economy and surely point out that famine tends to disproportionately harm women. Radical theorists would probably not respond to Cuba’s assertion of her autonomy, even though it means some American capitalists lose out.

Scenario 3: Texan Slaps Eurotrash

In March of 2002, President Bush responded to what he saw as unfair European policies regarding steel, including tariffs and government subsidies, by slapping new tariffs on European steel coming into the U.S. Was he right? The liberal says “maybe.” If the European tariffs are deemed anti-competitive, then government action to discourage them is justified. The question is whether or not Bush’s response would be effective in getting the Europeans to reduce their tariffs. Another concern for most liberals would be the impact of increasing the cost of steel for U.S. consumers. Many sectors of the economy, including auto manufacturers and construction, depend on steel to manufacture their products. If the price of steel goes up, the price of those other products will, too. President Bush recognized this problem and responded by giving subsidies to the U.S. steel industry to reduce prices of steel for consumers. Although he is considered politically conservative, Bush’s steel policy was liberal in economic terms.

Supply-siders would agree with the President’s goal of encouraging free trade but would generally disapprove of the way he went about it trying to achieve it in this case. They would look for others ways to discourage European tariffs besides government intervention. Given that there are few policies that meet this standard, supply-siders would more willing to accept some government action in this case than normal. However, hard core supply-siders would actually prefer to allow European tariffs than to compound their error by making the error of intervention ourselves. Remember, Europe’s anti-competitive policies will have negative effects on their industries and economies. Their steel industry will be less efficient because competitive pressures will be reduced. Moreover, their consumers (taxpayers) will be paying the added cost of European tariffs and subsidies. That means less money will be spent in other sectors of the economy. From our perspective, if the Europeans want to punish themselves, they are welcome to do so. Over the long run, their policies will backfire and will probably be repealed. In the meantime, our steel consumers reap the benefits of cheap European steel. The U.S. steel industry may be hurt, but when Europe’s steel industry is finally exposed to competition again, American steel producers will rebound powerfully against the inefficient European firms.

This final case study highlights one of the biggest differences between the two major paradigms. Liberals do not like to wait to resolve problems, they prefer direct and timely action. Conservatives are willing to allow problems to resolve themselves even when it means some unpleasantness in the short term. Ultimately, liberals will argue that economic injustices should not be allowed to persist and conservatives will argue that suffering through problems that will work themselves out will result in more durable solutions and less injustice over time. In this case, pressure from the WTO and threats from Europe of retaliatory tariffs forced Bush to repeal the protectionist measures shortly after he implemented them.

Bibliography

- Carson, Robert B. Macroeconomic Issues Today. New York: St. Martin’s Press, 1991. This is a good survey of different economic paradigms as they relate to national and international economics. The 5th edition covers economic instability (causes), ways of stabilizing and promoting growth, deficits and debt, unemployment, military spending, social spending, and the U.S. role in the global economy. The author represents all significant economic perspectives very well.
- Danaher, Kevin, Ed. 50 Years Is Enough: the Case Against the World Bank and IMF. Boston: South End Press, 1994. A collection of articles by a large variety of scholars representing a broad spectrum, mostly radical, of economic opinion. While its emphasis is on the World Bank and

IMF, it includes a good discussion of international economics generally and a number of country studies. This is critical reading for foreign extempers.

- Friedman, Milton. Free To Choose. New York: Harcourt, Brace, Jovanovich, 1980. This is the seminal description of supply side economics. It is especially notable for the clear connections it draws between economics and people's everyday lives. I cannot recommend this book too highly. Friedman is one of the most well-respected economists in history and this is probably his greatest work. I think everybody should read this text because it puts a human face on economics.
- Heilbroner, Robert L. The Worldly Philosophers. New York: Simon and Schuster, 1972. This collection of excerpts from important economic texts through history and the accompanying commentary will surely be in print for many more decades. You stand a good chance of seeing it as a text in your econ class. It is well-written and organized. I kept a copy in my tubs through high school and college.
- Hendrickson, Mark W., Ed. The Morality of Capitalism. New York: The Foundation for Economic Education, 1996. This collection of articles covers a variety of relevant economic issues from an ethical perspective. It is outstanding for domestic extempers and debaters. It is also relatively inexpensive because FEE subsidizes its cost. It is pro-capitalism, though not necessarily supply side.
- Rapley, John. Understanding Development. London: Lynne Rienner Publishers, 1996. Rapley analyzes economic development using a historical approach that covers every paradigm in economics. His view is balanced and results oriented. If you are a foreign extemper, you need to read this book. I also highly recommend it for policy debaters.
- Scott, Catherine V. Gender and Development. London: Lynne Rienner Publishers, 1996. A feminist perspective on international economics. Well organized and interestingly written. Covers Marxist theory, too. Good for FXers and a "must read" for debaters.
- Swartz, Thomas R., et al. The Supply Side: Debating Current Economic Policies. Guilford: Dushkin Publishing, 1983. If there is a later edition, get it. This text examines supply side theory through the words of its advocates and critics. It does a good job of elucidating the differences between liberals and conservatives on a number of issues.

Savings and Investment

Kevin G. Galligan, Andrew Korn, and John Mondragon

Introduction

Capital markets have long played salient roles in nearly all major economic events. Over the past half century, these markets have arguably become even more important, with more citizens engaging in them than ever before. Today, nearly 50% of the American population has, in one way or another, money invested in stocks, bonds, currencies, commodities, futures, options, or any of the securities that the marketplace has to offer. With the weight that finance carries in the international political and economic arena, and the increasing number of average people entering the world of investing, the topic area of Savings and Investment has emerged as a truly important. Thus, this chapter will seek to explain and clarify many of the key issues involved, from the role of financial markets, to the determination and function of interest rates, to foreign investment and the impact it can have on an economy.

Financial Systems

A financial system serves as a means through which money travels from one place to another. It brings investors, be they people, groups, businesses, or governments, together with those that seek invested funds. It can have many different facets, each providing unique and important ways for capital to move. Stock, bond, currency, commodity, and mortgage markets, along with countless others, all play an intricate role in a financial system. For instance, by means of the bond market, an investor in San Antonio can buy a General Motors corporate bond, thereby contributing to the development of a new car plant in Detroit. Through the stock market, a pension fund in California can own a part of a German telecommunications company. It behooves you to understand that such a system serves first and foremost to move capital. Additionally, a financial system can contribute to the dissemination of technology, customs, and ideas. Thus, we will begin by looking at one of the most important parts of any modern financial system, the stock market.

The Stock Market

A stock, by definition, constitutes partial ownership of a company. A privately owned company does not have publicly held stock, because an individual, group of individuals, or family maintains full ownership. However, most major corporations do have public stocks, and thus outside ownership. The advantage of issuing stock for a company is the generation of capital. The company sells a number of shares for a set price, and can use that money to expand, pay off debt, or undertake other important operations. In exchange for that capital, though, the corporation loses control, as the stockholders wield the power of ownership.

Why Purchase Stock?

Dividends

Why would anyone want to purchase stock? The answer to this question is twofold. First, companies pay dividends to stockholders, usually on a quarterly basis. A dividend constitutes a portion of the profits generated by the company in that particular period. A company must decide how much of its profits it wishes to give to the stockholders. It may want to utilize some of those profits for other projects, such as expansion or the furthering of research and development. On the other hand, paying dividends tends to keep shareholders happy. These two competing interests directly affect the amount of dividend declared and paid for each share, and the share value itself. Typically, the less the dividend received per share, the more the shareholder bets that the company will grow and produce well in the future. Thus, the stockholder counts on a strong future for the company, and accepts less compensation, or sometimes no compensation at all, in the short term from dividends. In this category you would find technology and

biotech companies, Internet startups, and others that appear to have bright futures ahead of them. Conversely, some companies issue large amounts of dividends to their shareholders. Typically, these are strong and stable companies that generate solid profits, but which operate in industries lacking in true growth potential.

Share Value

The other reason investors choose to buy stock is for its share value. If a company looks like it will fare well in the near future, the demand for its ownership will increase, and thus the stock price will rise. Most people purchase stock with the hope that the share value will rise during the time they own it, so they can sell it for a higher price than they bought it for and thus generate a profit. Of course, they take a risk in purchasing the stock: its share value could also decrease during the time that they own it, and they would thus lose money on their investment.

Share values fluctuate for a variety of reasons. If a company reports that its earnings will prove better or worse than previously expected, its stock will look more or less attractive, respectively. Also, the future of a company usually plays a salient role in the price of its stock. The development of a new product can make a company's future look brighter, and thus lead to a rise in share value. However, the discovery that such a product could endanger the lives of users would certainly not help a company's outlook, and its stock price would most likely suffer as a result. Share value also depends on people's perception of the industry's future as a whole. If the street (Wall Street) believes that the biotech industry is the wave of the future, then most or all biotech stocks will do well. A negative industry outlook, such as a belief that Internet startups have little or no chance to turn a profit in their first three years, would have the opposite effect. Additionally, the state of the economy as a whole plays a role in the price of stocks. If government data shows that the economy will grow at a fast pace over the next six months, the stock market as a whole would probably react positively to the news and share values across the board would most likely increase. Conversely, a report that the economy contracted in the last fiscal quarter would certainly not help future projections and would hurt the market as a whole.

Regulation of Stock Markets

In the United States, the Securities and Exchange Commission (SEC) has the incredibly important job of overseeing and regulating the stock markets. The SEC watches every transaction in American stock markets as they take place. It seeks to prevent unfair market practices, such as insider trading, which is the buying or selling of stock with information not yet available to the public. With such a strong regulatory environment, American markets, and typically those of other industrialized nations, tend to provide extremely fair opportunities for all. However, in other countries, this is often not the case. Many markets in developing countries and communist countries allow for powerful government officials and industrialists to engage in unfair trading practices. Such tendencies can improperly affect share values and damage the credibility of the market. When a market routinely accepts such unfair practices and allows some to suffer financially due to a failure to regulate, people feel uncertain about the safety of their money and prospective investors become far more leery of participating in the financial network.

Stock Market Issues

The stock market fluctuates based on perceptions as well as facts; consequently, a 250 point one-day drop in the Dow Jones Industrial Average should not necessarily lead to the conclusion that the economy will face a recession in the upcoming year. Yet, the rises and falls of the stock market over time do have relevance to a national economy. Thus, you want to look toward long term trends: how has the market fared over the past few weeks or months? If the market as a whole has dropped significantly, that might substantiate your opinion that the economy has not fared well of late. If, however, the NASDAQ (National Association of Securities Dealers Automated Quotations - a stock exchange that lists many high-tech industry companies) has gained substantially, it could indicate a stronger economy ahead, as people put their money into new, developing companies. Oftentimes the market will not have charted any

long term gains or losses. In this case, the market would not point towards any significant economic changes. It is important to realize that changes in the markets reflect both current/old news and future predictions – it is important to keep these issues clear in your mind. Remember, the stock market tends to do well in stronger economies, and poor in weaker ones; these trends take place over the medium to long term, though, and must be evaluated as such.

Another type of stock market question involves foreign markets. Most major economies have stock markets: Japan, England, Germany, Hong Kong, etc. Indeed, even some communist countries have recently created stock markets. When answering questions about other industrialized nations, such as Japan, the performance of that nation's stock market may prove useful in solidifying your analysis. In these cases, the same rules apply as for American markets: look to long term rises and falls and do not take short term fluctuations too seriously. If you are answering a question about Japan's economy and arguing that it has reached an economic lull, a continuously downward trend in the Nikkei Index (the premiere Japanese stock index) would prove useful in proving your point. However, for the most part you will not receive questions about the stock markets of other industrialized countries; rather, you will use such information as support for your answer.

In the case of non-industrialized nations, you may have issues directly about their stock markets. For instance, you may be asked what the development of a stock market means to the Vietnamese economy. In such a circumstance, you first must recognize that this represents a liberalization of that communist economy. This is important because most countries that have waited until now to open a stock market have probably maintained isolationist or protectionist policies. Thus, the opening of a stock market at all can only point their economy in the right direction. Yet, in discussing this issue you must evaluate just how open the economy will be with the creation of a market: will many companies be listed on the exchange, or merely a few? The answer to that question can help you more accurately evaluate just how interested the nation is in adopting a more capitalistic economic system. For instance, if a new stock market in a communist country will list only five stocks, it shows a liberalizing of the economy, but an extremely small one -- cause for optimism, but very conservative optimism. Also, the degree of regulation in the new market can prove very important. Many new markets lack true governmental oversight, and thus carry with them great deals of corruption. If this is true of the market that you are evaluating or discussing, be sure to stress that those unfair practices will adversely affect the international opinion of the market, as investors will not want to put their money in a situation where they fear losing it unjustly. This can damage the market as a whole and slow the nation in question's march towards capitalism.

The Bond Market

What is a Bond?

Bond markets also play a major role in most financial systems. A bond, by definition, represents financial indebtedness. It is, in the simplest of terms, an IOU. The bond identifies the time at which the debtor will return the borrowed amount, called the principal, to the bond holder. It also specifies the amount of interest the holder will receive for having loaned the money. Many different entities issue bonds. Governments, of course, borrow money through the bond market. In the United States, the Department of Treasury sells bills, notes, and bonds to raise money. Bills have very short terms, usually a few months, while notes last between two and ten years and bonds last up to thirty years. Each carries with it a different interest rate, varying based on the supply and demand for the commodity. Other governments also issue bonds of different terms and interest rates to raise money for their countries. State and local governments, corporations, municipalities, and even local school districts also issue bonds to finance their future plans or pay off debt.

Credit Ratings

The purchaser of a bond is betting that the entity that issued the bond will be able to pay the borrowed money back at the agreed upon time. If the borrower is not able to do so, the lender may not get his money back. Credit agencies, such as Standard & Poor's and Moody's, evaluate the likelihood that the borrower will repay its debt and issue ratings for bonds corresponding to that likelihood. A bond's rating greatly alters its desirability. As such, the rating also impacts the bond's interest rate, as higher rates are needed to entice people to buy less desirable bonds. The United States government has the highest credit rating available from both agencies, AAA, because a loan to Uncle Sam carries the full faith and credit of the United States of America. Barring a complete global catastrophe, the US will pay back its loans. You're betting on a sure thing. Other institutions, governments, and companies do not have the same capabilities to pay back loans and carry lower credit ratings. Some have high credit ratings, some have reasonable ones, and some have very low ones. A bond with an extremely low rating, a Moody's rating of lower than 'Ba' or a Standard and Poor's rating of lower than 'BB+', carries a great risk and is known as a 'junk bond' (Mankiw, 157). But, as in most things financial, with great risk comes even greater reward.

Interest on Bonds

The amount of interest that people receive on the bonds they own depends, like all things, on supply and demand. The credit rating of a bond factors into the demand portion, as it affects how many people wish to purchase that bond and accept the degree of risk associated with it. But other issues influence the demand for bonds as a whole; for instance, if the stock market fairs very well, bonds on the aggregate look less attractive relative to stocks. The supply of bonds depends on how many companies wish to raise cash to expand, how much schools want to borrow to add new computer labs, how many new F-22s the government wants to buy, and numerous other factors of this sort. Due to its reliance on the laws of supply and demand, the bond market can change greatly in the event of an overabundance or a shortage of buyers and sellers. In these types of situations, the bond market can come to play a salient role in international finance and your speeches.

Government Overcrowding

Many economists believe that a small to moderate amount of government lending is desirable. For example, you will remember from the last chapter that Keynesians encourage the government to borrow in order to stimulate demand when the economy is struggling. Borrowing can get out of hand, however. Most of the major problems you will need to discuss involving the bond market stem from government overcrowding. Overcrowding takes place when politicians fail to maintain balanced finances, forcing them to borrow extensively from others to keep the government running. They do this, of course, by issuing bonds to their citizens and to the international financial community. When the government enters the marketplace to borrow a large amount, the supply of bonds available increases greatly, while the demand for bonds remains the same. According to the laws of supply and demand, the glut of bonds leads to higher interest rates. This change will affect the entire market. In order to borrow money, issuers of bonds will have to meet the higher interest rate. When a situation like this develops, the economy of the nation in question often suffers greatly. Many will not be able to pay the higher rate and will put off new projects, expansions, and investments. Others will bring themselves close to financial ruin by borrowing money at a rate that makes repayment difficult. Meanwhile, the government has put itself even further in the red, meaning that it will have to cut back its budget significantly in order to pay back the debt. Government cut backs stifle demand and hurt the economy (Keynes, again). If it does not cut back, it will have to borrow even more, thus engaging in an endless cycle of borrowing at higher rates year after year. This can and has happened, and the results can prove catastrophic for national, regional, and even global economic conditions.

Bond Market Issues

The bond market will usually not cause a global recession all by itself. However, the bond market often plays a role in financial fallouts, and you will most certainly face issues centered on the bond market. For instance, if asked to evaluate the current economic difficulties of Japan (this is being written in late 2004),

you would definitely want to discuss the government's low tax revenues and excessive borrowing. Of the G-7 (the Group of Seven industrialized nations), Japan has the lowest credit rating. As such, the government has been forced to pay more in interest when it borrows, merely exacerbating the fiscal difficulties that led to the problem in the first place. Clearly, a sound understanding of the bond market is needed to analyze Japan's current financial situation.

Many times the leading credit agencies, as discussed above, downgrade their economic outlook for a country and its bonds. Typically, this happens to developing or third world nations, as they usually have a hard time maintaining financial stability. Such an event could have extremely significant ramifications on the ability of such a country and its businesses to borrow. You will probably never see a question on a downgrade specifically, but in analyzing the economy of a nation, its leadership, its international relations, or its domestic problems, you would want to discuss such an important financial occurrence. It could potentially hurt the ability of a government to turn around an economy, leaving room for a rival party to grab political control; it could destabilize an economy and take the focus away from peace talks with a warring neighbor or a rebel group seeking greater rights for their ethnic minority; it could lead to that country fighting with the IMF over the need for a financial bailout.

Capital Flights and Panics

When an economy's prospects begin to sour as a result of political instability, changing financial conditions, poor relations with other countries, etc., world financial markets become nervous. Investors worldwide often fear that they misjudged the stability of the nation and its economy, thinking it stronger than it now appears, and decide to leave before crisis arrives and they lose great sums of money. They look to sell their assets and find a safer haven. As investors leave, they are so anxious to get out of the market that they will sell at whatever price they can get, thinking that the economy's poor prospects might mean a considerably lower price later on. In other words, they cut their losses. That leads to a disproportionately high number of sellers of the country's assets and not enough buyers. This drives down the value of the investments, but most sellers, fearing even lower prices in the future if they fail to sell, accept the low offers for their securities. As this happens, and the value of investments in the country falls, the economic outlook worsens in the mind of most other investors, and they too will take any price offered for their assets in the country. The prices of investments in the country continue to drop, and investors become increasingly fearful. These actions perpetuate nervousness about a market and can lead to a cycle of people fleeing. In essence, there is the national-scale equivalent of a run on a bank, such as that displayed by Jimmy Stewart in 'It's a Wonderful Life.' These large-scale and ruinous sales of securities create a mass exodus known as capital flight, or a panic.

The effects of such a panic can prove devastating for a country. In 1994, the world watched as political shakiness in Mexico worried investors, lead to a mass departure from Mexican markets, and severely damaged the nation's economy. As people sought to take their money out of Mexico the value of the peso fell considerably. Additionally, because few people wished to enter the Mexican marketplace and invest in Mexican securities, interest rates to borrow money rose, with short-term Mexican government bonds rising from 14 percent interest to 70 percent. Panics happen all over the world. In 1997, Asian economies began to look risky due to the poor lending practices of their banks, and as a result investors fled from those nations in what is known as the Asian Financial Crisis. Likewise, when Russia defaulted on its debt in 1998 investors took whatever money they could get from their assets in that country and ran. In each of these cases, the result was the same: the currencies of the nations became greatly depreciated and the national interest rates rose considerably (Mankiw, 295-296). Unfortunately, none of these countries had as inspirational a leader as Jimmy Stewart to help them out of trouble.

Interest Rates

Interest Rates and the Money Supply

In his General Theory of Employment, Interest, and Money, the legendary British economist John Maynard Keynes proposes one of his most famous theories: the interest rate of an economy adjusts to bring money supply and demand into balance. Put into practice, this theory postulates that if a small supply of money exists in an economic system, people will have less with which to invest, because they will need to apportion a significant amount of their capital towards paying for the day to day necessities of life. As a result, potential borrowers will need to present a strong incentive in order to convince people to lend them money. That incentive comes in the form of a high rate of return on the loan, or a high interest rate. Conversely, if a larger supply of money exists people will need a smaller portion of their money to pay for their daily needs and will have more on hand to use for investing. As a result, borrowers will have a greater supply of potential lenders on hand and will not need to present as great an incentive to convince people to part with their funds. A lower rate of interest will result. Thus, Keynes tells us that when the amount of money in an economic system decreases, a higher interest rate will emerge in that system and vice versa.

The Fed and Interest Rates

In the United States, the Federal Reserve Board, also known as the Fed, controls the supply of money in circulation. The Federal Reserve utilizes the teachings of John Maynard Keynes and uses the rate of interest as a means of balancing the amount of money in circulation. Every year, the Federal Reserve Board's Federal Open Market Committee, also known as the FOMC, meets eight times (approximately every six weeks) to discuss economic conditions and to make changes in monetary policy in response to those conditions. The FOMC consists of the seven governors of the Fed Board of Governors and five of the twelve Reserve Bank presidents. The president of the Federal Reserve Bank of New York is a permanent member of the FOMC; the other presidents serve one-year terms on a rotating basis.

Whenever the Federal Open Market Committee meets, it decides whether or not to change the target for the federal funds rate, or the interest rate that banks charge one another for short term loans. The FOMC controls the rate by purchasing and selling United States government securities. When the Fed purchases securities, the money it pays for them enters into the economy. Conversely, when the Fed sells securities, it removes capital from the economy. In its buying and selling, the Fed seeks to reach a set target for the federal funds rate. If it decides to raise the interest rate, Federal Reserve traders sell government securities and take money out of the economy. When this happens, the amount of money in the system decreases, and, as we saw before, interest rates increase. When the Fed decides to lower the interest rate, traders purchase government securities, injecting cash into the economy, which leads to a greater money supply, and thus lower rates. So as we can see, when the Fed changes the interest rate, it changes the amount of money in our economy, while at the same time making it more or less expensive to borrow (Federal Reserve System, 3).

Interest Rates and Inflation

Interest rates also have a profound effect on inflation. As discussed, lower interest rates mean more capital in the financial system. But more capital can also mean a greater threat of inflation. Inflation, of course, results when an abundance of capital exists in a system and leads to an increase in the overall level of prices in the economy; in other words, when too many dollars chase too few goods. Conversely, higher interest rates lead to less capital in the economy, and thus can lead to lower rates of inflation.

Interest Rate Issues

In dealing with issues about whether the Fed should change rates, you should first examine the current economic situation. Is the economy growing? What do the leading economic indicators say about the present and the future? If the economy is slowing down, the time might be right for a lowering of interest rates. Typically, when more money enters the system and rates decrease, business grows stronger, as companies and individuals can borrow more easily and thus spend more. This spending helps to revive the economy. If the economy is growing quickly, a rise in interest rates can help head off the threat of

inflation. The higher rates could cool down the growth, taking it from very fast to a more steady and sustainable pace. As a result, inflation, which acts as a party crasher on many an economic growth bonanza, can be averted and the economy can continue on its merry way.

Of course, like most things, tinkering with interest rates can make a good thing bad, or a bad thing worse. If the economy is growing slowly, lower rates may not help it, and worse may lead to inflation and only compound the problem. Similarly, if an economy has steady growth, a raise in rates may stop that growth altogether, rather than just slowing it down. Further, the effect of a change in rates is often not felt for many months. If the economy is growing today and rates are raised, by the time the change has any impact the economy may be already on the way down. The rate increase will merely accelerate the downturn. The FOMC has the difficult task of driving a car that accelerates 6 months after the committee gives gas and slows down 6 months after it hits the breaks.

Another factor to include in your analysis is consumer confidence. An interest rate cut can generate a great deal of consumer confidence in the economy. Such a change can truly spur an economy on, because if people believe things will get better or stay positive, they will continue to purchase items and put their money into capital markets. Conversely, a rise in interest rates, or even the maintenance of the same rates in the face of a slowdown, can hurt confidence, keep people away from buying and investing, and only make the economy sink deeper. Consumer confidence impacts the economy, and interest rates impact consumer confidence. Thus, in answering questions about what the Fed should do about interest rates or what impact a recent change in the rate will have on the economy, you should determine how the raising or lowering of the rates will affect the pace of growth of the economy, how it will improve or damage the inflationary situation, and what it will mean to consumer confidence. A thorough comprehension of these three impacts will put you in position to deliver a cogent and lucid speech.

When dealing with questions about the interest rates of other countries or economic unions like the EU the same macroeconomic principles apply as those used in dealing with United States interest rates. The only differences, of course, would come in the form of cultural discrepancies or special economic needs or situations. For instance, you may very well receive a question asking whether the European Union will raise its interest rates. The logical postulation may be that no, it probably won't, because recent growth has been moderate and inflationary pressures are not great. Historically, however, many European nations have been very cautious of inflation. This caution is a result of Germany's experience with extreme hyperinflation early in the twentieth century. After their bad experience with inflation, Germany and other European neighbors adopted low-inflation policies. Indeed, during the latter part of the twentieth century Germany maintained very low levels of inflation (Mankiw, 249). This insistence on keeping a low level of inflation can factor into the decision of the EU, of which Germany is a key member, and lead it to raise rates. Be certain to look for this type of cultural attitude towards policy.

Foreign Investment

All clichés aside, our world becomes more globalized each day, and economies have come to depend on one another progressively more. Foreign investment, or people and businesses in one country loaning funds to counterparts in other countries, has become a major driver of globalization. There are two classifications of foreign investment, foreign portfolio investment and foreign direct investment, and it is imperative that the difference between the two is understood (Mankiw, 142).

Foreign Portfolio and Foreign Direct Investment

Foreign portfolio investment occurs when foreign money is used to purchase an asset that is operated by domestic resources. For instance, if an American citizen purchases stock in a Japanese company, and that company in turn decides to utilize those funds to build a new factory, the American's investment in Japan would come in the form of foreign portfolio investment. Foreign direct investment, on the other hand, occurs when a foreign entity owns and operates an asset in another country. For instance, if an American

company decides to build a factory in Japan, this investment would take the form of foreign direct investment. Although different, both forms of capital flow from one country to another contribute to the economy of the second country.

Foreign Investment and Globalization

Foreign investment has proven extraordinarily important in the development of our modern world. As capital flows across borders, it creates jobs, opens new fields of industry, and provides the capabilities for a nation to expand its economic enterprise. Foreign investment allows Americans to invest in an Indian pharmaceutical company. It provides a German corporation the opportunity to build a car plant in Brazil. Perhaps even more importantly, foreign investments, particularly foreign direct investments, can contribute to the spread of technology across borders. Companies building new plants in second and third world countries can introduce more advanced technology that can greatly change the lives of the inhabitants of those countries for the better. Foreign portfolio investment also contributes to this noble cause, by providing the funds with which many companies and countries can upgrade their products, technologies, and quality of life. Thus, foreign investment can make a profound impression on the countries into which the funds go. But these funds do not only go to developing nations. The United States invests in other advanced nations, and they invest in us. The spread of interdependency among nations brings our countries and our world closer together. It allows investors to place their money in other stable economies, while at the same time financing developments and products that they might themselves use in the future.

Key Foreign Investment Considerations

Before putting money into another nation's economy, investors need to examine two key aspects of that country: property rights and political stability. Foreign investors will be very reluctant to put money into any country that does not provide property rights or stability, as their investments will be at risk (Mankiw, 144). First, property rights serve as the guarantee that people can exercise authority over what they own. The protection of property rights entails having a fair court system and a government that does not allow corruption - in other words, there must be an even playing field for all. In many countries, particularly third world or developing ones, these rights are not ensured. As a result, someone could steal from a factory that a company built and nothing would be done about it. Or, you might purchase stock in a foreign exchange, only to see the price dive because a government official was bribed by a competitor to make the company fail. Thus, the guarantee of property rights acts as the first prerequisite for foreign investment.

The second necessity for foreign investment is political stability. In a turbulent country, anything and everything is possible. Investors feel wary about putting their money into a country where power changes hands on a daily basis. A lack of stability means a lack of consensus, of definite rules, and of comfort in the minds of those who wish to invest. Who would want to invest in a country that might go from peace to civil war overnight? Turbulent street riots have not, and probably never will, be good for business. Consequently, political stability also must exist in an economy if it wishes to attract foreign investment.

Foreign Investment Questions

Any issue involving a foreign economy should include how much foreign investment the nation has, what that means, and how it can be improved. Any topic about foreign politics, particularly in third world and developing countries, can involve the impact that a change in leadership or policies would have on foreign investment. Even topics concerning domestic issues in foreign countries can lend themselves to discussions of foreign investment -- decisions made in other countries impact the degree of comfort people feel about investing in those countries. Domestic questions about international relations, trade policy, or globalization should also include a discussion of foreign investment.

Conclusion

The beauty of many of the topics discussed under the heading of “savings and investment” is that they apply to a wide array of the questions: from questions about the politics of Thailand, to economic questions about the future outlook of Turkey, to domestic questions about social security privatization. Many sources can provide you terrific insight on the topic areas discussed in this chapter. Newspapers like the Wall Street Journal, the Financial Times, the South China Morning Post, the New York Times, and the Washington Post can provide superb information. Likewise, magazines such as the Economist, the Far Eastern Economic Review, the Hong Kong Standard, and Business Week offer similarly useful data and analysis. Lastly, if you can find a good economics textbook or review book.

Bibliography

- Federal Reserve System. Purposes and Functions. 8th ed. Washington, DC: Board of
- Governors of the Federal Reserve System, 1994.
- Mankiw, N. Gregory. Brief Principles of Macroeconomics. 2nd ed. NY: Harcourt, 2001.

Employment and Inflation

Kevin Kneupper, Andrew Korn, and John Mondragon

Introduction

Traditional Keynesian economics portrayed unemployment and inflation as two inversely related conditions: when one goes up, the other one must necessarily go down. A government's job in this view was to attempt a delicate balancing act, trying to keep unemployment as low as possible without triggering an upswing in inflation that most economists saw as an inevitable consequence of fast economic growth. While this view remains popular in many circles, someone who wants to actually understand what is going on must have a more nuanced and in-depth understanding of these two concepts.

Unemployment

Most people define employment and unemployment as simply a question of whether or not someone has a job -- a person with a job is employed and a person without one is unemployed. Most governments' statistics, however, use a different method for calculating employment levels. If governments simply counted anyone who didn't have a job as being unemployed, reported unemployment rates would be much higher than they currently are. Children, retired people, housewives, and the disabled would all count as unemployed. Most of these people are excluded from the governments' official statistics. People are only counted as unemployed if they are actively seeking work but are unable to find any. Excluding the above groups allows the government to create a more accurate picture of how many people are really unable to find work. One should be wary of unemployment numbers from many other countries, however. Variants of this definition of unemployment have been used to virtually eliminate all unemployment on paper in some countries, most notably Japan. Unlike the United States, which requires people to consistently be working, Japan counts anyone who is even working odd jobs for pay as being employed. When asked to make a comparison of two economies (such as the U.S. and Japan), you should remind yourself that many other countries "cook the books" and use distorted data to attempt to attract investors. Despite being mired in a recession for the last decade, Japan's unemployment is still officially at a level that many U.S. Presidents would be proud of. The U.S. uses a standard that requires a person to not have a job and to have been actively seeking employment for the last four weeks. This prevents people from being classified as unemployed who don't want or need to work, but also avoids the kind of statistical manipulation that can occur in some countries.

Types of Unemployment

Economists usually classify unemployment into several different types to allow the causes of unemployment to be distinguished from each other. Why people are unemployed can be of great importance in trying to answer questions relating to the economy, since the reason can often explain unemployment statistics that seem to be at odds with other economic facts that the media is reporting. Note that the first three types that will be discussed are not necessarily bad – unemployment can be a good thing. The first kind of unemployment is called "frictional" unemployment. Frictional unemployment is when someone is unemployed for reasons associated with the "normal" job search process. This basically means that that person has chosen to be unemployed for a short period of time to enhance their ability to search for a new job. It can also refer to the period of time after someone is fired but before they are able to find and begin a new job. Frictional unemployment tends to last for a much shorter time than other kinds of unemployment. This is because frictional unemployment is really just the time it takes for someone to organize their job search and be interviewed in the time after they have left their prior job. The period can last from several weeks to several months – scheduling and going to interviews takes time, and companies vary in the time they spend making decisions. For many jobs, applicants also have to wait for the company to interview a number of other candidates as well. Frictional unemployment is unavoidable – it is part of the natural process of an economy that involves people

shifting from one job to another. In fact, some frictional unemployment is beneficial, as it indicates that non-productive employment relationships are being ended and more productive ones are being formed. That being said, excessive frictional unemployment is not a good thing. Frictional unemployment can be seen as a kind of barometer for how efficiently the job market is functioning; when articles say there is a high level of frictional unemployment, that means that a country is having trouble matching qualified job applicants to jobs that suite the applicants. This will tend to be a long run drag on the economy. In addition, while frictional unemployment doesn't necessarily mean there is a recession, it's a good signal that troubles are starting up in the economy. Levels of frictional unemployment will rise before and during a recession, so if people start having trouble finding jobs as quickly as before, you know that a recession or downturn may not be far away. In a good economy, this time will be far shorter than in a period of recession (just because when the demand for employees is high employers will tend to expedite the job search process – if you desperately need someone to fill a job, you will work harder to get someone to come work for you as soon as possible).

A second kind of unemployment is called “seasonal” unemployment. This kind of unemployment occurs when someone is generally unemployed for a period of time because there is only demand for people to work their kind of job during a specific time of the year. People who are seasonally unemployed have a job waiting for them in the following year, but they are currently unemployed. For example, air conditioner repairmen are likely to experience seasonal unemployment. Demand for repairs of air conditioners is focused almost entirely during the summer -- when it's hot, people decide to use their air conditioners and often simply couldn't live without having them repaired if they broke down. During the winter, most people with broken air conditioners wait until the summer to have them fixed since they don't need to use them for another six months. Someone who works repairing air conditioners will often only be hired for the summer months -- while they will be paid well during this period, they might spend the entire rest of the year unemployed or underemployed. Other examples include agricultural workers (who are only needed during the growing season and not during winter), construction workers (who also often can only work in periods with generally good weather), and ice cream truck drivers. Many professions have similar seasonal fluctuations in business, but only those that have such large fluctuations that they force a company to release its workers after the season of high business is over impact seasonal unemployment. This type of unemployment is important to keep in mind when reading articles about unemployment statistics because it can cause misleading changes in reported unemployment level. For instance, if you were answering a question about the health of the U.S. economy and saw an article stating that unemployment had risen by half a percentage point, you should make sure you check the article to see if it makes any references to seasonal unemployment. Oftentimes seasonal unemployment will make the figures show the opposite of what is really happening – the fine print of that article might say that if seasonal unemployment had been excluded, unemployment would have actually decreased.

A third kind of unemployment is called “structural” unemployment. This occurs when a technological advance or a change in the way that the economy works has made someone unemployed. Structural unemployment is usually actually a result of economic growth and is almost always accompanied by an overall increase in jobs. The person who is unemployed as a result of structural unemployment is usually being replaced by someone else in a different field or location. A good example of this kind of unemployment would be a factory worker who lost his job because the company had replaced most of the workers with robotic equipment. While this person is now no longer employed (they no longer have skills that in demand – the technology to make things with robots in this example has made the person no longer necessary for production), many new jobs are created as a result of the replacement. People are needed to program, maintain, manufacture, and operate the robotics. People also have to produce all the raw materials used to make the robots in the first place. Structural unemployment is best viewed as a kind of “necessary evil”: while the economy cannot advance without it (in this sense it is like frictional unemployment), it can be very painful for those affected. People who are rendered “obsolete” by new technologies often have difficulty finding new jobs in other areas – they have to retrain and learn an

entirely new set of skills. For people who become structurally unemployed later in life, this can mean a permanent exit from the workforce or a difficult transition to an entirely new kind of job. The introduction of computers and typewriters is another recent example of this type of unemployment. Many jobs were completed far more efficiently on computer than by hand, and entire groups of people who had been hired solely to copy documents by hand or do mathematical tasks that computers can easily accomplish suddenly became unemployed. In the long run, however, this technology has led to more jobs. Unemployment rates today are far lower than in the past, primarily because of jobs relating to computer technologies. When answering questions about the economy, structural unemployment should be considered a sign of long run economic health. If people are losing jobs now to a new technology, then in five to ten years an upswing in employment should be expected based on new applications of that technology.

The last kind of unemployment is “cyclical” unemployment. This is the kind of unemployment that is a sign of bad economic times. Cyclical unemployment occurs as a result of the economic cycles. While all economies tend to exhibit long run economic growth, this growth is not uniform across time – an economy will grow for several years and then contract for a shorter period of time. Cyclical unemployment exists during the times of contraction, also known as recessions. When you see headlines about a company laying off workers because of an uncertain economy, that is considered cyclical unemployment. If a business goes bankrupt because of a recession and has to fire its workers, they are considered to be cyclically unemployed. This kind of unemployment is most important for identifying economic weakness because it is the only kind that doesn’t serve a long run positive economic purpose and is the only kind that is directly correlated with overall economic health. While the other kinds of unemployment are a result of processes that will cause a net increase in employment, cyclical unemployment is an elimination of jobs with the intent of reducing production. This means that the people are only generally hired back when the economy has recovered. While this kind of unemployment is also necessary in that allowing workers to be laid off generally speeds up economic recovery (Japan’s lifetime employment system which prevents this kind of unemployment has been a major factor in its current inability to recover economically from a stock market crash that happened in 1987), this kind of unemployment cannot be considered by any means to be a signal of economic health. If an increase in cyclical unemployment is reported in an article, it means that that particular country must be experiencing some form of economic decline.

Demographics of Unemployment

One other issue to consider about unemployment data is which groups are hit hardest by an economic downturn. Issues about race or age can often be strongly tied to unemployment levels and vice-versa. This is because unemployment rates among certain minority and age groups are far higher than the national average. Blacks, Hispanics, and the young all tend to have far higher rates of unemployment than the national average. The “employment gap” is even larger during a recession – these groups are often the first to lose their jobs and the last to benefit from new jobs being created.

To give a practical example, if you consider the question “Does racism still exist in America?”, you might point to these disparate levels of unemployment as evidence that discrimination in the workplace is still prevalent. If you are asked a question about a policy to help mitigate racism, such as “Should the United States government pay reparations for slavery?”, you might point to these unemployment trends as evidence to support either answer. On the one hand, they indicate that the institution of slavery continues to harm blacks. On the other hand, they also indicate that fostering true economic growth might be a better solution to discrimination than reparations. While blacks have tended to benefit less from economic growth than other groups, in the last several years significant gains have been made in lowering their rate of unemployment. A “market solution” to racial issues would be to continue pushing for high economic growth until the cost of discrimination became too high to stomach for most employers. While people might be willing to discriminate when there are many potential employees to choose from, this can

change quickly when there is suddenly a shortage of workers. In other words, while a racist employer might choose a white applicant over a black applicant, that same employer would probably not refuse to hire anyone entirely if they only had black applicants to choose from. The logic of economic growth as a solution to these problems is that the more jobs the economy creates, the fewer people are left competing for every new job. If the economy grows so much that there are very few unemployed workers left to choose from, companies will be forced to hire employees that they might not otherwise have considered. People who have less faith in the market will probably view unemployment as more of a symptom of racial problems than a primary cause. This viewpoint would hold that while other issues are the root cause of racial strife, the high unemployment rates are properly viewed as a symptom of racism and not a cause of racial disparity. Regardless of where you fall on this issue, you should keep in mind unemployment differences.

The fact that young workers tend to experience more unemployment than older workers is usually explained by the fact that the young tend to have less experience than those who have spent more time in the workforce. In recessions, younger workers also tend to be fired at a higher rate because they have less seniority. While some questions will directly reference youth unemployment, there are also related questions that unemployment could be important in answering. A direct question might be something along the lines of “Do children of this generation have as many opportunities as their parents?”. Other questions might address current job prospects for teenagers or those coming out of college. While there are some obvious questions that an understanding of employment is important for, you should think about other questions that concern youth and how unemployment can affect those. For instance, questions relating to juvenile crime rates are often intertwined with economics. Juvenile crime is arguably much higher than it would be if every teenager who wanted a job could find one. Employment can also have implications for questions relating to education, as opportunities for work-study programs are directly related to whether jobs are available. Some people would argue the opposite, that increased job opportunities for teenagers can reduce their educational experience. If teens are able to get a job easily without completing a college degree or high school, this line of argument would claim that the lower rate of employment is actually beneficial since it forces them to continue their education. While none of these questions can be addressed using economic knowledge alone, it is still important to consider economics and employment information when thinking of reasons to support the main idea of your analysis. Even if you don’t consider yourself an economic expert or aren’t confident basing your entire debate on economic concepts, you can practice by having pieces of your analysis be related to economics even if the main subject is only marginally related to economics. Thinking about how economics affects non-economic issues is a great way to introduce yourself to economic styles of reasoning.

Automation and Technology: Replacing people with robots?

Another controversial issue is the nature of automation and technological advances. During the 1950’s and 1960’s, as robots started to be seen by the public as viable, people became fearful that their jobs would be eliminated entirely by automation – that companies would just buy a robot and have it do the job instead of a human. In fact, this has already occurred for a number of professions – robots have replaced humans in a number of manufacturing jobs (the auto industry is highly automated, for instance) and computers have eliminated jobs that once took entire offices to complete (such as copying documents or doing complicated accounting procedures or other mathematics).

Marxists and some other groups believe that the process of automation will inevitably displace workers and replace them with machines. This view of technology states that technological advancement at some point will displace workers almost entirely and create an entire class of people who are unemployed and have no way to earn money for themselves. If machines can always be created to do something more efficiently than people can, then at some point we will create a machine to replace every aspect of human labor. This vision of the future suggests an inevitable breakdown in our current economic system. Companies would just continue funding new innovations that gradually make people obsolete and

eliminate most jobs altogether. If these ideas are true, it would spell the end of our economic system as we know it. Marxists believe that this process must eventually remove the legs that prop up the capitalist system. If there are no workers and no one makes any money, there is no one to buy all the products that the machines are creating. Capitalism would cease to generate a profit and the system would eventually collapse under its own weight as there would be no incentive to continue operating any businesses. This view holds that a new economic system would have to replace the old one in order for civilization to function.

Proponents of this view generally point to some of the successes that have occurred in computer and robotics technology. Computers have advanced to the point that they are able to perform complicated functions in certain areas far better than people can. They usually point to chess as an example – few humans can beat the most current computers designed to play the game, and most people would agree that there are certain activities that computers will always be far better than people at. This school of thought goes further and says that computers will eventually be able to do everything better than people, eliminating the need for employment altogether. Artificial intelligence programs will draw on far greater computing resources than the human mind has access to and robots will work non-stop for no pay doing things far more quickly than people currently can. The ultimate replacement of people will occur when computers are made capable of thought in the same way people are. If a computer is ever made capable of creative thought, then there will be no task that a human can do that a computer could not. The profit incentive for companies will always be to minimize costs – if computers and robots ever become cheaper consistently for all tasks than people are, this school of thought holds that all people will be replaced in the work force. Whether this is a good or a bad thing is up for debate – while some believe that this will result in a dreary future of corporations allowing the entire planet to starve to enrich a select few, others think the end result will be a kind of utopia in which no one needs to work and everyone can devote their time to the arts or music or whatever makes them happy.

The capitalist perspective, however, is that automation will likely never eliminate people as a part of the production process. A number of reasons suggest that automation actually ends up employing more people than would have otherwise been employed without technological advancement. First, as economists like to say, while resources are finite, wants are infinite. The essence of this law is just that there will never be enough stuff to satisfy everybody – someone will always want more, no matter how much the economy produces. For automation, this means that no matter how many robots we make or how great computers become, we'll always want to be able to produce more. As long as people can produce more goods than it costs to pay their salary, companies will still hire people to make things, even if there are robots available that can produce things more efficiently. While companies would still employ the robots, there has to be some point at which making more robots becomes more costly than just hiring a person to do the job. Nabisco tried to create a fully automated cookie factory during the 1980's that didn't require any human employees at all to operate – the result was a disastrous waste of money. Instead of hiring forklift drivers making \$30,000 per year, the company paid over half a million dollars to buy robots to do that job instead. At that rate, the company would never recover its money – the robots would break down and have to be replaced far before it became cheaper to use robots instead of people. The moral of the story is robots are not cheaper than humans for some jobs.

Another Marxist viewpoint is that our past experience with automation suggests that technology tends to shift what jobs people do, not replace them entirely. Remember that wants are infinite – people will always come up with new gadgets or things that they want to buy. While computers might have eliminated the jobs of people who were hired to do mathematical calculations by hand, they created several new classes of employment. Besides all the people required to produce and program the computers, the companies need people to use them and to transfer their data from place to place. While there may no longer be any demand for an employee to copy a document by hand, there is immense demand for people to create digital versions of paper-only documents. Agriculture is another good

example of this kind of change. When our country was founded, agriculture was the mainstay of the economy. Now, only a tiny portion of America is employed in the agricultural sector while the production of that sector is massively larger. Fertilizers, tractors, advanced irrigation, and automated farming techniques have all allowed farms to produce far more than was possible in the past using far fewer workers. Despite the elimination of the economy's major employment sector, people are actually employed at higher levels than existed when our economy was dominated by agriculture. This is because the people who were freed up from agricultural jobs were simply hired to produce other things. Many economists believe that this kind of transition is occurring in our economy today. The manufacturing sector was what replaced agriculture – in the time immediately after the Second World War, manufacturing was the primary source of employment in the U.S. and had replaced agriculture as the dominant type of production. Today, manufacturing is becoming more dominated by automation and less labor intensive. This has caused a shift to what is being called “the service economy”, where services (non-tangible things like having your taxes done or your car washed) have replaced goods as the primary source of employment and growth in the economy. In short, technology may very well replace large numbers of people in the workforce, but it has always created more jobs than it has destroyed.

It is also questionable whether robots and computers can ever really be capable of the same kind of thought as people are. Despite decades of attempts to replicate human thought, no one has come even close. Computers that out-compete humans at things like chess really aren't engaging in the same thought processes that people are. These computers are just using brute calculating force to make up for their lack of creative thought. To beat a person at chess, a computer takes advantage of the fact that it can calculate out literally every potential scenario that can happen in the game for the next dozen or so moves. It does this for every potential move in the game it could make and just picks the best one. A human plays chess without the benefit of being able to quickly analyze all potential consequences in the game. Additionally, chess is a relatively simple task compared to most things that people do every day as part of their jobs. Chess is predictable – computers are good at doing things like that because they only require the processing power to make the predictions. Most things in life are random or have so many variables that no computer could ever make the kinds of predictions necessary to totally replace people in the workforce. Imagine trying to apply this brute force computing method to something like creating an ad campaign for a product. The computer would have to first have accurate data about all consumers' buying habits and would then also have to be able to predict what the consumers would do in the future based on their past actions. It would also have to have an understanding of how people respond to different tactics. The most difficult thing for the computer would be generating an original idea – people use their natural thinking power to do this. A computer can only create random images or ideas and try them out to see if they work. The sheer number of variables that affect complex tasks means that a different, more human approach, to computing would have to be developed before computers could make any inroads in replacing people in the workforce. This seems unlikely given the current state of artificial intelligence – scientists are not even sure what causes consciousness in humans and are far from having any idea about how to replicate this mysterious process in machines. Even assuming they could create a conscious machine, the question arises of whether the machine would want to work for its creators. Those attempting to replace people might find that they had simply created a new kind of worker with its own demands for compensation.

International Labor Standards

One employment issue that can have a great deal of importance is the problem of lower standards for worker safety and health in many of the countries that the United States trades with. While there are strong regulations to prevent companies from abusing their workers or running sweatshops (factories where workers are employed for extremely low pay in unsafe conditions) in the U.S., many of the countries that we buy our goods from do not hold companies to the same standards. This has caused many to be concerned that buying these goods makes us morally responsible for the way the workers are being treated. The issue of workplace standards often comes up during our trade negotiations with developing

countries that allow for the poor treatment of workers. Unfortunately, however, there are few good options for improving international labor standards.

One suggested idea is to ban trade with countries that engage in these labor practices. While this might help get rid of the factories that abuse their workers, it does so at a cost that is probably far greater than worker mistreatment. These factories are the only available source of jobs for many people. Without any work, they would suffer even more than they do now. Banning trade would also anger other countries and would destroy any chance of changing labor standards naturally through economic growth. These kind of economic sanctions have not tended to produce improvements in the past. Proponents of these sanctions see it as a moral issue – regardless of the consequences, it is immoral to trade with countries that abuse workers.

Our best option is probably to use our economic leverage to pressure the countries to improve their standards. While this approach would stop short of sanctioning the countries, it might threaten limited duties on goods made by mistreated workers. Countries that changed their practices would be rewarded with special trade benefits or economic aid. This approach focuses the economic harm on the companies that are ignoring labor standards. Critics might see this approach as not going far enough in dealing with the problem – they would claim that it is important to set an example for by dealing harshly with the violators of labor standards.

The developing countries, of course, have a different perspective on this issue. They view these low labor standards as a necessary evil -- something that all countries have to accept at some point in their development process. Many point to workplace conditions in the United States during the early 20th century as proof that low standards are an unavoidable part of the path to economic prosperity. This argument claims that, in the long run, the growth generated by these companies will allow people to push for safer and better-paying jobs, thereby improving labor conditions. These countries also argue that companies will simply pick up and leave if they are forced to adhere to higher labor standards. Most of these countries suggest that if we want improved labor standards, we should be willing to pay for them ourselves.

Inflation and Deflation

Inflation can be generally understood as an economic condition in which prices are rising -- inflation makes the same goods cost more (in nominal terms) year after year. The opposite of inflation is deflation, a condition in which prices fall over time. Deflation is far less common than inflation. The ideal economy would have a slight inflation rate (1-2% or so). Deflation and excessive inflation are detrimental to economic health and can destroy long term investments in the economy by changing the way rational actors behave when spending their money.

Why is excessive inflation so bad? Well, it makes holding on to money more expensive than it should be. If the price of goods and services is rapidly rising, it makes more sense for me to spend my money while it is still worth something. Thus, excessive inflation leads to excessive consumption and inadequate savings and further inflation. A related problem is that excessive inflation leads to astronomical interest rates. If a bank knows that their money will be worth 10% less next year, they aren't going to lend money out to people at a 5% interest rate. This makes buying a car or a house extremely expensive, thereby shifting consumption from expensive/durable goods to smaller consumer goods that can be bought with a weekly paycheck. In the long run, inflation erodes confidence in the economy leads to lower levels of investment and savings. This leads to slow economic growth and eats into people's personal savings.

In addition, if inflation is too great, it can increase endlessly in a self-feeding process. If saving money is no longer a viable option, companies will realize that consumers have no choice but to buy goods. As such, companies will raise their prices without fear that consumers will reduce consumption. Inflation will

get even worse. This kind of runaway inflation has led to disastrous effects in some countries, with prices increasing one-hundred-fold or more over the course of a year. Germany after World War One is a good example – the Weimer Republic lost power to Hitler in part because of rapid inflation rates that undermined confidence in its ability to govern. At many restaurants in Germany, the rate of inflation was so high and so rapid that the price of a meal would change from the time that people sat down until the time that people were ready for the check. The German currency became so worthless that a wheelbarrow full of bills was necessary to buy a loaf of bread. This kind of inflation forces people to ignore currency altogether in favor of a barter system. Instead of using money for their purchases, people revert to trading one good for another good, which is extremely inefficient as one must find someone willing to trade you what you want for what you are willing to trade.

If inflation is so bad, then why don't we just shoot for deflation? After all, our money would become worth more year after year, right? Actually, while this might sound like a good thing, it can be just as devastating to an economy as inflation. Instead of wanting to spend money, everyone wants to save it and wait for prices to decrease. If that new car you want will cost several thousand dollars less in six months to a year, are you going to splurge for it now or wait until it becomes much cheaper? Even if a lot of people still buy things immediately instead of waiting, people tend to cut back their larger purchases during times of deflation in order to save money. Deflation actually encourages a kind of over-saving – everyone wants to invest their money instead of spending it. This is a problem. After all, the economy can't function without consumers. In the long run, the economy will falter as everyone simply holds on to their money. Even small levels of deflation can spiral out of control. While inflation can usually be dealt with (even if it takes a few years), deflation is very difficult to get rid of once the process has started. Just as inflation will tend to push interest rates higher, deflation will push them lower because lenders make more than usual by lending out money. Instead of just getting the interest, the bank also benefits from the fact that the money it gets back when you pay off the loan is worth more. The problem comes when interest rates approach zero. If national interest rates approach zero, the government has no way to further stimulate the economy using monetary policy. Getting rid of deflation requires the government to get people to buy more things, but deflation makes interest rates so low that the government loses its ability to stimulate consumption.

For example, during the 1930's, deflation existed in the U.S. Everyone saved their money to be able to last through the bad economic times. Unfortunately, thriftiness had led to economic problems in the first place -- if everyone had just spent their money instead, the economy could have recovered and avoided the hardships of the depression. This is often called the "paradox of thrift" -- it benefits each individual person to save excessively during times of deflation or depression, but if all people follow this logic, the overall effects will be decidedly negative. A more recent example is the Japanese economic downturn that has been going on for more than a decade. Japan has been in a downward deflationary spiral, as described above. Japan has lost control over its monetary policy, as interest rates have been near zero for years. The government can't raise rates because that would make investment more expensive and would discourage economic growth. It can't lower rates because they are as low as possible (economists' heads explode when you mention the concept of negative interest rates).

Thus, economists usually recommend that countries attempt to target an inflation level of 1-2%. This level of inflation does not encourage excessive consumption. The risks associated with even a tiny bit of deflation are too great to justify pushing the envelope any further.

Types of Inflation

There are two basic types of inflation, known as "cost push" inflation and "demand pull" inflation. Each has different causes, and therefore, each requires a different policy response. Thus, it is important to distinguish between the two.

“Demand pull” inflation is what most people think of when they hear the term “inflation”. The phrase “too much money chasing too few goods” describes this type of inflation. Demand pull inflation occurs when the demand for goods exceeds the number of goods available. Individual products can give you a good idea of how this phenomenon happens. Think back to a few Christmases ago when “Tickle Me Elmo” dolls were in extremely high demand. There were only a limited number of the dolls available to be purchased and tons of parents willing to pay virtually any thing to get one. Think about what a rational retailer or manufacturer would do in this situation – they could never make enough of the Elmo dolls to satisfy everyone who wants one in time for Christmas. What would be the best way for them to capture the benefits of this high demand and increase their profits? Logic would lead the retailer or the manufacturer to simply raise prices – this doesn’t require much effort, yet they would make a lot more money than they would if they just sold all the dolls at the same price and resigned themselves to not meeting all the demand. Elmo dolls started selling for thousands of dollars, as retailers wanted to maximize their profit, and consumers were willing to cough up the cash.

Demand pull inflation is usually inevitable in a healthy economic system. Wages generally rise if the economy is growing, resulting in an increase in demand. Producers respond to this increase by producing more. This cycle is responsible for most economic growth – increased demand leads to increased production, which leads to increased hiring, which leads to increased demand, etc. The inevitable lag between when the people are hired and when the companies actually start making more goods leads to inflation -- there is at least a short period of time in which there is more demand than goods. There can always be too much of a good thing, however, and inflation is certainly no exception. High levels of demand-pull inflation can undermine the very process that creates growth. High inflation decreases the incentive to invest in producing more goods.

“Cost-push” inflation occurs whenever some input or resource used in producing goods or services becomes more costly. If a certain company makes cars out of steel and the price of steel rises dramatically, the company may be forced to raise the price of its cars just to keep making a profit. If the input that has increased in price is used for a lot of products, then a lot of companies will have to pass this cost on to consumers. This process is what is known as cost-push inflation -- the cost to companies is what pushes up prices. Cost-push inflation can occur for a variety of reasons. Natural shortages or disasters that interfere with mining operations can increase the price of certain natural resources. More often, however, the cause is artificial. For example, if a war occurs in a country that produces an important resource (say, Iraq, which is a large oil-producing country), that war might disrupt supplies of that resource, as it is difficult to maintain basic commerce while being invaded. Oil is used indirectly as an input for virtually everything, from driving to work to running machines, meaning that an increase in the price of oil can increase the price of every single good and service. Oil was also the cause of the famous economic troubles of the 1970’s. Major members of the Organization of Petroleum Exporting Countries (OPEC) severely cut oil exports to the U.S. in response to our support for Israel. Since OPEC controlled an extremely large portion of world oil supplies, this caused oil prices in the United States to increase dramatically. Many other goods increased in price as a result, leading to extremely high inflation rates during the Carter presidency.

Cost-push inflation can be particularly insidious. Since many of the sources of cost-push inflation are external to a particular country, it can be nearly impossible for the country in question to eliminate such inflation. In the past, we have primarily tried to reduce dependence on whatever raw material is the source of the inflation. In the case of oil, the government tried to promote renewable sources of energy, to improve the gas mileage of cars, and to explore in the United States for alternate sources of oil. While these policies can mitigate the effects of the inflation, the only real responses are to simply wait out the problems or to pursue a more aggressive foreign policy solution to try to eliminate artificial restraints on a particular resource.

Is Inflation as a threat dead?

Recently, economists have begun to ask whether inflation is even a serious threat to the U.S. economy anymore. Although fighting inflation has been the centerpiece of our economic strategy in the past, some economists have begun to suggest that inflation from economic growth is no longer a threat to the economy. The recession that took place during George W. Bush's presidency can be blamed, at least in part, on the Federal Reserve's desire to control inflation by raising interest rates and slowing down the economy. Many have argued that the Fed went too far, as the economy had grown at a rapid pace since the early 1990's with no sign of inflation.

Fed Chairman Alan Greenspan was afraid of demand-push inflation -- the kind that results from an economy growing too quickly for its own good. The thrust of the "inflation is dead" argument is that this fear relies on a model of growth that may well be outdated and not applicable to our current economy. The old model of growth says that fast economic growth leads to fast increases in wages. Since companies have to compete with each other for a limited number of workers, they end up in a bidding war for employees. This raises wages and leads to the old problem of too much money chasing the same amount of goods. Our current growth, however, seems to be propelled by an increase in workplace productivity, not by an increase in the number of workers. Productivity is basically how many employees it takes to create a certain quantity of goods. If I can make ten widgets with five employees this year, and next year I make twenty with the same five employees, I have increased my productivity because I am using the same number of people to produce more. If the current economic growth is based more on productivity growth rather than wage growth, it shouldn't cause inflation at the same levels as previous economic growth. Since productivity doesn't require companies to pay higher salaries (they usually just invest in new technology like computers -- remember the automation section), an economy that grows through productivity increases will grow with less inflation than an economy that grows through increasing the number of workers. Theorists who support this idea point to the strong increases in productivity that have occurred over the last decade. If this view is true, it would suggest a change in the way we traditionally try to deal with inflation. Past efforts have relied mainly on trying to cut off economic growth to hold back future increases in inflation. If economic growth is no longer a source of the problem, then U.S. economic policy should probably change to reflect the changes in the way businesses operate.

Inflation has once again taken a large position in the policy discussion as a result of the current recession. In order to pull the economy out of the recession the Federal Reserve, led by Ben Bernanke, has dropped interest rates to historically low levels. The impacts of these drops has had uncertain effects, but many economists are concerned that in the long term the economy will be endangered by high inflation that will erase any gains made by minimizing the recession through low inflation rates.

Inflation Issues

All companies base investment decisions, at least in part, on what the Federal Reserve policy on interest rates is. Since the Federal Reserve often tries to cut down on inflation by raising interest rates, companies will cut back expansion plans or fire people if they fear that inflation is coming. This means that any topic that has to do with our future economic policy will require an answer that takes into account whether inflation is a threat and what our response should be

Topics about wage issues require an understanding of inflation, as demand pull inflation is often generated by increases in employment. Topics about U.S. foreign policy towards resource-rich areas, such as the Middle East, also demand a consideration of inflation. Any war abroad can risk a cut-off of important resources to the United States. Policies, such as our support for Israel, can anger states that export oil to the U.S., risking further oil supply disruptions.

Combating Unemployment: What should be done?

Now that we know what unemployment is and why it exists, it is possible to ask, “What should the government do about it?” This section will discuss various philosophies about unemployment as a problem and various suggestions for dealing with unemployment.

The first philosophy of unemployment can be thought of as the “market” approach. In fact, this philosophy suggests that unemployment isn’t really much of a problem at all. According to this view, unemployment is something that is a natural part of the workings of the economy and should be treated as such. In time, excessive (mainly cyclical) unemployment will simply disappear, as the economy will always grow its way out of any temporary problems. Market supporters believe that the labor market will tend towards equilibrium between supply (willing workers) and demand (employers’ needs) in the long run. Instead of viewing it as a problem to be solved, they see unemployment as a kind of safety valve that allows companies to maintain their profits during times of recession by laying off workers. While this might sound a bit heartless, this process can actually be good for an economy. Firing unnecessary workers makes a corporation healthier and more likely to begin investing again when it looks like the economic outlook has changed.

A second philosophy of unemployment was pioneered by Keynes in the aftermath of the Great Depression. This view attempts to manage unemployment and inflation by using government spending policies to keep the two in balance. Roosevelt was the first president to attempt this kind of Keynesian fiscal policy (although economists disagree about whether this initial attempt was a success). The key assumption of Keynesian fiscal policy is that unemployment and inflation are two opposite threats -- they are inversely related. This relationship is referred to as the “Phillips Curve” in honor of an economist involved in its discovery. A simple story will explain the logic behind the curve. Imagine an economy that is growing extremely fast. This economy will logically also have extremely low unemployment -- demand will be huge and companies will hire anyone willing to work. The same logic, however, suggests that this economy will have an extremely high inflation level. With demand for labor so strong, salaries will be very high, as companies will have to pay more to convince new workers to join them and existing workers not to leave them for another desperate company. All of this money being paid out to workers will mean that people will have more money to spend. Proponents of the Philips Curve argue that salary increases will far outpace increases in production. This will inevitably cause inflation – a lot more money will be chasing a few more goods. On the other hand, imagine now an economy that is growing very slowly. This economy will have extremely high unemployment – very few companies will want to hire people because there will be little demand for an increase in production. Salaries will be cut, as the unemployed will be desperate for jobs and current employees will be thankful to even have a job. This economy will therefore feature high unemployment and low inflation. If this relationship holds, the goal of the government is to balance unemployment and inflation levels. The economy goes in cycles of up and down, and fiscal policy is the best tool for making the lows as painless as possible and the highs as long-lasting as possible.

One thing should be considered when discussing the Phillips Curve. This relationship between unemployment and inflation does not hold when the inflation is of the cost-push variety. During the late 1970’s, the United States experienced both high unemployment and high inflation (it was termed Stagflation) at the same time. Conventional wisdom, as explained in the preceding paragraph, held that this was impossible. The problem was that the conventional wisdom didn’t take into account what can happen if the inflation is based on rising costs of raw materials. Since oil prices were increasing, it was possible both for growth to slow down and for inflation to increase. Even though less money was being paid out in wages, the high oil prices increased the cost of production and forced companies to raise prices. While the Phillips Curve may remain true for demand-pull inflation, it is no longer considered an economic absolute. Many economists, however, still believe that, in general, unemployment and inflation are inversely related.

The government has two policy instruments at its disposal should it choose to follow the Keynesian approach. The government can either adopt a monetary policy that encourages growth via lower interest rates or adopt a fiscal policy that encourages growth through increased government spending. Keynesians would be happy with a government using either one of these instruments to reduce unemployment. For Keynesians, consistent economic growth is the only way to ensure a low rate of unemployment. While Keynesians don't encourage complete government control of the economy, they see a role for government in guiding the direction of the economy. The government does this by adopting what are known as counter-cyclical policies. If the economy is growing too fast, it cuts back on spending and raises interest rates to try to stop inflation. If the economy is growing too slowly, the government increases spending and lowers interest rates to stimulate the economy. For Keynesians, it doesn't matter what the government spends the money on. As long as people are being employed somehow, even if they are digging holes and then filling them up again, the economy is being pushed in the right direction.

These philosophies are important to remember because they summarize the two basic ways that a government can deal with unemployment. Specific programs can be devised within either one (such as job training programs versus welfare and unemployment benefits, debates over whether there should be a minimum wage, etc.). Think about these two philosophies when you address topics about employment – they can be of value in trying to explain or justify certain positions.

Conclusion

Issues of employment and inflation affect the entire economy. Both of these concepts are used as benchmarks for measuring economic health and in formulating goals for economic policy. Always remember that these issues are so far-reaching that they can often be applied to subjects that you know very little about. Virtually any government program, for instance, can be supported as a way to employ more people and help the economy or opposed as government intervention into the natural flow of the job market. Understanding these two basic economic concepts can go a long way in directly answering economic questions and in understanding issues that you haven't confronted before.

Competition

David Hardy and John Mondragon

Introduction

Competition is what drives the market economy. It's what orients the market economy to the consumer. Competition is the fundamental root of all business decisions—what will make our product appeal more than our rival? One must understand the way competition works in order to properly analyze business news and government policies. There are two fundamental spheres of competition: supply-side and demand-side. This chapter will look at these two spheres, monopolies and similar situations, centralized vs decentralized economies, the profit motive, and what governments can do to encourage or discourage competition.

Supply-side competition

Not to be confused with Reagan's infamous supply-side economics, this is what everyone thinks of competition as: multiple people trying to offer better, cheaper products to a single buyer. Most competition you think of is positive competition that leads to those better, cheaper products. Negative competition is when a consumer acts out of fear. It could mean two companies that threaten or intimidate you, and you go with which company offers the prospect of the least harm. This situation mostly occurs in organized crime rings, and although rare, exists.

Demand-side competition

This is simply the reverse idea from supply-side, multiple buyers competing for goods from a single seller. It's primarily what drives pricing. For example if there are four hundred trucks for sale at a particular dealership and five hundred buyers, then the dealership will raise prices to the point where only four hundred of those buyers are still willing to buy.

Sometimes competition gets out of control, and one product or company gains complete control over the market. This is called a **monopoly**. In the real world this is often broadened to include something that has a vast majority of the market, if not 100% of it. Monopolies can form for several reasons.

First, it may simply have the best product available. It's ultimately up to the consumer to decide what to buy, and no one can force them to buy a smaller company's product for the sake of preventing a monopoly from occurring. It's this cause of monopolies that leads many to believe it is just a natural phenomenon of the market system, something that is easily changed by competition. The problem with this outlook is that there is no such thing as "perfect competition"—that is, free entry of new products into the market. Thus, it takes awhile for a startup company to compete with the larger, established monopoly, giving government regulators more incentive to preserve existing competitors.

Second, a corporation may set their prices at artificially low levels, a price which a large corporation with huge assets can take, whereas a smaller startup company can't. This obviously makes that company lose money, but it also attracts customers from their competitors, who subsequently go out of business. Thus, for consumers there is short-term gain from extraordinarily low prices, but once the competition withers, those prices are jacked up because there's simply no alternative out there. But what's wrong with this if a new companies keep springing up, thus forcing the big corporation to squash each one with ultra-low prices? More on that later.

Third, monopolies can be established through unethical and illegal acts that hurt the consumer, not benefit them, which is the goal of a consumer economy like ours. This can include anything from physically threatening competitors (coercion), distributors, or consumers, to using more subtle but equally effective

strong-arm tactics. For example, Microsoft is accused of telling retailers that the only way to get the Microsoft Windows operating system is to not offer any competing OS. Since Windows has a huge chunk of the OS market, no retailer is willing to forgo Windows sales for the sake of offering lesser-selling OS's.

Another perversion of competition is an **Oligopoly**. This is similar to a monopoly in that a few companies control a market and all are satisfied with their market share. Thus there is no real competition because no company is interested in stealing customers away from a fellow oligopolistic company, so they don't put any money into research and development, and no true competition exists. This can occur formally in a secret meeting, or informally as the companies simply stop expanding. Sometimes what'll happen is they all agree to raise prices at the same time by the same amount, thus there's no difference between each company to the consumer, and market shares stay the same while profits increase.

Cartels are another problem for competition. Similar to a monopoly or oligopoly, but more formal in that a group of companies get together to actually set prices and control the market. Since competition would only cut profits to the few companies involved, they have an incentive to all simultaneously, not compete and fix a price that is agreeable. Since all of the companies have the same price, consumers get the short end of the stick once again. For example, if all the movie theaters in one town get together and agree to set the price of tickets at \$10, this would be setting up a cartel to control prices and not letting market forces do their job. Two perfect examples of this are OPEC and De Beers. OPEC (Organization of Petroleum Exporting Countries) is made up of mostly Middle Eastern, oil-rich countries that formally collude to set pumping quotas, thus having a huge impact on the price of oil. Countries outside of OPEC such as Russia and Norway have no pumping quotas and thus can mitigate the effect of OPEC. OPEC doesn't want to keep the price too high, because then there will be more financial incentive to develop alternative fuels, and conserve energy, but it certainly wants to keep it high enough to make a handsome profit. De Beers is a company that controls so many of the world's diamond mines, it can effectively set the price of diamonds to whatever it wants. Diamonds aren't all that uncommon, but because only one company controls the vast majority of the world's supply, consumers don't have much choice in the matter. Cartels often form around raw materials where there's a guarantee that no competition can simply manufacture more oil or diamonds.

The problem with all these anti-competitive occurrences is that there is no such thing as **perfect competition**. Perfect competition would mean free, instant entry of goods into the market and instant dissemination of information about that good to consumers. This of course is a myth, since there are innumerable barriers to entry into the market. There is red-tape and government approval to get, employees to hire, market research to conduct, funding to get, and brand name reputation to establish. All this takes time, effort, and money, thus the government takes measures to preserve existing competition. Also, in the case of telecommunications, electricity or water pipes, it is extremely costly, difficult, and many times impossible to establish a network that could compete with an existing company. For this reason, there are often laws that say any company can use the existing power or phone lines. There are also natural monopolies, when there are physical barriers to competition. Examples of these include the water supply or wastewater treatment for a city. As a result, these are highly regulated by the city government because market forces can't act on them.

How governments deal with monopolies

Approaches to monopolies vary. Some countries (not America) view them as beneficial, so that all the profit and resources that industry gets are allocated towards research and development, quality of service, or other long-term goals. They view too much competition as a distraction that drains resources from these long-term goals, forcing them to fight off companies willing to play as cut-throat as they can to just survive.

Governments can also do it because it helps them. OPEC is a cartel at the nationwide level, i.e. it's a grouping of nations not private companies. This because Saudi Arabia is a member of OPEC, they have no qualms about supporting its anti-competitive practices. Being a huge net exporter of oil, they reap the benefits of a higher than normal price level, while enduring few of the costs. Command economies rely on the government to plan out production thus there is no reason the government would create two companies to do the same task. Because these governments oppose the whole idea of competition between private companies, they put the government in charge of that particular industry and the perceived drawbacks to competition are eliminated.

However most Western governments take the view that monopolies are in general bad and are something to be prevented. To fight monopolies governments have a wide-range of tactics. First, they can ban the trade practices that a company uses to maintain its stranglehold on the market. Laws that ban unfair trade practices are called **anti-trust laws**. Some of these unfair practices include:

- Price-fixing- this is where multiple companies formally get together and set a single price for a good (resulting in a cartel).
- Tying- this is when a consumer must buy one good (the tied) in order to get their original desire (the tying product). This only becomes illegal when it restricts trade for the tied product because the consumer must be allowed to have choice in the matter. An example of this is when Microsoft was sued for embedding Internet Explorer into its popular Windows operating system, thus giving them an unfair advantage in the internet search engine market.
- Price discrimination- this is when a company charges two different prices for the same good, unless it's for a lawful purpose such as to get rid of damaged to perishable goods. But a furniture manufacturer can't sell a couch to one retailer for \$500 then sell the same couch at the same time to a different retailer for \$300.
- Group boycott- this is when a group of companies collaborates to not do business with some specific company. While each individual company is able to do business with whomever they choose, collaborating is illegal, and in general raises a red-flag for anti-trust investigators.
- Exclusive dealing- this is when a company chooses who it does business with on the nature of how it treats its competitors. Again this is what investigators allege Microsoft was doing, allowing retailers to sell Microsoft software if they refused to carry any of Microsoft's competing brands.

Other than outlawing these anti-competitive actions, the government has a few other tricks in its bag to fight monopolies. It can provide subsidies (often in the form of tax breaks) to start-up companies that wish to challenge the hegemony of a certain company or group of companies. The strongest power a government has is to break up a company into multiple competing companies. During the late 19th and early 20th century, monopolies and trusts blossomed. President Teddy Roosevelt was a strong, progressive politician who recognized the threat these monopolies posed and aggressively pursued them, earning a reputation as a "trust-buster". One of his most notable achievements was breaking up Standard Oil into 28 companies that all competed with each other.

During this Progressive age, several pieces of anti-trust legislation were passed that forms the basis for such actions today. Signed into law in 1890, the Sherman Anti-Trust Act is the basic law, which outlaws all practices or conspiracies that restrict trade or attempt to dominate the market at the expense of the consumer. In 1914, the Clayton Act specifically outlaws deals, agreements, conspiracies, or any of the other aforementioned collaborating that works against competition. It specifically bans price-fixing, price discrimination, tying, and exclusive dealing. The Federal Trade Commission Act bans false or deliberately deceiving statements about a company's products or their competitor's products, with the goal being to protect a reasonable consumer from anti-competitive practices. Today, the Justice Department is responsible for guarding against anti-trust violations, with their powers varying from simply fining an offending company, to breaking it up like it did to AT&T in the 1980s, turning it from a

nationwide monolith, to several regional ordinary companies. This, however, is a very severe step and the Justice Department is justifiably reluctant to use it.

Economic Organization: centralization vs. decentralization

National economies are organized two ways: centralized or decentralized. Centralized means the governments makes all the decisions on how resources are allocated, what goods are manufactured, what crops are grown, and who is employed. Decentralization simply leaves these facets up to the market. Bear in mind that there is never any country that implements a perfectly centralized or decentralized economy; rather the question is over how much socialism or capitalism a country is willing to implement.

Centralized economies, also called command economies, are usually found in Communist or Socialist countries, or assorted autocratic regimes that wish to consolidate all aspects of the nation under their watch. These types of economies are usually implemented to achieve social justice, because the government supposedly represents the people and thus has the interests of the people at heart, not a profit motive. Thus it is more likely to employ unskilled or traditionally under-employed groups, and be loathe to fire them than a decentralized economy. Centralization is often used in combination with decentralization. Japan for instance has used subsidies, tax breaks, and large-scale coordination to encourage types of industries such as automotive and electronics. Because these merely influence business decisions, not micromanage them, it has been a highly effective policy for growing those industries without killing the overall economy the way Soviet style centralization did.

There are two fundamental reasons why centralized economies have done abysmally: lack of competition and no true supply and demand paradigm.

No competition means products don't get better, cheaper, or more plentiful. If a government employee knows that he won't get either fired or a pay raise, he has no incentive to work harder. Lax, apathetic workers and bosses are a direct result of no competition, which subsequently leads to disgruntled consumers. A government-run company relies not on money from the consumer to operate, but money from the government; thus the strength of that company relies on its political influence in the often horribly corrupt government.

A decentralized economy inherently incorporates a high degree of competition. Since companies are constantly trying to make as much money as possible, they try to win over the most customers with better products. If a worker isn't good enough, he'll be fired and replaced with someone who is. This is called a consumer economy, where production is determined by whatever the consumer wants. Everything is secondary to pleasing the consumer. Obviously this is where the government would step in and put safety and environmental regulations and whatnot, but the fundamental idea remains the same. Moreover, the market is extremely flexible. When demand for one product unexpectedly soars (or the supply collapses), the price will go up for a short time, until competitors will jump in, eager to take advantage of the high prices until there is equilibrium between supply and demand.

Opponents of the decentralized approach point out several problems. Because of cut-throat competition, companies would too oriented towards making a quick buck in the short-term. Second, because profit motive drives everything, products that the poor need are supplanted by products the rich desire. This is why there is Viagra and hair-growth formulas and no a cure for Malaria which primarily effects poor regions of the world. Third, because of the profit motive, there is no incentive to protect the environment. Fourth, social justice is hurt greatly. Poor, unskilled, or disabled workers are severely disadvantaged by a system that rewards the most predatory companies, they allege.

History has proven that in the long-run, centralized economies are remarkably inefficient compared to their decentralized counterparts, and usual end in total failures. Thus whatever short-term economic and social boost the poor get, they ultimately lose as everyone suffers from a collapsing economy.

Remember that there are always political decisions to be made regarding these two schools of thought. After all, it is the government who decides whether to have a centralized or decentralized economy in the first place. Thus, during times of crisis or corruption, ideology could be set aside. The US has overwhelmingly favored a market system, certainly to an extent more than the other industrial democracies. However, during World War II, the government took command of the economy to make sure all resources were being allocated to the war effort. They were unwilling to risk consumer patriotism for such a critical issue. It is important to know where a country falls historically on the issue of free market vs. command economy. The old Soviet bloc in Eastern Europe, for example, was under an imposed command economy until the collapse of the Soviet Union. Free market reforms of the 1990s have meant a huge cultural and economic shock in those former Soviet satellites, but should theoretically lead to a stronger economy in the long-run. Remember however that no country is a perfect model of either system; centralization can mean almost any government policy such as farm-aid or the Centers for Disease Control, because those are institutions that would not occur in the market, and which the government is allocating sources contrary to what the market would dictate.

Profit motive

The first principle of capitalism is that everyone operates in their own self-interest. Self-interest in this setting usually means money, but it can also include health, one's family, community, and posterity. This means that a person will try to maximize the resources he has and minimize the harms/costs. Risk, however, is inherent in the market setting since you're never fully in control of your life. Thus it is a matter of balancing the desire for wealth vs. the desire for security and stability. Many people oppose this fundamental belief because they believe it leads to selfishness and a me-vs-you mentality. Moreover, they point out that people aren't always out for their own financial betterment, rather take an interest in social well-being. Their theories for this are varied. If someone donates money to an environmental group, they are harming themselves economically whilst helping someone else economically. Critics retort that altruism is still rooted in self-interest, this time emotional instead of financial. Thus the question exists: is it possible to ever do something that's not in some sort of self-interest? This leads to the second fundamental principle of capitalism: people are rational.

A healthy person won't just throw away money, they won't subject themselves to unnecessary risk, and they won't turn down a higher paying job without. Someone will take the most rational steps towards their goal or value. The key here is that everyone likes different things. While a corporate executive admires money the most, a rock-climber is most at home in the mountains. Thus while the CEO takes rational steps to acquire the most money, the rock-climber will take rational steps to climb a rock cliff. The profit motive is also why resources are allocated most efficiently. It means people will try to do more with less. Critics point out children or mentally insane are not rational and thus disprove the theory. These groups aren't a large part of the market and are usually in the care of someone who is rational.

These two ideas form the basis for the free-market. Two individuals who are both rational and self-interested will combine their skills to benefit each other. In trade, there is a principle that when a consumer voluntarily buys a product from the seller, both are benefited.

Government encouragement or discouragement of competition

Other than the aforementioned tactics for combating monopolies, there are proactive measures a government can take to increase competition such as selling off government assets and monopolies, deregulation, and lowering trade barriers.

All governments have assets. Government land, buildings, companies are all assets. Amtrak and the US Postal Service are two examples of US government companies. Selling these assets to the public is called privatization, and is a popular tool among government-trimming conservatives. Italian Prime Minister Romano Prodi sold off huge chunks of state assets including scores of banks in the 1990s which brought an increase in efficiency and ultimately profitability. Ronald Reagan sold off tons of government land that wasn't being used to private interests that put the land to use. Privatization increases competition because it gives the market more resources to allocate.

Governments can also deregulate industries to make them more flexible and thus more competitive. Reagan deregulated the telecommunications and airline industries so that there was more entry into and movement within those markets. Critics of deregulation point to the California energy crisis where power companies were deregulated but price controls maintained. The price controls meant the newly privatized companies couldn't make a profit because the electricity suppliers could charge whatever they wanted. Whereas before it didn't matter as much if the power company made a profit, now it did, and partial deregulation drastically hurt the power companies. Thus the lesson learned is that if you deregulate an industry, go all the way or don't bother.

Lowering trade barriers is another huge step to increase competition. If a textile company had previously been competing with three or four other local textile companies, now they have to compete with the global textile industry. Free trade is essentially the holy grail of competition. Cue the free trade principle from above: if two people voluntarily exchange goods, both are satisfied. There are however severe problems with it. Because it opens up a country to almost anything another nation can throw at it which can be extremely unfair to domestic producers because they may have lower environmental, safety, or labor regulations, or even receive government subsidies. The political implications of this are naturally huge, because domestic companies are often unable to compete with the wide-range of global competition, yet it is those uncompetitive companies that have political influence; foreign companies have none. Witness the North American Free Trade Agreement (NAFTA) bashing during the Democratic primary, especially when candidates were campaigning in the hard-hit Midwest. Throughout the 1970s and 80s Japanese automakers were crushing American carmakers with superior cars; thus domestic manufacturers had to turn to intangibles like patriotism with their "Buy American" slogan merely to stay afloat.

One other way to jump-start competition is to simply break one big company into multiple small companies that all compete for the same customers. Used mostly in anti-trust cases, this is none too popular with business executives. An example of this is when the government broke up Bell telecom company into a various regional "baby Bells" such as Southwestern Bell.

Reducing competition is a whole lot easier than developing it; it can essentially do the opposite of the above ideas. One way is called **nationalization**, which is the opposite of privatization. This is when the government simply takes an industry or company over. If the government doesn't want telecommunications companies competing with each other, it can simply take it over and force them not to compete. Sometimes the government will compensate the owners, such as when Egyptian president Gamal Nasser took over the French and British owned Suez Canal Company, promising to pay them the value of their stock-holdings. This was a favorite tactic of Communist regimes that sought to consolidate the entire economy in government hands. In these situations the owners were almost never compensated (quite the contrary, many were arrested or killed) because they were precisely the enemies Communists despised. When Fidel Castro took power in a Communist revolution, many business owners lost a lot of money when he nationalized practically every sector of the economy.

An increase in regulation would limit competition because it gives companies less flexibility over how to use their resources. One of the infinite methods of competition is price controls. If the government sets a

price floor, then companies can try to undercut each other with lower prices. A price ceiling simply discourages companies from getting involved at all, because it limits their profitability.

Embargos, tariffs, and subsidies are all trade based ways of limiting competition. If Japan has to be a \$1,000 tax on every car they ship to America, then that cost is passed onto the consumer if the retailer wants to turn a profit. Thus Japanese cars are more expensive than American cars. Embargos are when you completely ban trade to one country in either one industry, such as a weapons embargo, or all together. Because any successful economy has to be highly integrated into the world market, this can have a devastated effect and is used sparingly for political purposes. Subsidies are handouts of money to a company that artificially lower the price of a good. For example, American farmers are huge recipients of government money that allow them to sell their good for a price that would ordinarily result in a net monetary loss. Government subsidies can also take more discreet forms. The aerospace giant Boeing has long-alleged that its European competitor Airbus receives abnormally low-interest loans from the government, while Airbus has accused Boeing of getting plush military contracts that amount to little more than political pork.

Conclusion

When discussing real world policy, it is important to remember that these are just ideas and concepts. No country in the world operates a 100% centralized or decentralized economy. There are variations and style that have been adapted to each country's political and economic culture. Governments don't always take in mind what is best for the economic health of a country; rather they have a myriad of political interests competing for attention. Talk about these pressures and why a government enacts the policies it does. Successfully integrating all these aspects of competition and efficiency into your analysis will put you leagues ahead of other competitors.

Bibliography

- California Anti-trust law. Weblocator. 14 Nov. 2004 <<http://www.weblocator.com/attorney/ca/law/b07.html#cab070200>>.
- Hester, Donald D. Performance of Recently Privatized Italian Banks. 27 June 2001. Department of Economics, University of Wisconsin. 14 Nov. 2004 <<http://www.ssc.wisc.edu/econ/archive/wp2001-10.pdf>>.
- Werling, Kristian A. Nasser nationalizes the Suez Canal. 5 May 1997. North Park University. 14 Nov. 2004 <<http://campus.northpark.edu/history/WebChron/MiddleEast/SuezNat.html>>.

Growth and Recession

Matt Williams, Rana Yared, and John Mondragon

Introduction

“Money has become a matter of what is euphemistically called ‘liquidity’ instead of certainty- of national convenience instead of national or international trust. It is no longer linked to a discernable social ethic: to a body of custom and law which ensures the reliability of monetary policy and practice. For ordinary people, therefore, safety lies in adherence to the faction, group, or organization whose influence on monetary policy appears to provide a haven of refuge- however temporary.” (Frankel 93) If it is true, as monetary theorist Sally Herbert Frankel states, that money is nothing more than the promise of value which society expects of it, then there is much to be learned of how to value currency beyond just numbers. Though various economic indicators, the confidence of citizens, and monetary policy all work together to make currencies succeed or fail, trust is the common bond between people that makes money itself work. The best gauge of money’s value is an intangible understanding of what it means to ordinary people.

“Ordinary people” includes not only you and me, but also the judge, the audience, the tournament director, and the bus driver. Everyone is bound within the framework of monetary trust to the extent in which we are all consumers. Money influences everyday life in a host of profound and subtle ways, from the prices of goods to how we consume them. Therefore, making the best use of statistics and growth/recession analysis in rounds requires that a speaker be able to put capital theory into human terms. This chapter will address issues related to currency-based economies first by briefly looking into economic indicators. Stability and instability in economies will be evaluated by taking a close look at the undying debate between two of the century’s greatest economists and what their views were on optimal economic conditions. The policymaking implications of such issues are further evaluated by a look into how governments can respond to economic cycles, and what role the government should have in the economy.

Economic Indicators

Despite the crucial nature of qualitative analysis, such observations are usually derived from number-crunching that sometimes seems to have little relevance in our lives. However, economic statistics and indicators serve as the standards which reinforce trust in currency. The most important economic indicators for most policy conversations are the Gross Domestic Product (GDP), and the Consumer Price Index (CPI). While a large number of other indicators exist, the GDP and CPI are unique because they say the most about economies and currencies respectively. Using these statistical indicators can help a speaker to explain economic in objective terms, as well as frame the discussion in human terms.

Gross Domestic Product

GDP is a fairly straightforward indicator, but its implications are manifold. The Gross Domestic Product of a country is the total value of all goods and services produced within a country and is generally considered to be the best indicator of a country’s economic health. We further define GDP as the sum of all expenditures on domestically produced goods. The commonly used $GDP = C + I + G + X - M$ breaks GDP down by expenditure category and by who is doing the buying. C stands for consumption and is the aggregation of all household expenditures, net of residential construction. Put in a simpler way, C is the stuff we buy, food, clothing, medical bills, houses, etc minus new residential construction. The indicators for C are quarterly sales and the monthly Michigan Index that measure consumer confidence and thus predicts growths and recessions in C. I represents investment or business expenditures (equipment, software, inventory accumulation,/degradation, non-residential construction) + residential construction. Commonly used indicators for the health of I are the Dow Jones Industrial Average and the Industrial

Production Index. The reason for using the IP Index is manufacturing data reflects levels of fixed investment. G signifies government purchases of goods and service. This figure does not include welfare or subsidies, as welfare shows up in C and subsidies are calculated in I. X stands for exports or the sale of domestically produced goods to foreigners. Finally, M represents the amount of imports into an economy. These are the part of C, I, and G expenditures that were not produced in the US.

GDP should probably be the first indicator addressed in policy analysis, because it provides an excellent transition into so many practical issues. It's also useful to use a country's GDP when assessing the magnitude of its debt and deficit. The debt to GDP and deficit to GDP ratios offer valuable insight when analyzing the economic health of a nation. Deficit is the amount by which government spending exceeds government revenues in any given budgetary year. (Surpluses occur when revenues exceed spending.) Debt is simply the accumulation of years of deficit.

The United States is generally considered to be a high-spending nation. With both public and private debts running high, many are alarmed about continued deficit spending and inefficiency. Remember the budget surplus from before the 2000 presidential election? For myriad reasons, it no longer exists. Though 38% of it went to the President's \$1.3 trillion tax cut, the billions of dollars thrown around "here and there" to various government programs explain the rest of it. Looking outside of the US, however, other countries have debt concerns in greater dimensions. Brazil's debt is a whopping 60% of its GDP. Debt is a massive problem for many third-world countries, and such a foolish financial position obviously raises questions about how the government could ever get itself out of such a financial quagmire within the next several years.

The amount of money that the government would have to spend is a crucial factor to consider, and a deficit/GDP comparison can help to illustrate what would constitute good policy. Debt relief, often touted as a panacea for the problems of third world countries, might not be as possible as originally thought, especially if the debt of a nation is such a large percentage of the GDP because the creditors would suffer greatly. Government spending (G) is also a factor in debt but reducing it may involve fiscal policy measures that are impractical. Regardless of how in-depth one goes with GDP analysis, consideration of the overall state of the economy usually requires some mention of the GDP, though the speaker has the option of drawing this analysis into the policy realm as well.

Of course, a far more direct implication of GDP is that it shows directly whether an economy grows or shrinks. When the GDP shrinks, governments are more likely to be in debt, citizens generally can't afford to buy as much, and overall confidence in the economy tends to decrease. GDP is therefore a gauge to whether an economy is in expansion or recession. A number of direct and indirect questions about the state of an economy and its political implication can be answered with insight into a nation's GDP:

- What has been the cause of the US recession?
- Would resolution of Israel-Palestinian conflict ensure Israel's economic prosperity?
- Can a lasting Sri Lankan peace agreement pull the country out of economic crisis?

With the second two examples, it would seem easy enough to deliver an optimistic answer, but looking at the internal workings of each economy might paint a less sanguine picture. Israel's situation looks bleak economically because of the nation's shrinking GDP due to a lack of consumer confidence. A major question to ask when approaching such a topic is what to make of the indicators. In Israel's case, one would also have the option of saying that the conflict has caused an extended recession, which the business cycle simply can't explain. Regarding the Sri Lankan question, many factors have contributed to the country's economic malaise, and conflict alone is sometimes blamed for the problem without discussion of a low I, C, and X. Ultimately, using GDP analysis along with other more qualitative political and economic positions can help to explain the situation of a country convincingly and contextually.

Consumer Price Index

Consumer price index is critical for entirely different reasons. Anytime a speaker deals with issues such as inflation, the consumer price index is used as a standard to evaluate the purchasing power of money. The Consumer Price Index of a country essentially represents the change in price of goods and services purchased for consumption by households. The CPI is calculated as the price of a basket of goods. This calculation is repeated monthly. If the CPI increases the dollar is inflationary. Conversely a decrease in the CPI points to deflation.

Inflation, in simple terms, is too much money chasing too few goods. The National Academy of Sciences explains the significance of inflation to economies: “The central reason that inflation of any significant magnitude is considered undesirable and economically destructive is that it creates obstacles and uncertainties for business firms and individual in planning and making commitments for the future. In theory, if the rate of future inflation were known with certainty, then with minor inconvenience one could operate with equal efficiency under a high or low rate of inflation. But the future rate of inflation is never known with certainty. Moreover, inflation tends to be more variable and relative prices subject to larger changes when overall inflation is high than when it is low.” (National Research Council 216-7)

In simple terms, inflation throws a wrench into the spending habits of people and corporations, because the value of money isn't what was expected. When Russia was in dire economic straits after the fall of the USSR, the Ruble was practically worthless. In one political cartoon from the mid-nineties, an old Russian grandmother comes in from the cold and enthusiastically greets her family with a wad of cash in hand, shouting “I finally found some toilet paper!” This wasn't far from the truth, however. At that time, people who were shopping for everyday items had to carry their Rubles in wheelbarrows instead of wallets, because the currency's purchasing power was so low.

Equally important (especially within the context of the protracted post-9/11 slump) is deflation. Fears of deflation were scarcely mentioned during the nineties, because the entire country was on a buying spree. Deflation is the exact opposite phenomenon people are more interested in holding on to their cash, and luxury goods are usually the first thing erased from the shopping list. Consider Japan in the 1997 Asian financial crisis. Whether it was chronic boredom (unlikely) or the effects of an overextended economic boom in the 1980's (the prevailing theory), people radically decreased their spending. This meant that producers effectively had little to offer consumers and many companies had to lay off employees and drastically reduce spending. Though the central bank attempted to put more money into the economy by lowering the interest rate (now effectively at zero), the entire region experienced the same symptoms of the “Asian Flu.”

In summary, the CPI is a critical benchmark for inflation and deflation analysis. In any question that has currency value implications, this indicator can provide a good framework for analysis. This is a no-brainer in questions that deal directly with the inflation or deflation of a currency, but understanding how each of these phenomena can affect the internal social situation of a country is very useful as well. Consider the following:

- Will a tax cut positively affect investment in the long term?

The CPI of the US and similar indices in other countries can be cited to justify different fiscal and monetary courses of action. Arguably, countries that are in a state of high inflation or deflation are less able to maneuver internationally and domestically, because the value of their money is less predictable. If for instance, the US truly is about to face a deflationary depression, tax cuts wouldn't do nearly as much good to stimulate investment because people would hold the dollar instead of investing it.

Economic Stability and Instability

An extremely common term in policy discourse, the meaning of “stability” is debatable. In the American economic boom of the 1990’s, many feared that unchecked economic expansion, bolstered by Alan Greenspan’s clever manipulation of interest rates, had caused an overvaluation of the stock market. The idea of an economic “bubble” was widely touted by more skeptical news sources such as *The Economist*, though American investors were unafraid of such a possibility.

In light of the euphoria caused by ever-increasing technological advances, few paid heed to warnings that tech stocks were worth far less than they were selling for, and eventually the corrections of stock prices caused the dot-com bust. Whether it truly was “irrational exuberance” that motivated investors and the Federal Reserve, many were convinced at the time that this was, in fact, a stable situation.

So what exactly, then, do the terms “stability” and “instability” mean? For general purposes, we can explain them in terms of the predictability (or lack thereof) of an economy. An economy that behaves according to a given theory is considered to be stable. Even if the economy behaves unpredictably, policymakers might still consider it to be stable because of how it responds to stimulus and interacts with the global market.

Many questions that have any economic ramifications can be answered with claims about a country’s economic stability. For example:

- Has “regime change” in Iraq create a dangerous power vacuum, or an opportunity for democratic reform?
- Are American investors ignoring the Federal Reserve’s interest rate adjustments?

The first two questions here are political in nature, but looking to the economy of each nation can successfully answer the question (in style). Iraq is a war-ravaged country, and wartime economies are usually less stable ones. This is especially true in developing countries. With Iraq, economic growth was stunted by sanctions and Saddam Hussein’s mismanagement. Questions about what might happen to the economy after U.S. occupation are indeed timely and important because the political success of the country is dependent on economic success. Remember people vote with their pocket books. Simply put, people are less willing to invest in an unstable situation, sometimes regardless of how far their money will go thank to interest rate adjustments.

To understand the role the government has in ensuring economic stability an in-depth examination of the foundations of 20th century economics, and the disagreement between two major intellectuals- John Maynard Keynes and Friedrich Hayek- is necessary. Though Keynes isn’t an unfamiliar character, Hayek’s contributions to modern economics have often gone unnoticed. Friedrich Hayek (1899-1992) was an Austrian economist who challenged the new-classical paradigm of equilibrium economics. Because his theories were often times a response to Keynes, Keynes’s ideas should be taken into consideration first.

Classical Economics and John Maynard Keynes

One hallmark of classical economic thought is a belief in certainty (though actual economic research often breaks away from these assumptions). Since economies can be expressed in numeric terms, and humans are rational animals that always act in self-interest, economies should always be fairly predictable, right? Not necessarily. It’s obvious that human beings don’t always act with a perfect degree of rationality, and that many times, emotions or, most commonly, a lack of knowledge about a person’s surroundings can inform bad decisions. Though these concepts hold true for all economic entities, people, governments, enterprise, during the age of classical economics, entities such as multinational corporations hadn’t even been dreamed of yet. World Wars were an unfathomable thought and clashes between cultures on a global scale were very limited in their scope compared to today. These complex interactions cast doubt on the notion of certainty because of unforeseen consequences.

Perhaps the one part of Adam Smith's Wealth of Nations that most widely known is his theory of the "invisible hand." Though it has already received a brief look in this book, identifying the links between Smith's ideas and the Keynesian paradigm will give a better understanding of Keynesian economics itself. Smith writes in *The Wealth of Nations* that "every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is in his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society" (Smith IV.ii.4). Selfish motivations, therefore, are the guiding principle in a capitalistic economy, because a "sink or swim" mentality ideally (if all actors are rational) would pervade the thinking of all economic actors. Whether or not people behave according to the theory of the "invisible hand" is an issue that will receive further consideration later within this chapter. For now, however, it is important to look at Smith's position on trade to establish a working link to Keynes.

Adam Smith pioneered the full and unabashed advocacy of free trade. Though we now live in the time of free-trading optimism, mercantilism was the order in Smith's time. The mercantilist doctrine identified a favorable balance of trade as a situation where a country exported more than it imported. The mechanism for which this took place was protection of domestic industries, which Smith believed to be the cause of domestic producer monopolies, higher prices, and mismanagement (McCord 77). Tariffs upon foreign goods, Smith argued, were counterproductive to all parties concerned. John Stuart Mill would later carry the torch of Smith's free trade positions, saying that "the benefit which is derived from exchanging one commodity for another, arises, in all cases, from the commodity received, not from the commodity given" (Mill qtd. in McCord 91). What this statement means in practice is that international trade is effectively bartering. The cost of the goods that a country imports is paid for in the goods that the country exports. This idea is the most developed trade idea that classical economics produced, and its effect on later economists would be more than profound- it would serve as a foundation.

Keynesian Policy

The term "Keynesian economic policy" is almost as uncertain as economics itself. This is because Keynes shifted his positions on so many issues throughout his lifetime that economists today are still trying to make sense of some of his ideas. While one can say that Keynes would be described today as a "liberal" in America, this characterization is somewhat surface-level. The starting point for Keynesian analysis is the question of what can be known, and with what degree of certainty. Regardless of the extent to which Keynes believed that we could predict and expect situations based upon what has been observed in the past, his overall position was that the classical understanding of certainty was inadequate.

Keynes identified the short-term picture as being of crucial importance, which justified his positions on government intervention in the economy. Though a further treatment of how governments should respond to recession is included later in this chapter, for now it is more important to understand that Keynes saw unemployment and inflation as the economic problems of the greatest magnitude. In *The General Theory*, Keynes attempted to show how public works, national investment, taxation, and public expenditure could cause a state of equilibrium in the economy. For Keynes, equilibrium was a state in which there is full employment and where inflation is held at bay by crafty government policy. Specifically, putting more money into the economy by manipulating interest rates would supposedly help to reach a level of optimal domestic development (Keynes 349). Because Keynes believed that optimality and equilibrium could be achieved, he clearly was building on the foundation of classical economics, though he disagreed with classicists on uncertainty and faith in a completely self-regulating market. Additionally, it must be noted that classical economics had a long-term focus that Keynes staunchly disagreed with. He saw problems such as unemployment in the here and now and said that only a short-term, interventionist approach could solve these problems. His skepticism about the market underpinned a fundamental lack of faith in its ability to yield the best outcome for people when unregulated. He felt that the advent of large corporations

caused the growth of inequality. Nevertheless, Keynes himself could probably not be classified as a “liberal” within the current context, but most “liberals” could probably call themselves Keynesian. This isn’t because of what Keynes himself said per se, but what Friedrich Hayek had to say about Keynes.

Framing the Keynes/Hayek Debate

The economic ideas of many modern conservatives are shaped around Hayekian thought. Before we continue, it’s important to clarify the terms “conservative” and “liberal.” When these terms are used today, they often refer to Republican and Democratic Party views respectively. Many Hayekian scholars, however, would flinch at the title of “conservative” being attached to Hayek’s ideas. Hayek himself advocated what is widely known as “classical liberalism”, which includes greater freedom in trade matters, less government intervention in the economy, and an emphasis on human freedom and self-determination.

Remember that in rounds, the terminology which one uses to characterize ideas can inform or mislead the judges, and the linguistic and cultural changes that have caused labels to shift may not be fully understood by the audience unless one uses terms in their familiar meanings. John P. Cochran and Fred R. Glahe explain the significance of Hayek’s work: “if Keynes focused on the short-run picture, and the classicists focused on the long-run picture, Hayek focused on the ‘real coupling’ between the two pictures. The Hayekian coupling took the form of capital theory- the theory of a time-consuming, multi-stage capital structure...” (iv). Hayek devotes a good deal of his writing to capital theory, whereas Keynes’s treatment of it in *The General Theory* (a work which he advocated as comprehensive) is usually considered to have been woefully inadequate. Understanding Hayek’s views on capital theory- what it is, how it functions, and how he contrasts with Keynes in his view of the business cycle- will help a speaker to approach issues related to economic stability in unique and effective ways.

Hayek and Capital Theory

One of Hayek’s most significant contribution was a theoretical response to the labor theory of value, the centerpiece of Marxian economics. This theory holds that the value of a good is caused by the amount of labor that went into its creation. Hayek’s response laid the foundation for the neo-classical theory of value developed by Gerard Debreu and Kenneth Arrow. Hayek described prices as being reflective of the value society has placed on a good. Moreover, these prices serve as signals of where to allocate resources (materials, energy, money) with high prices indicating need and scarcity. What if 20 workers are replaced by a machine? This might decrease the value of the goods being produced, according to the labor theory of value, but the goods wouldn’t necessarily immediately cost less to produce nor would it necessarily be less valuable to society. Even if they did, questions as to the stability of the new method of production can’t be answered with certainty, because not all production patterns are static and sustainable. In fact, Hayek argues, the assumption that a static model exists would be destructive once inevitable uncertainty comes into play. For an example which illustrates how Keynes and Hayek differ on the labor theory of value, let’s assume that a candy shop opened, with one full time employee and one assistant. The candy shop is the investment of the candy manufacturer, and the most efficient way to sell candy is apparently through a shop. However, once the technology exists to sell candy in automatic vending machines, the value of the candy itself would supposedly change, because the costs of selling it are different. The ways in which the value changes can’t be determined by labor costs, though, because as Hayek explains: “...exhaustion of investment opportunities... [are] due not to the fact that investment opportunities which have existed before have all been used up, but to the fact that because of the rise in the rate of profits in certain stages... many kinds of investment which were profitable before have ceased to be so” (Hayek qtd. in Steele 152). In essence, Hayek is saying that putting more money into unprofitable investments won’t necessarily cause them to become profitable again. Even if they do, newer investments would usually be a better choice. Furthering the candy shop example, the vending machine is more convenient for people to buy from, so more people buy from it- resulting in the unemployment of the two shopkeepers. Some Keynesians would say that the appropriate way to handle such a situation would be

through measures on the part of the producer to boost the public's desire to buy from the shop, but Hayek would look to the potential of the new investment in automated machines as being more important. At the core of the disagreement is a question of employment, because Keynes assumes that full employment is possible, but Hayek said that the shifting of investments wouldn't allow for this (and that it's better this way, because this is what would cause the most stable form of growth in investments as a whole).

In sum, "Hayek rejects Keynes's argument that the path to full employment might begin with general measures to boost expenditure; that a modest boost to consumer goods prices would encourage would encourage output and investment" (Steele 153). This is because Hayek didn't believe in a direct causal relationship between the sales of goods and changes and the level of employment, and the changes in the sales of consumer goods and the upper part of the stream of production. Borrowing from the candy shop analogy, the price of manufacturing the candy itself doesn't necessarily change because candy shops start to go out of business, being replaced by a more efficient investment. Even though the company sells more candy because of the availability of the vending machine to consumers, the amount of money invested in producing and selling the candy exists independently of the demand for the good itself because of the evolving nature of investments, and uncertain factors which can't always be ascertained with an understanding of demand alone. Therefore, if a company can sell more candy through vending machines, it isn't wise to keep shops open (though a transitory state between shops and vending machines is naturally expected), because the value of the good is not dependent on how much money went into making it, but in technological changes, interest rates, and the relative cost of producing a good within different frameworks of investment.

Hayek's position is founded upon uncertainty in far deeper ways than Keynes's. Hayek actually defined economies by uncertainty, which became the foundation for disequilibrium economics. For the purpose of analyzing economic stability and instability, the point here is that Hayekian thought allows for instability to exist because it is expected, and once signs of economic disequilibrium begin to show, it is understood as a normal part of the business cycle. If people are unemployed, then it's simply because more roundabout methods of production and investment have been found, tapping into raw resources and increasing profit-making opportunities, but also incurring adjustment costs due to individual factors which aren't always known with certainty. The business cycle itself assumes that economies expand and contract naturally and ideally will grow larger and larger with each phase of growth, transition, and recession. According to Hayek, however, a disequilibrium approach to the cycle itself will help to not only put government action into its place, but also to stimulate different kinds of investment at the right times.

The root of Hayek's disequilibrium theory (and the capital theory of value itself) lies in the complex interactions between different forms of investment at the highest stages of capitalistic production. Hayek identifies the value of goods as coming from a variety of different sources. Simply put, Hayek advocates the capital (or price) theory of value (that the value of goods comes from investment in the highest stages of production, meaning that where money is put, and the costs incurred by doing so, creates the value of goods). This is why Hayek's thought was revolutionary- it questioned not just the Keynesian paradigm, but also the classicist assumption that a full, optimal level of employment could even exist.

The Visions of Keynes and Hayek

Before moving on into how governments can make policy from these two different angles, it's important to look at how Hayek understood the foundation for everyday life. Hayek's view is profoundly sociological, assuming that the complex interactions between people, historical backgrounds, and culture shape not only life, but economics as well. Because these factors are usually unpredictable, so is the economy itself, Hayek argued. Tampering with the social fabric wasn't just dangerous and unfounded, but was usually an emotional (and short term) response to an evolutionary (and long term) phenomenon. This is the most important and certain thing which Hayek claimed to know. "Every detail of Hayek's

considerable legacy is consistent with that understanding: that civilization rests upon custom and tradition; that only a small proportion of our cultural inheritance exists in articulated form; that institutional structures, tacit understandings and traditional practices endure, not because of their intellectual appeal, but because they enhance social cohesion.” In economic terms, this means that money is based upon trust, and putting faith not in money itself, but instead in its socio-cultural significance, makes the best policy.

So, what are the practical ramifications of these ideas?

Before delving into how to answer questions with these theories, it must be noted that I’m not advocating either Hayek or Keynes in this paper, and that my more extensive treatment of Hayek is simply because his ideas are not as well known as Keynes’s. Though Hayek’s ideas make a good deal of sense, some of them- especially regarding the human costs of capital theory- are hard to swallow. For the sake of avoiding assumptions about each man, and framing the issue of what role the government can and should take in business cycle intervention, a brief look at the vision of Keynes and Hayek is warranted.

The Keynesian vision is profoundly more “social justice” oriented than Hayek’s, because Keynes’s analysis prioritizes issues such as employment and more extensive government regulation of the market. An important foundation of his thought was a measured faith in the ability of government to respond to economic issues reasonably well. He lacked the strong distrust of government and bureaucracy that most Austrian and libertarian thinkers have. Hayek believed strongly in the individual’s ability to shape their own destiny, and that governmental intrusion upon this ideal would be destructive to society as a whole. For Hayek, independent human action was the catalyst for economic development and innovation, and encroachments upon this almost always did more harm than good, even if they were in the name of the common good. Inequality between human beings is presented as not a necessary evil, but a positive good, which motivated people and created social cohesion.

Government Intervention in the Economy

From this point, making a dichotomy between macroeconomic and microeconomic policy is critical. On the macroeconomic level, government intervention into the economy, whether it be bailing out companies, tinkering with interest rates to stimulate investment, or enacting restrictive measures for stability’s sake are usually considered justifiable measures (depending on the surrounding context, of course). On a microeconomic level, the role of private actors is emphasized more, meaning that the government’s primary goal would be to make investment easier, ease restrictions upon corporations, and implement accountability measures to ensure that private actors don’t run amok. These two modes of thought regarding government intervention aren’t accidental- they’re the practical development of the Keynes and Hayek debate. Even though compromises between the macroeconomic and microeconomic focuses can be found, it’s generally thought that we can’t have our cake and eat it too. For instance, it would be inconsistent for a government to cut taxes for the purpose of stimulating investment, but at the same time enact a high-spending social welfare plan. The money to do such things always has to come from somewhere, so the question becomes one of which government intervention strategy increases wealth and human welfare the most.

Economic Vision and Fiscal Policy Measures

Taking a concrete stance on Keynes or Hayek (macroeconomic-centered versus microeconomic-centered policy), and advocating it in-depth with an emphasis on internal consistency isn’t necessary in the rounds. You just read that right- I said you didn’t always have to be internally consistent in rounds. This is because the Keynes/Hayek debate happens behind the scenes. It’s important to know about what vision each man had, because this helps to justify your position on terms that the judge probably hasn’t heard, which actually do make sense in their own right. This will help to make your analysis consistent on the whole, which avoids getting hung up on unnecessary theoretical issues. The first lens we’ll look at

government intervention from deals with how the visions of Keynes and Hayek can justify certain fiscal policy measures. The following three questions serve as a starting point:

- Should the Federal Government seek to stimulate investment with tax cuts?
- Is corporate welfare a workable way to cause economic growth?
- What public measures will increase employment in America?

First, I'll admit that these three questions are very broad, and that's exactly why they work to illustrate differing philosophies of government intervention. With the tax cuts issue, it's possible to sell a liberal judge on tax cuts, but only if one explains the reasons behind such a policy on the Hayekian level. The Reaganite position on tax cuts wasn't so much influenced by Hayek, but the chaos-theory-based (and unabashedly cynical) "post-Keynesian" economic paradigm. Hayek himself wasn't all too pleased about the inconsistency of the administration's different policies to stimulate investment. On the Keynesian end, however, one may say that tax cuts not only fail to cause healthy investment, but that they decrease the general welfare overall.

The second question is dicey, because corporate welfare usually is motivated by pork-barrel politics, not an overarching desire to cause economic growth. Nevertheless, such a question can be answered using the same framework of macroeconomic versus microeconomic policy. It's possible to explain how bailing out an industry in which poor investments were made will stimulate further economic growth, but both Keynes and Hayek would probably disagree with such a position on a level of vision alone. Corporate welfare truly does benefit the few, and without certainty as to whether it will really help industry at that. Even if it did, it's probably contradictory not only to the prevailing liberal ethic of putting people before corporations (through macroeconomic oriented spending policy, i.e., welfare programs), but also the conservative ethic of enabling and motivating the individual first through the free market (which, of course, is an emphasis upon the microeconomic aspect). There are many possibilities for analyzing such a question, but staying true to one economic vision and explaining it within the speech is the best way of tackling a convoluted issue such as corporate welfare.

The third question should probably be addressed on a foundational level first, because no matter what you say, you're likely to make someone disagree. This is because of the age-old question of who's responsible for ensuring jobs. Keynes directly advocated the idea that the government's role was to secure full employment, and to stave off inflation through monetary policy. Hayek believed that this philosophy was, at best, harmful to the individual (which would curtail investment), and at worst, a justification for repression. In a free-market economy, employment is most often left up to the individual. Certainly, however, one can make a convincing case for how the government should help with keeping people employed while also admitting that full employment is impossible because of economic disequilibrium. This is a combination of the views of Keynes and Hayek regarding fiscal policy, which economists have been trying to figure out how to do for years without a lot of agreement or success.

The point with all of these questions regarding Keynes and Hayek on fiscal policy is to start with a foundation of economic vision, and justify policy on those grounds. The entire reason we're even going into depth about these two men is because their ideas serve as a foundation which can subvert the linear "left vs. right" thinking. It can be much more convincing than approaching economic issues from a generically "conservative" or "liberal" foundation when speaking on the economy. Doing this can hurt the credibility of your position because it may make you look biased. Another option is to leave issues surrounding economic vision and theory out of your speech altogether, which would create unavoidable and unintended problems with internal consistency (limiting your position to purely surface-level, circumstantial arguments that sound good but lack a foundation). Unfortunately, however, it's not possible to explain a fully free-standing economic framework within Forensic time constraints. Striking a balance between vision and practical application is a way out of this double-bind, but will take forethought and practice.

Monetary Policy and the Business Cycle

Business cycle questions can be answered most easily through advocacy of different monetary measures. First, however, let's look into what causes recession according to different schools of thought. Keynes identifies high interest rates and economies operating under full capacity due to low demand for consumption goods as being the cause of recession. Hayek points to underused capacity as being a symptom of poor investment choices, and explains that a system extended beyond its full capacity as the primary cause of recession. Further, he notes that investments in "gestation", which haven't actually yielded final goods, don't get enough attention in times of high demand because money pours into investments that make a profit in the meantime. Therefore, further stimulation of demand by the government only hurts gestating investments (by detracting attention from the long term to the short term), and encourages overextension of existing investments- which aren't nearly as profitable as ones that could come to fruition later (Steele 18). Essentially then, this is a question of how the government should encourage different types of investment and demand, and at what times. For practical purposes, the most important part of government intervention analysis will probably be regarding interest rates and inflation, which can be explained from three different angles: the Keynesian, the Hayekian, and the middle ground between the two.

The Keynesian view finds its application in monetary (and even fiscal) measures to counteract recession and low demand. Keynes advocates central banks as the solution to unemployment. An interesting example is his "green cheese" theory. Since money can't just be produced, and demand for money is always high in economies with high unemployment, the best way to solve the problem is to put faith in the central banking institutions. The banking institutions simply have to put more money into the economy, and the government itself must stimulate demand for goods, because demand controls the amount of investment, according to Keynes. Therefore, "there is no remedy [for high demand for money and low demand for goods] but to persuade the public that green cheese is practically the same thing [as money] and to have a green cheese factory (i.e., a central bank) under public control" (Keynes qtd. in Steele 74). To make the green cheese thesis work for you, let's look at a couple of questions:

- Should the Federal Reserve cut short-term interest rates to stimulate investment?
- What measures should the Obama administration take to end the recession?

These questions are once again very broad, but will illustrate all three monetary policy views nonetheless. From the Keynesian perspective, cutting interest rates would be the most beneficial course of action, because it increases the quantity of green cheese (money) in the economy by creating new jobs from investment. What about the possibility of inflation, then? Keynes doesn't really have an answer for this question, though he seemed deathly afraid of inflation in most of his advocacy. Keynes held that inflation and unemployment are inversely proportional, and Keynes says this difficulty could be resolved through tinkering with monetary and fiscal policy to maximize current investments. In an uncertain world, however, pumping money in here, increasing demand there, and enacting welfare programs to offset any negative effects of economic overextension is walking an extremely fine line. As a general rule, however, the Federal Reserve would be justified in cutting interest rates in times of slowdown, according to Keynes. In extemporaneous speaking, it's probably not a good idea to explain anything related to the Keynesian roots of such a position, except in elucidating the importance of a fast response to rising unemployment and low demand for goods. The fastest response would arguably be to cut interest rates.

With the question about what President Obama could do to bring the US out of its recession, Keynesian policy would justify some of the measures taken. Encouraging people to keep spending and attempting to restore faith in corporations to increase investment are both measures which coincide with Keynesian macroeconomic policy. The large stimulus bill of 800 billion dollars is definitely an example of Keynesian demand-side economics. A Keynesian answer to such a question would also involve helping

the unemployed by attempting to increase demand, and also taking a progressive approach to resolving the social implications of the economic slump such as extending unemployment insurance, which Obama has done.

The Hayekian answer to these questions would sound much bleaker, because Hayek would identify our current recession as the fallout of an economic overextension (motivated by overzealous intervention in the housing industry with institutions like Freddie Mac and Fannie Mae). In the first question, government intervention may do more harm than good at this point, so the best course of action in our first case would be for Bernanke to cut interest rates (which he has done), while at the same time maintaining a balance between restraint and action in the future. That is to say that once a boom starts again, interest rates should be raised at certain times to force long term investments to take place. These investments will produce final goods at around the time when shorter term investments become unprofitable and are dropped. This would ideally help recession to be alleviated in the future, but it certainly isn't easy to strike this kind of balance in the slightest. Remembering the importance of social cohesion, "policy makers and monetary institutions must be flexible enough 'to ensure the convertibility of all kinds of near-money into real money, which is necessary if we are to avoid severe liquidity crisis or panics...'" (Hayek qtd. in Cochran and Glahe 186). More specifically, stimulating various kinds of investment in a conservative fashion would help to increase faith in the dollar over time, which fundamentally reinforces the social fabric through monetary trust. Now that many investments from the beginning of the decade have become unprofitable and are being undone, the Obama administration should motivate investors to think of both the short and long run. Since Hayek would say that a glut of consumption goods is a problem of supply (because previous investments produced too many goods without regard for whether demand would accommodate them), appropriate measures would now include stimulation of long term and short term investment by further lessening of constraints upon business, with greater monetary discretion by the Federal Reserve once an inevitable boom starts again. The most important emphasis in approaching issues from this angle is to not stimulate growth in the short term at the cost of ignoring the bigger picture in the future.

A final consideration of these questions, from a middle ground between Keynes and Hayek, may allow the speaker to create a well-rounded and moderate position on such contentious issues. As a general thesis, the moderate position would say that overconsumption because of short term investments must be avoided, but that encouraging investment through excessive liberalization measures would neglect certain problems that the market causes. This approach is less theoretically sound and well-founded as the Keynesian or Hayekian positions, but may work the best when speaking. In the first question, a one can advocate cutting interest rates while moderately increasing social spending to offset the effects of uncontrollable market factors upon people. As new investment will inevitably cause some to lose their jobs through efficiency increasing technological advances, the government could help people through welfare programs and tax incentives directed at the lower rungs of the economic ladder. Furthermore, recognizing that demand for goods can stimulate investment would also justify cutting interest rates to increase demand in a more long-term fashion. A moderate position on the second question would say the Obama administration should try to increase demand through social spending (which enables people to spend more), but that this demand-centric policy must be tempered with a focus on investment as well. Practically, this means that the government needs to get people to spend more, but that the general rule of "less is more" still applies whenever the government makes economic policy. Under such assumptions, further tax cuts would obviously be out of the question, though incentives for long term investment would be justifiable. Just as important as giving businesses a reason to invest with such incentives is giving them a reason to save more money. Though measures to increase efficiency in the long term can lessen profits in the meanwhile, their importance can't be stressed enough. Come the next recession, The middle ground does lean more towards Hayek, because it still doesn't promote much government involvement or control over the economy. Therefore, measures which enhance the fluidity of capital in the market are important for the purposes of stimulating long term investment processes, but short term

demand stimulation is also necessary to achieve a balanced policy. Not only does this position sound a little less radical than the Hayekian one (which can come off as extremely conservative), but it also avoids the ramifications of advocating a policy which is founded upon party politics.

Conclusion

Growth and recession are natural parts of the business cycle, and many questions will ask what can be done on the part of the government to help along the economy. Because economic policy has been shaped around the Keynes and Hayek debate in America for some time now, looking at the theoretical underpinnings of different courses of action can be useful for figuring out what to advocate in speeches. Breaking the mold of “liberal” and “conservative” policies, however, is a good technique for creating persuasive and well-rounded analysis. Regardless of whether the name of John Maynard Keynes or Friedrich Hayek ever come out of your mouth in a round, your advocacy can be shaped around their positions, and only a brief mention of theory in speech can help to justify either position. Of course, limiting yourself to a purely dual way of argumentation doesn’t always wind up being convincing anyhow, so I implore you to learn more about these paradigms and others to better your analysis. With either position, a framework for the social value of money is always necessary to draw out the political implications of economic theory. Specifically, looking at money as entirely liquid and unstable can wind up making policy that is just as inconsistent as a nation’s currency. In times of crisis especially, the stability of a currency can’t be the foundation for its value, because this allows for policy which doesn’t have any real theoretical grounding besides how the indicators will look a few months from now. Conversely, a socially evolutionary basis for understanding money can be a guide for sound and cautious economic policy that reinforces the very basis for money itself- social cohesion and property rights. Thus, theory is important even though its value may be less than readily apparent.

Finishing just as we started, let us remember: “money in itself has no character. Its character depends on what man in society breathes into it. It can become the instrument of the highest forms of free individual development and cultural achievement. However, it can also be used to destroy all free subjective strivings by collective or authoritarian decisions. It can be the instrument of freedom or tyranny” (Frankel 95).

Bibliography

- Cochran, John P. and Fred R. Glahe. *The Hayek-Keynes Debate- Lessons for Current*
- *Business Cycle Research*. New York: Edwin Mellen Press, 1999. An excellent, highly readable study which attempts to find a core macroeconomic paradigm that both sides of the Keynes/Hayek debate can work from.
- Frankel, Sally Herbert. *Two Philosophies of Money*. New York: St. Martin’s Press, Inc., 1978. A historically-based explanation of how we have come to view money and how our understanding of money shapes monetary policy.
- McCord, Norman. *Free Trade: Theory and Practice from Adam Smith to Keynes*. Devon: David and Charles, 1970. Widely considered to be an indispensable classic on the history of free trade and how modern trade policy has been shaped.
- National Research Council. *At What Price? : Conceptualizing and Measuring Cost-of- Living and Price Indexes*. Charles L. Schultze and
- Christopher Mackie, editors. Washington, DC: National Academy Press, 2002. A complex study laying a good theoretical framework for development of different cost and price indexes, with complicated statistical analysis
- Smith, Adam. *The Wealth of Nations*. New York: Modern Library, 1994. The single most influential text on economics in history, *Wealth of Nations* is foundational to classical economics especially.

- Steele, G.R. Keynes and Hayek: the Money Economy. London: Routledge, 2001. An in-depth examination of the validity of Keynes and Hayek's thought, and how flaws within each school of thought can be rectified to form a common policy.

Economic Inequality

John Mondragon

Introduction

It is difficult to avoid the political discussion on inequality in the U.S.. Some argue that inequality in the U.S. has increased as a result of free-wheeling capitalism and injustice. To some inequality is an injustice in and of itself while to others it leads to political and economic marginalization of the poor. They think that it is now the responsibility of the government to redistribute income through taxes and services in order to produce a more equitable distribution. Those on the other side of the debate see inequality as a naturally arising, beneficial part of a system where merit and productivity are rewarded. Without inequality there wouldn't be any incentives to work hard and be productive. Without this we would all be poorer.

Many of these questions are subjective and your answer to whether or not inequality is good, bad or neutral will depend on your values. However, there are certain economic facts to the discussion about economic inequality. The intention of this essay is to provide you with some of the insights of economics research into the income distribution and its possible ramifications.

Changes in Income Inequality and Possible Reasons

The facts are that by almost any measure inequality in the U.S. has increased significantly over the past three decades. While the share of income going to the top 10% of earners was about 30% between 1940 and 1970, the share currently going to the top 10% is almost a half of total income. Levels this high haven't been seen since during the Great Depression. If we cut the data again and examine changes in the top percentile we find that virtually all of the changes in inequality are due to *increases* in the top percentile. It is not due to decreases in poor or middle class earnings, but instead due to massive gains by the top earners in the nation. Additionally, research has found that inequality in health outcomes has been especially rough for the poor. Between 1980 and 2000 the life expectancy of the lowest 10% has increased at half the rate of the top 10%. Of course, this is also a result of inequalities education, environment, and health decisions.

There are a number of possible reasons for this rise in inequality. The first has somewhat Marxist undertones in that it posits that labor has been supplanted by capital in the production process. If this is the case then we could expect that the low-skilled workers and the middle class in general would those being displaced by the introduction of automated production. The increased unemployment and decreased wages would clearly result in an increase in unemployment. In reality, the share of labor in production has risen or, depending on the manner of measurement, stayed constant. So, it is not possible for the rise in inequality to have occurred because of substitution between capital and labor.

A common reason offered is that a decrease in unionization and a decrease in the real value of the minimum wage has removed some of the mechanisms by which a more equitable distribution was secured in the past. The weight of the research finds that unionization plays little to no role and that the minimum wage only explains a fraction of the increase and then only when talking about women. Nothing on the order necessary to create the changes observed in the data.

Trade and immigration are both points of great contention with opponents to both claiming that they are detrimental to the wages and welfare of domestic poor. The logic is that foreign workers, whether they stay in their own country and produce imports or if they import themselves and work for low wages, are substitutes for unskilled domestic labor. As imports from low-wage countries increase or as more low-wage workers offer themselves for employment in the U.S. domestic workers will find themselves

crowded out or forced to work for lower wages. The literature concludes that immigration has negligible effects on domestic workers but that new waves of immigrants have a depressing effect on wages of current immigrants. If these workers aren't absorbed into the economy and move into other sectors of employment they will tend to find the gains to immigration absorbed by new wages of laborers.

An interesting hypothesis is that Skills-based Technological Change (SBTC) has caused changes in the returns to different education and skill levels. SBTC is the idea that over time the economy has changed and grown so that certain skills that may have been valued at one time are no longer valuable while other skills are more valuable. There are obvious examples that this is true in the long run. The current wage for musket manufacturers can't be too high anymore, while computer scientists earn significantly more now than they would in a time where computers did not exist (if we could imagine transporting them to such a time). These are a examples of technological change emphasizing different skills. If there are certain segments of the population that have skills which are becoming unproductive then we could expect their wages to decrease (similarly, if there are certain skills that are becoming much more important then we can expect their wages to increase) and so increase inequality. There is ample evidence that this explains a large part of the increases in inequality. Superstar effects (where there are huge returns to being the best, like Lebron James, and much smaller returns to being the second best, like me) and large increases to compensation for positions like lawyers, hedge fund managers, CEOs and investment managers account for large portions of the increase in inequality. While the superstar effects are the result of audience magnification (being the a top athlete today means that you are known to millions of people and have access to millions of dollars in sponsorships). The raises to the other professions seem to be the result of market determinations of their relative worth. Hedge fund managers and investment bankers have been at the forefront of especially large gains (until recently) in the stock market and their wages reflect these gains. Similarly, lawyers continue to increase their sphere of influence and the especially litigious nature of American society seems to encourage their wages.

However, some research has also found evidence that CEO compensation is not tied to market-driven forces and instead is better understood as the result of collusion between peers. If this is the case then the high salaries have nothing to do with the gains to allocating more people to more productive parts of the economy and instead they are simply the results of rent-seeking (ie capturing economic profits by abusing one's position that has nothing to do with productivity or skill). If this is the case then it is a serious inefficiency.

A significant part of the literature on income inequality has argued that certain data show that while income inequality has increased, inequality in consumption has not increased nearly as much. Reasons for this that have been suggested include the use of credit to compensate for consumption. However, most of this literature has been put into serious question as the dataset used has some highly questionable elements. The importance of this literature is not necessarily in the conclusion but in the focus. Consumption is a large and important part of the utility derived from income and we should keep in mind that nominally important indicators like income should be compared to actually important indicators like consumption.

The final fact about inequality that is important is that it has not been offset by an increase in mobility. If the nation's distribution of income is mobile, meaning that it is fairly common for a poor person to become wealthy (and for a person born wealthy to become poor) then it is evidence that skills and rewards are at play in determining the income distribution. The best evidence indicates that mobility in the U.S. has been quite stable since the 1950s. Therefore, the wealth that is currently being concentrated in the top 10% is likely to stay in the same hands.

Economic Ramifications of Inequality

There are a several different economic reasons why inequality could be inefficient. I will discuss two to show you what you can look for an expect. First, political economy research has shown that societies or nations with severe inequality are more likely to enact radical, damaging economic policies that end of decreasing the welfare of everyone in the economy. The reason for this is simple. Exploited underclasses use the political process to attempt redistribution and typically end up going to far in their efforts. Often times, as in Venezuela and with oil, populist movements will nationalize industries without the technology or skill to actually run the operations. With the case of Venezuela oil output fell dramatically following nationalization. It was especially unfortunate as the drop in output took place during a period of record high prices.

Inequality can also directly lead to slower growth. Research on economic growth has demonstrated the significance of education in contributing to high and stable growth rates. However, income inequality can mean that significant portions of the population don't have the opportunity to become educated or make other investments in their own productivity such as health care or nutrition. If the proportion of the population that cannot improve its productivity is large enough it can cause average productivity to fall significantly and so cause the economy to grow at a slower rate. This lower growth rate can in turn perpetuate poverty and inequality, resulting in a self-perpetuating cycle.

Conclusion

Hopefully, this paper has helped you to understand the facts of the U.S. income distribution as well as how economists have tried to understand recent changes. If you would like to read more the following source provides an excellent summary to the state of current literature.

Bibliography

- “Controversies about the Rise of American Inequality: A Survey,” by Robert J. Gordo and Ian Dew-Becker, NBER WP 13982, April 2008

Fiscal and Monetary Policy

Joe Hoelscher, Rana Yared, and John Mondragon

Introduction

When we think of the ways government influences the economy, we tend to think of policies like tariffs or laws passed by Congress. In reality, the government is actively intervening in the economy every day in much more subtle, but powerful ways. The men and women responsible for that intervention aren't elected officials and are rarely known to the average citizen. Yet, they exercise tremendous control over our lives, often without us even being aware of it. They are the bureaucrats who implement, even decide, our nation's monetary and fiscal policies.

Monetary and fiscal policies, though related in their effects, are very different. Fiscal policy refers to how the government acquires and spends its money—taxes and expenditures. All levels of government, from local to state to national, engage in shaping our nation's fiscal policy. Monetary policy, on the other hand, is under the purview of the federal government and refers to the way it controls the supply and value of money, through the manipulation of interest rates, to achieve various goals. At best, Congress or the President may play a role in setting priorities for monetary and fiscal policy and leave implementation to others. At worst, even Congress and the President can be as clueless about America's actual fiscal and monetary policy as the rest of us. Rarely do people with so little accountability have as much power as the folks entrusted with America's monetary and fiscal policy. As you will learn later, their decisions can have very real impacts on how we live our lives. So, it is important to understand how fiscal and monetary policies affect us as participants in the U.S. economy.

Fiscal policy deals with any questions about federal, state, or local government debt and budgetary matters. Monetary policy deals with questions about interest rates, the Federal Reserve (which manages U.S. monetary policy), and the value of the dollar. The federal government uses both fiscal and monetary policies to maintain the nation's overall economic health. You will end up discussing these topics either directly or indirectly.

This chapter deals with fiscal and monetary policy separately, for the sake of simplicity.

However, they work in conjunction with one another in the real world. To help you understand that relationship, the separate sections on fiscal and monetary policy will be organized similarly. First, each section will give a brief overview. Second, I will discuss the goals of each type of policy. Third, I'll describe the various tools of fiscal and monetary policy and how they affect the economy.

Fiscal Policy

Fiscal policy refers to how the government collects money and how it pays for its expenditures. Just like a family's household budget, governments have expenses they must pay and budgets they have to meet. Governments, whether local, state, or national, that cannot cover their costs risk collapse. (Think California budgetary crisis that brought down Governor Davis.) Even the U.S. federal government has faced this possibility. During the Great Depression, the legendary industrialists of the time were called upon to help bail out the federal government when it ran out of money. More recently, the government has been "shut down" for brief periods of time when Congress failed to pass a budget in a timely manner. When this happens major crises follow. Imagine a family that runs out cash, bills don't get paid and discretionary spending becomes limited. When things got tight in my family, we weren't allowed to use the air conditioner. As much of a hardship as that was (it gets over 100 degrees in the summer where I live), it's nothing compared to what happens when governments can't pay their bills.

Generally, governments get their money from taxes and it logically follows that government expenditures should stay within that amount. Ideally, the same is true of families. Your family should not spend more

money than it has. Practically, expenses often exceed resources and this is when things get complicated. A family might get hit with a surprisingly large phone bill or have to pay sudden medical expenses.

Governments have to deal with natural disasters, recessions and warfare. A family might run up a huge credit card debt, while governments might sign a contract for a large number of \$500 hammers. Responsible families try to plan for these kinds of contingencies by saving money in a bank or maybe buying insurance. Responsible governments also try to plan ahead. Unfortunately, unlike families, governments don't get a set salary. Tax revenues fluctuate. Add in that governments are run by large groups of people with competing interests and planning only becomes that much more difficult. And that is fiscal policy in a nutshell.

The Goals of Fiscal Policy

The goals of fiscal policy are largely arbitrary. Some policy makers hold strong views that reflect their political ideology, but many do not. Special interests also influence fiscal policy, especially the spending aspect. Bureaucrats, too, have a great deal of influence over specific expenditures. Congress may choose which programs to fund, but it is the administrators who actually spend the money. Over time, there is little consistency to American fiscal policy except that the government tends to increase the amount of taxpayer money it spends.

There are a few trends in fiscal policy that emerge from time to time. Keynesian theorists (see the chapter on Supply and Demand) tend to be advocates of government spending. Political liberals are most commonly associated this economic view, but not always. Keynesian theorists like the government to stimulate the economy during contractionary periods, like recessions, by spending money (the large stimulus bill recently passed by Congress and signed by Obama is an example). During periods of economic growth, they then prefer to reduce spending and pay off debt acquired while trying to stimulate the economy. In practice, government rarely reduces its spending. This phenomenon leads to the gargantuan debt that the US currently has.

Sociopolitical and socioeconomic interests also impact fiscal policy; many politicians support continued increases in government spending for certain sociopolitical programs long after they outgrow their usefulness. They may want to improve public education or provide national health insurance, for example. This type of "social spending" is very expensive because it necessarily involves problems of large magnitude that are often complex, hard to fix, and require large amounts of money to tackle. There is no real natural stopping point, either. One can always find some way to try and make the world a better place. So, spending rises over time. One way economists often try to draw a line between what is and is not acceptable spending is by only allowing spending for "public goods." Public goods are those characterized by an "externality." That is, the benefit they provide cannot be restricted only those who are willing to pay for it. A good way of understanding this is to think of the military. The government collects taxes to fund the military and then it is used to provide security for the nation. However, those residents who do not pay taxes still get the benefits of being guarded by the U.S. military. If the government didn't make the penalties for avoiding taxes so high then it is likely many people would refuse to pay taxes. Economists call these people "free riders." That it is necessary for the government to forcibly collect taxes and use them to fund the military makes it a classic example of a public good. Traditionally, governments step in to provide this kind of service and make sure that everyone contributes by levying taxes to pay for them.

Naturally, the success of this endeavor depends on the government's ability to correctly gauge what services are needed and what is the fair amount for people to contribute (and to enforce tax collection). In an ideally functioning democracy, these determinations are made by the voters or their representatives. In reality, these decisions are value driven and people have very different values. Rarely will government

policies (often compromises) correlate exactly with what is needed nor will policy makers always agree on what can be considered a public good.

More conservative policy makers generally oppose government spending and apply a stricter test for determining legitimate expenditures. Instead of asking if something is a public good, they often set rules for what government may spend money. Generally, they only want money to be spent for the basic administrative costs of government, maintenance of order and the rule of law, infrastructure, and defense from foreign threats. This does not mean they necessarily thrifty. In fact, one of the ongoing controversies in fiscal policy is whether money should primarily be allocated “guns” (spending on domestic security and national defense) “butter” (social services). Conservative policy makers can easily spend as much on guns as liberals will on butter. The tension between these two extremes is too often resolved simply by spending more money and doing both. For example President Bush announced that the 2006 fiscal year budget will feature massive cuts in social program spending. The administration believes that such a policy will help them reign in spending and balance the budget. However, while cutting social programs they are increasing military and homeland security expenditures, leading many citizens to complain that guns are being chosen over butter.

Another consideration in fiscal policy is “pork barrel” spending. Legislators in the United States have geographically defined constituencies. Their personal interests lay in remaining in office so they try to keep their constituents happy, even when it may not be the best thing for the country as a whole. An easy way to do this is to make sure that their constituents receive a lot of money from the government. In a recent federal budget, \$50,000 was allocated for tattoo removal for former gang members in one California representative’s district. Hundreds of thousands of dollars were allocated to a “Sheep Institute” in another congressperson’s largely rural district. Billions were allocated to agricultural subsidies throughout the Midwest. Special interests often override ideology when it comes to spending government money.

Beyond setting goals for spending, fiscal policy must also decide how to collect money. Liberals often favor “progressive” taxing regimes that place more of the tax burden on the wealthy and reduce taxes for the poor or disadvantaged. Thus, once again, sociopolitical motives may influence economic policy. Conservatives hold the view that everyone should chip in equally. They differ on what equally means, however. Some conservatives today support a flat tax system in which everyone pays the same percentage of their income. Others would abolish the income tax and go to a “value added tax,” or VAT. The VAT acts like a sales tax, more or less, but is really too complicated to explain here. What conservatives do not want is for government to create a disincentive for investment and private spending. They see these as the foundation of economic growth and the source of jobs and wealth creation. Social liberals, on the other hand, are more concerned with addressing what they perceive as social problems, like disparities in income that must be corrected.

The Tools of Fiscal Policy

There are two tools of fiscal policy, beyond restraint in spending. The first is taxation. Governments may levy taxes to acquire the money they need. That is pretty straightforward. The effects of taxation are not. Some taxes are inescapable. Everybody must pony up. The income tax would be inescapable except for the many loopholes that have worked their way into the system. Since people don’t have any choice in the matter, the only important effect of inescapable taxes is the redistribution of money from private citizens to the government. Government possessed money does not leave the economy. It still gets spent. It just gets spent differently than consumers normally spend it. As I explained in the chapter on supply and demand, a market economy rests on the principles of competition and rational self-interest. Governments, however, are insulated from these forces. Government, as the seat of authority, does not compete like other organizations. Local governments may compete for residents, but only to an extent because people don’t like to move without very good reasons. They will put up with a lot. Governments also compete for

labor with private enterprise, but not on a level playing field. In many cases there is no competition at all. Governments don't allow private militaries, for example. Governments have the power to prevent competition by just not allowing it. If you don't believe me, try to go buy a cruise missile and see where you end up.

Governments don't play fair even when there is competition. This is because they don't exist to sell anything. They provide services and levy taxes. Basically, governments decide what products consumers will get AND how much they pay for them. Private companies don't have that luxury and can't compete. So, when government decides to do something, there is no immediate force pushing them to do it well. Only if voters are very aware of and vocal about their government will they have any effect. Here again, though, that pressure is muted. Public servants are isolated from their constituents by security needs and just the sheer number of people they represent. We can't all get face time.

Governments don't behave according to rational self-interest as consumers would, either. Consumers seek to get a good value. Government seeks to perpetuate itself. At the best of times, it is simply trying to provide us with what it thinks we need. Notice that price is not really a consideration.

The result of all this is that governments spend tax money in ways that tax payers never would. So, transferring large quantities of money into government hands introduces a variable beyond competition and rational self-interest into our economy. Government spending actually undermines market values a lot of the time. Inescapable taxes, then, shift power from consumers who represent themselves with a "dollar vote" to government that makes economic decisions based on what makes sense politically, which is often not the same as what makes sense economically.

Taxes are also pretty unpopular. People can get upset if they have to pay too much and that means policy makers might be job hunting after the next election. Making the situation more complex is the fact that taxes are not a quick way of raising money. To get around these problems (at least in the short term), governments rely on the second tool of fiscal policy: debt. Bonds are the primary way governments take on debt, as I mentioned earlier. The problem with bonds is that they have to be paid back with interest, adding an extra expenditure to the budget. When governments take on a lot of debt, they hamper their ability to make future expenditures without significant tax increases. Nations like companies have an optimal debt to equity level. Too much debt can cause an economic slowdown by removing capital from the private sector.

The situation is exacerbated when governments must rely on foreign purchasers. Governments that do so make themselves dependent of foreign money and expose themselves to the volatility of international capital markets. If their debt becomes too great as a percentage of GDP (this indicates the probability that they will be able to make payments on their debt and take on additional debt if temporary economic problems arise), investors will lose faith and take their money elsewhere. Moreover, currency speculators may attack (selling the country's currency) and depress the value of their currency. Serious harm to a nation's economy can occur at this point. Brazil has labored under these problems for decades and it was a contributing factor in the collapse of the Asian Tiger economies in the 1990s.

Once a country's currency begins to devalue while it is servicing debt paid in foreign currency, the real cost of covering its debt payments increases. If I loaned money to a friend in Mexico, say \$100, and the peso slipped from being worth 20 cents to being worth 10 cents before he could pay me back, my friend would have to pay 1000 pesos instead of 500. His debt load would have doubled as far as he was concerned. He would be in especially bad shape if the Mexican economy was contracting at the same time he had to pay me back, because he would have more trouble making money. In governmental terms, just as the economy would be slowing down, the government would run out of cash and would be unable to stimulate the economy with more spending or tax cuts. As businesses and consumers began to suffer, tax

revenues would probably decline further. The pressure to borrow more money would be intense. Sadly, no sane investor would be likely to lend money. This is when country's default on their debt (fail to make promised payments). When that happens, the economy fails. In Third World nations governmental collapse could easily follow as recently occurred in Argentina when they went through some seven presidents in 30 days. What happens next is intervention from international financial institution such as the International Monetary Fund (IMF). The details of such measure are covered later in the text.

Monetary Policy

Monetary Policy is how a government controls the supply and value of its currency to influence the overall level of economic activity in line with its political objectives. This policy is usually controlled a country's central bank. In the United States, that's the Federal Reserve Bank.

A little history lesson is in order before proceeding. Central banks are a modern phenomena. Before their creation, the value of a nation's currency was based on how much of a precious metal (usually gold) that a country possessed. A government that minted currency (no paper bills back then) would make its money out of its gold or silver reserves. People knew what a coin was worth because they knew how much gold it contained. That's why you see pirates biting coins in the movies. They were checking to make sure it was actually gold.

After the advent of the printing press, governments could literally make money. Anybody could. For a long time, banks and even some wealthy individuals would print their own money. They persuaded people to accept it by promising to exchange the paper bills for some amount of precious metal, if requested. The reason the British pound is called a "Pound Sterling" is because it was backed by a physical pound of sterling silver. Eventually, everyone settled on gold as the metal of choice and world was on the "gold standard." Currency exchange rates as we know them did not exist. People were trading gold.

The big drawback, of course, is that anyone who printed money had to have gold to hand over to people if they wanted. That's why the U.S. has Fort Knox. It was where we kept our gold. Money suppliers quickly figured out, though, that they could print money equal to more gold than they actually had because not everyone would come back and exchange it. They actually created money. This strategy backfired when people got concerned about the economy and all rushed to the bank to get gold. These bank "runs" would leave banks without any gold and force them to close up shop. Some smaller countries were also bankrupted. The United States was saved only by J.P. Morgan, who had his own extensive supply of gold.

Countries responded by enforcing monopoly control over gold bullion and the ability to print banknotes. Only governments could issue money from then on, but it was still backed by gold. The supply of money, then, was very stagnant. More money could not be printed unless a government acquired more gold through trade or mining. Population growth outstripped the money supply in most countries and there just wasn't enough money to meet peoples' needs. There was a physical lack of paper bills. This contributed to the nastiness of the Great Depression and caused John Maynard Keynes to realize that money supply affected the level of economic activity (it's hard to do business when you can't make change for anything). Nations began creating "central banks" and instituted "monetary policy," or active attempts to influence the amount of money available.

President Richard Nixon brought us into the modern age in 1968 when he wisely decided that the gold standard was detrimental to American interests (especially since the U.S. financed the global system), simply refusing to turn over the gold anymore. Now, the Federal Reserve (Fed) controls the amount of money in circulation and the amount of credit available.

Goals of Monetary Policy

What the Fed tries to do is maintain the purchasing power of the dollar and its worth compared to other currencies while ensuring enough liquidity (physical money, in this sense) to keep the economy going. More generally, the goal of monetary policy is usually “macroeconomic stability,” or low inflation (rate of price increases), low unemployment, economic growth, and a balance of external payments (how much we pay for imports compared to what foreigners pay for our exports). The Fed’s job is no walk in the park when you consider that huge amounts of money are now regularly electronically transmitted, in milliseconds, around the world.

In practical terms, the Fed’s goal is to smooth out the business cycle to keep people from getting burned too badly in recessionary times. When the economy is booming, inflation tends to rise. This means that average individuals’ money doesn’t go as far as it did (because prices are rising) and, because inflation tends to be unpredictable once it gets moving. These conditions make it harder for businesses to make accurate financial plans. When the economy is busting, people get laid off and businesses go bankrupt. The Fed tries to reduce these human costs and keep the economy from going too far towards either extreme by either slowing down or speeding up the economy, as need be.

Tools of Monetary Policy

There are three tools available to central banks to implement monetary policy. First, they can buy and sell bonds, called “open market operations.” Second, they can change reserve requirements, or the amount of actual money from deposits that banks are required to hold in reserve in case of sudden large withdrawals. Third, they can play with the “discount window,” and reduced rate at which banks can borrow money from the Fed.

Open market operations are the most widely used tool of monetary policy, yet most people never even know when they occur. When the Fed wants to decrease interest rates being paid in the open market, it will buy a bunch of government bonds from a bank (or many banks). As demand for bonds increases, they pay less interest because they don’t need to attract investors. More importantly, the Fed pays for the bonds and adds money to the bank’s reserves. The bank now has more money on hand than is required by federal law (more on this in a bit), so it can lend that money to other banks or to investors. Increasing supply decreases price. In this case, the price is the amount of interest the borrowing bank pays. So, by increasing the supply of money that is allowed to float in the economy (instead of being locked up in a Federal Reserve Bank), the Fed can decrease interest rates. The inverse is also true. When the Fed wants to slow down economic activity, it will sell a whole ton of bonds. It collects cash for the bonds and keeps it hidden away. The people with the bonds can’t do much with them until they mature (reach the agreed upon time for them to be paid back), so the supply of money contracts, thus raising interest rates. These interest rate changes affect the economy by increasing or decreasing the cost of financing business deals. As the cost increases because investors must pay more interest, they will be less likely to undertake new projects and vice versa.

The second tool the Fed is uses is the required reserve ratio. Banks are required to keep a certain percentage of currency on hand to cover unforeseen large withdrawals and to deposit some of their deposits with the Fed. This comes straight out of a desire to prevent “runs” on banks. Banks are allowed to temporarily go below the mark, depending on how business went during a particular day, and are always allowed to hold more than what is required. The standard amount they are required to hold in reserve is 10. The Fed can change this at any time, though. It is very rare, because it cause a lot of accounting problems and has a major, sudden affect on the money supply. The reason it is so effective is that it directly changes the money supply nation-wide. If the Fed requires banks to hold more money back that means less is available for investors to borrow. Interest rates will increase almost immediately and across the board. The inverse is true, too.

The third tool the Fed has at its disposal is the discount window. When banks temporarily fall short of their reserve requirements because of recent large outflows of cash, they can borrow money from the Fed. The Fed charges a discounted rate below what is being charged in the open market. This is appropriately called the “discount rate.” The Fed discourages such borrowing, except for short-term shortages of cash, so the actual impact of changes to the discount rate tends to be small. But, it does signal what the Fed will be doing on other fronts. The Fed will lower the discount rate only when it plans to lower interest rates generally and will only raise the discount rate when it expects open market rates to increase enough to allow the discount rate to go up and still be a discount. Investors and banks anticipate these effects, so changes to the discount rate have “announcement effects” and prepare the way for other changes.

One last thing to note is that large changes in the supply of money can affect its value.

Since our currency is no longer backed by gold, its value depends on how many people want it to use in financial transactions and how much of it is available to be used. (This is often referred to as “consumer confidence.”) This is also a reflection of the relative strength of our economy as a whole. People want dollars because they want to buy American products or to hold as a “reserve currency,” a hard (having a stable value) currency that they can hang onto because their own currency is “soft” (not stable, usually declining in value). But they will only want American products if our products are competitive internationally and they will only hold dollars if they believe that dollars will be useful. It is their demand for dollars that keeps its value high. When the supply of dollars increases relative to the demand its value falls. Not surprisingly, at this point, contracting the supply of dollars will make its value rise. These changes affect American businesses and consumers by changing the relative price of the goods we export and import. When the dollar is strong, imports are cheaper but our products sold abroad become more expensive for foreign consumers. When the dollar gets too strong, we will purchase many more foreign products than we sell to foreigners. This can slow down the U.S. economy. A weak dollar, though, can accelerate sales of our products abroad, but make foreign goods relatively expensive for us to buy. Most economists agree that these “current accounts” need to be balanced. Fiscal and monetary policy, mostly monetary policy, play a role here, too.

Monetary and Fiscal Policy Overview

Fiscal and monetary policy have very significant impacts on the economy, especially when their effect is combined. For example, if the U.S. went into a major recession, the federal government could increase its spending and reduce taxes to stimulate the economy. This would require it to assume debt, but would create or preserve jobs. Lower taxes would make it easier for businesses to weather reduced sales and increased government spending would replace private sector customers who stopped buying. The Fed could simultaneously reduce interest rates, making it easier for investors and business to borrow money. Businesses that needed an infusion of cash to overcome slumping sales could get it and investors looking to do new deals could arrange the financing.

However, both fiscal and monetary policy are strong by themselves. The tax cuts pushed through during President Clinton’s second term definitely stimulated the economy and President Bush’s tax cut may be responsible for the better than expected post-holiday sales that followed (however, most academic economists do not credit tax cuts with any serious ability to counter a recession). Similarly, former Fed Chairman Paul Volcker responded to rising inflation in the 1980s by raising interests rates and not only chilled inflation but stalled the whole economy. Despite their power, you should remember that a great deal of fiscal and monetary policy are still poorly understood. Questions about how much to spend or how far to change interest rates are not easy to answer, even for economists.

International Trade

Jason Warren, Rana Yared, and John Mondragon

Introduction

Trade, a concept not unfamiliar to most, often goes misunderstood in tirades about the subject. This is ironic considering we trade everyday. Every time we make a purchase at the store, we are making a trade of sorts. Society agrees that a vendor will provide a product or a service, and the consumer will provide a certain amount of dollars in exchange for said service. Even before the invention of currency, which certainly helped to standardize the trading process, civilizations would barter one good for another to ensure that they would have all the resources necessary for survival.

The modern age has seen an expansion of trade the likes of which the world has never before seen. With the click of a mouse, stocks can be traded at record speed half way around the world. A few computer key strokes can send a shipment of automobiles around the block or around the globe. Globalization, a relatively new term, is now the buzzword for political scientists, economists, and international relation theorists alike to describe the integration of state economies into a global framework.

This chapter is intended to explain the concepts behind international trade, and more importantly, how such concepts can be incorporated successfully into your analysis. To this end, we will first examine the history behind the contemporary financial architecture. Next, delve into the concepts of comparative advantage, tariffs, quotas, and other international related terminology. Our discussion will then turn towards globalization, the phenomenon behind it, and the pros and cons of the new international order. This will lead us into regional organizations and global institutions, and a conclusion on strategy.

World War II and International Trade: How did we get to where we are today?

The origin of international trade and the fundamental concepts behind it stems from the Bretton Woods agreement. In a world divided by American and Soviet influence, the post-World War II era sought to stabilize state relations in an interdependent economic system. Theoretically, if states must trade with one another for economic survival, then they will be less inclined to initiate military conflict. It was also an intention to avoid the incredible economic destruction that took place during the Great Depression. Much of the damage was exacerbated by the economic structures of the time and it was thought that international agreements on coordination could avoid some of the mistakes made before. The Bretton-Woods arrangement was contingent on the principle that there must be some sort of stabilizing force in check to promote free trade in the trilema of economic negotiation: national sovereignty, fixed exchange rates, and capital mobility. It was believed that if all three of these components went unregulated, then a series of competitive devaluations, price manipulation, and other economic trickery would occur to try to cheat other nations to promote their own product.

To this end, Bretton-Woods introduced a system of fixed exchange rates, whereby the United States dollar would be pegged to a gold standard (which was later abandoned), meaning that the amount of money the United States could print or have in circulation was dependant on how much gold it had in it's reserves. Other currencies would then be pegged to the dollar, meaning their value would be determined based on the strength of the dollar. Such a plan was applauded by the international community because it would ultimately stabilize the prices of goods from other nations, encouraging trade and foreign investment. After all, if a nation was given free rein to manipulate the value of their currency, and hence the cost of their products, why would other nations feel inclined to engage in trade? This framework allowed for stability, long-term planning of trade policy and a level playing field to accommodate a growing demand for international trade. National sovereignty, especially at the time of Bretton-Woods, was considered too valuable to concede. States believed that they should have the right to

regulate their own economies and set their own policies without the international community dictating what actions would and would not be appropriate.

So then what happened to capital mobility? The Bretton-Woods system, fearing that international investors would quickly withdraw their funds from a given country in times of political crisis, established limits on the flows of capital. If a bank crisis occurred, a currency was facing tough times, or a military conflict seemed imminent, global financial leaders wanted to prevent a sudden economic shock caused by massive withdrawal of foreign aid. As such limits were set to control how much money could be injected or removed from a nation in a certain time-frame.

The Bretton-Woods system, however, had a unique relationship with the United States. The expansions of international trade on the part of the United States lead to a drastic change in American policy. Considering the United States was becoming the premier trading partner of many nations, it needed more financial capital and labor to keep up with global demand. To receive this capital, restrictions on capital inflows needed to be lifted. Eventually, Nixon un-pegged the dollar from the gold standard and decided to establish exchange rates on a floating system (a more speculative format where the value of currencies is determined by governments and international economic speculators).

Modifications by American, European, and Japanese financial leaders had dramatic results. All three powers sought to not only expand their financial opportunities and their abilities to be recipients of foreign aid, but also to preserve national autonomy. The breakdown of Bretton-Woods, or rather the shift from limitations on currency flows to the adoption of floating exchange rates, was meant to preserve the third piece of the trilema while still promoting international trade. Later on, we will discuss how national autonomy is also being sacrificed to fuel an increasingly globalized world economic order.

Comparative Advantage, Tariffs, and Quotas: Mommy, Jimmy wants to trade me a cupcake for a cookie, is that ok?

No discussion of international trade would be complete without an explanation of how international trade came about or why states (or more accurately, why people) engage in trade in the first place. The most basic reason why states exchange goods is because it is mutually beneficial. States have two economic characteristics that make them unique: their access to resources and their productivity. Resources, be it the raw materials utilized to make finished goods, or the equipment necessary to produce consumable products, or the transportation means necessary to get those goods to the shelves are scarce in any nation. Scarcity, the building block for all economic principles, implies that each nation is limited in how many resources it has and how much of each resource it possesses. Due to this limitation, states and markets must choose what products to make with the resources and capabilities it has. This choice, though, inevitable means that something is not being made. If we have 100 apples in our country, and we decide that all of those apples will go to making apple pies, we obviously cannot make any apple sauce. This is our choice- to make all of our resource (apple) produce all of one product (pies) and none of another product (apple sauce). We could very easily say “let’s make applesauce” and produce 30 jars of applesauce, but that means we could not make as many pies because those apples would be used elsewhere. The trade off between the two goods is known as opportunity cost.

But what if the people of our nation really want apple sauce and apple pies? Well, we must turn to trade to accommodate the missing demand. Let us assume, for the sake of example that there are two countries that make two products: applesauce and apple pies. Let us also assume that the follow chart tells us what would happen if we used all of our apples to make one product (in other words, if Extempland uses all of their apples to make pies, then we get 200 pies and no applesauce. Conversely, Interpland could use all of their apples to make applesauce and get 40 jars of applesauce and no pies).

	Nation Apple Pies (Maximum)	Applesauce (Maximum)
Extempland	200	100

Interville	160	40
-------------------	------------	-----------

Assuming that our resources are easily convertible, we could assume that for every jar of apple sauce Extempland makes, it costs them two apple pies. If we divide 200 pies by 100 jars, we arrive at the conclusion that for every 2 pies we lose, we get 1 jar of applesauce. This is Extempland's opportunity cost for making applesauce: two apple pies. Likewise, Interprville's opportunity cost for making applesauce is four apple pies. Because it is cheaper (in terms of how many pies we must sacrifice to get a jar of applesauce) for Extempland to make a jar of applesauce than it is for Interprville to get a jar of applesauce, Extempland has a comparative advantage in producing applesauce.

Comparative advantage is the term utilized to describe the nation who can make the product in question at the cheapest rate in terms of what that nation must sacrifice to produce that product.

So Extempland has the better economy overall, right? Well, not necessarily. Let's put the shoe on the other foot and find out who is better at making apple pies. We divide Extempland's 100 jars by 200 pies and find that for every one pie Extempland makes, they sacrifice one-half of a jar. However, for every one pie Interpland makes, they are only sacrificing one-quarter of a jar. Good news for Interpland: they have the comparative advantage in the pie making business.

Theoretically, this means Extempland should devote all of their resources to applesauce, Interpland should devote all of their resources to apple pie, and then trade to get the other commodity. If another nation can develop a product cheaper than our nation, we should most certainly let them produce that product and then trade with them. The reason why is because our terms of trade, the rate we will trade products, will be advantageous to both nations because it allows nations to consume more than they can produce in autarky. If Extempland sells Interprville one jar of apple sauce at the price of three apple pies, then both nations will benefit. It normally costs Interprville four pies to make a jar of applesauce, so to them, this is a bargain. Normally, Extempland could only get two pies for every one jar of sauce when they produce it themselves, they can now get more apple pie for every jar they sacrifice by having Interpland make the pie and trading.

Comparative advantage is pivotal to understanding why international trade occurs. If the United States has a comparative advantage in computer technology, and Brazil has a comparative advantage in coffee production, why not just produce computers at home and trade with Brazil to get the coffee that our citizens demand? Or if Iraq has a plethora of oil and we have necessary food stuffs (think oil-for-food program), an exchange could meet the needs of both nations. On an abstract level, comparative advantage is mutually advantageous to both parties, which is why the trade takes place. Keep in mind though, that this example assumes that one nation will produce only one product, or specialize, with all of their resources, not the case in international economics. Once one of the two nations no longer specializes than all of the gains from trade go to the still specialized country.

Just because trade can provide a profit on paper does not necessarily mean that the people of a certain nation will be supportive of international exchanges. Sometimes states engage in protectionism to promote national industries and defend domestic producers. One example of protectionism is a tariff, where a nation imposes a tax on all imported goods to raise their prices and make them seem more expensive compared to domestically produced goods. Countries engage in import substitution to bolster the position of their national by reducing competition from more efficient foreign producers. Theoretically, consumers will buy domestic products over foreign goods because the tariff makes the imported product unbearably expensive. Because this puts foreign products at a disadvantage, many trading blocks have sought to ban member states from utilizing tariffs.

Another form of protectionism that is sometimes utilized is known as a quota, where a nation imposes a limit as to how much of a certain product they will import. Once again, quotas should provide a boost to

domestic industries by limiting competition for their product. Protectionism, however, is not as easy to implement as it seems. As a practical issue, tariffs and quotas that too severely constrain a market are undermined through underground trading, where smugglers find illegal methods to bring goods into a protected nation. Protectionism may also subject a nation to international backlash. Rules established by international institutions, such as the World Trade Organization, make it exceedingly difficult to implement laws that do not promote free trade. However, in many developing nations, minorities and indigenous populations demand that their national governments implement some form of protectionism so that locally produced products can remain competitive with foreign goods. Latin America saw this dilemma in the mid 1900's when protectionism was used to try to persuade consumers to purchase inferior domestic goods when foreign products were flooding markets.

So how does all of this information help you and your analysis? First and foremost, knowing what goods each nation specializes in can help you. Does a nation specialize in a labor intensive product (such as natural resources, agriculture, or low-level industrial outputs) or a technology intensive product (like mass production, high-level industrial outputs, or even service-oriented products)? Countries with different domestic production objectives engage in trade to get the resources that their nation does not produce. Nations with similar production goals engage in trade to get their products exposed to more consumers, increase competition, and acquire technology to develop better products. Use this information to your advantage to determine whether or not it is in the best interest of two nations to engage in trade (remember: you can find out the most about a national economy and its general production trends with an almanac). Secondly, questions will ask you about the pros and cons of protectionism. Does a nation need to be shielded from foreign competitors or open to the global market to gain external investment? Once again, listing theoretical and realistic outcomes for policies is an extremely effective tool here.

Globalization: A big word for an even bigger concept

The buzzword to discuss modern day economic reform is “globalization”. In its simplest terms, globalization refers to “the inexorable integration of markets, nation-states and technologies to a degree never witnessed before- in a way that enabling individuals, corporations and nation-states to reach around the world farther, faster, and deeper than ever before.” Basically, globalization is the new international order replacing the Cold War. No longer do we live in a world defined by bipolarization of major powers, but rather, a world where free-market capitalism reigns supreme, states are allowed to engage in as much trade as they would like, and state economies are closely integrated with one another.

Thomas L. Friedman asserts in his book The Lexus and the Olive Tree, that there are three “democratizations” (technology, finance, and information) that have led to the new globalized world order. Technology for one has made significant improvements from 1980 to the present day. Communications equipment is now smaller, more light-weight, and easily transportable. In addition, the cost for computer technology has greatly declined relative to what it was, and access to the internet has increased the speed by which we can travel the World Wide Web. Miniaturization has made this new technology extremely cheap, allowing more individuals access to a more technology in-tune world. Secondly, the democratization of finance is a key component of globalization. Banks and multinational corporations can now invest in markets across the globe at lightning fast speed, allowing greater access to investment opportunities. Even individuals can now purchase stocks from foreign markets from the comfort of their own homes, allowing personal interaction with the global marketplace. Finally, the democratization of information has made individuals, corporations, banks, and governments more likely to make such investments. With so much information available about various investment opportunities, be it from private research firms or the internet, we have more access to information now than ever before. Such ability makes us more inclined to want to invest abroad because we feel safer about that investment- we can track our stocks easily or find out about the political developments arising in a given nation.

These three democratizations has created what Friedman calls the golden straightjacket, a set of rules that any nation must live by if it wants to survive and interact positively in the international arena. Countries find it to their advantage to remain as transparent as possible. After all, why would investors choose to risk their earnings in an economy where information is scant and politicians have the ability to embezzle funds out of national corporations without the public knowing (of course, China is a good counterexample to this “rule”)? With so much competition occurring for international trade, states are also being encouraged to lower tariffs as much as possible to make their markets more hospitable to foreign goods and to prevent foreign countries from erecting retaliatory tariffs that block the exportation of domestic goods.

This economic infrastructure does run into opposition on two major issues. Initially, globalization has the potential to undermine efforts to establish international standards concerning environmental protection and fair labor laws. Laws such as minimum wage requirements and maximum amounts of pollutants can only be applied to national industries. In circumstances where regulation on industry gets too costly for business to tolerate, they build elsewhere to circumvent such laws. The classic example stemming from sweatshops in nations in the Southern Pacific Rim where workers are forced to work in dangerous factories and paid pennies a day to produce products that are later shipped to the United States. As an economic strategy, though, producing goods in nations with lax regulations makes for sound profit policy: it could very well be cheaper to make a product in a foreign nation and ship it back to the domestic market than it is to comply with state business requirements. This has the potential to be particularly damaging to the environment, especially since increased global competition could lead to rapid resource depletion. This is known as the slippery slope argument. Empirical test of this hypothesis have actually found evidence to the contrary. In fact, it seems that economic growth and environmental protectionism move hand in hand. On the issue of human rights, corporations have been accused of exploiting workers across the globe to get the cheapest labor rates to maximize profits. In short, the lack of international regulations has lead multinational corporations to seek the lowest common denominator. Organizations such as the International Labor Organization have worked to alleviate this problem, setting an international child labor age restriction. Similarly, the Caux Principles attempt to set guidelines for international business practices. Again, it seems that as a nation becomes wealthier its labor standards improve, the important point being that legal labor standards lag economic growth so that workers are living better and earning more *before* it is legally mandated.

The second major complaint logged against globalization proponents is the impact globalization has on culture. Globalization can have a homogenizing effect on participatory nations where international trends override local customs. Benjamin Barber addresses this point in his book *Jihad v. McWorld*. As multinational corporations become much more competitive with one another to gain profit from untapped regions of the world, culture dating back thousands of years risks being sacrificed. The homogenization of culture becomes especially dangerous when it is coupled with the economically impoverished:

“Where this cultural backlash becomes the most politically destabilizing is when it gets married to one of the other backlashes- when groups that are economically aggrieved by globalization merge with those who are culturally aggrieved. This phenomenon is most apparent in the Middle East, where fundamentalists of many stripes have become highly adept at weaving the cultural, political and economic backlashes against globalization into one flag and one broad political movement that seeks to take power and pull down a veil against the world.”

Protesters claim that if globalization continues at its current rate, then the values of the international society will replace domestic beliefs. Younger generations are more susceptible to these changes, which could be politically and socially distressing. If teenagers in traditionally conservative societies are exposed to a new culture where rebelliousness and challenges to authority are applauded, it could lead to

a culture crash that crosses the generational gap. Of course, this entire critique relies on the assumption that these people who adopt more global cultures are doing so to their own detriment. In other words, they don't have enough sense to follow the culture that is in their own good. It's a dangerously elitist position.

This is not to say that globalization does not have its advantages. Such a sweeping international trade is accompanied by huge benefits. Most notable is globalization's potential to democratize other world powers. In many cases, when a nation reaches higher levels of economic growth, the forces of democratization start to churn for several reasons. First and foremost, money empowers people. If economic growth leads to an expansion of a middle class, it also leads to a larger class that feels as if they deserve a say in the operations of their government. Economic strength empirically leads to a demand for more political power. Trade, in many cases, promotes economic growth. When people get rich, they develop a sense of self-worth and gain access to more resources. This mentality shift turns political when individuals start to desire to express their beliefs towards their government and demand that the current regime be accountable for its actions in terms of a national election. Furthermore, the demands of globalization make governments more transparent. As mentioned earlier, globalization requires states to be more responsive to demands for information. Exposure of national corruption typically leads to pressure, be it internally from the people or externally from the United States or other democratized powers, to reform governments to include basic democratic standards. Additionally, when a nation becomes more globalized, it is exposed to the ideas of other nations, particularly Western ones. Exposure to concepts such as the right to vote, freedom of the press, and unrestricted speech show citizens that there are alternatives to oppressive regimes, thus increasing the demand for political change.

As a stabilizing effect, globalization tends to pacify nations. Countries who engage in trade are significantly less likely to declare war on another, mainly because doing so would harm potential revenue on both sides. In fact, the regions of the world where globalization and international trading standards have taken hold the least, mainly the Balkan region, Africa, the Middle East, and some parts of the southern Pacific Rim, have experienced the most hostility in the past two decades. To put it another way: trading partners rarely go to war, wealthy trading partner almost never go to war and wealthy and democratic trading partners have never gone to war.

Globalization most certainly has its advantages and its drawbacks. In any case, when incorporating knowledge about globalization into your analysis, be sure you inform your audience how the particular aspect of globalization you are describing (be it tariffs or market transparency, etc...) plays into the big picture of economic reform and change.

People Who Need People: The International Monetary Fund and the World Bank

The International Monetary Fund (IMF) has three main objectives. First and foremost, the IMF was established in 1946 to provide emergency loans for countries undergoing economic crisis. More specifically, to serve as a lender of last resort for nations who require economic assistance. Secondly, the IMF seeks to provide a line of credit to nations who need monetary loans. Finally, the IMF evaluates economies and establishes credit ratings for international investors to consult. To achieve these goals, the primary tool the IMF utilizes is the injection of currency into a national economy coupled with mandates to how the impoverished nation needs to reform its monetary and fiscal policy (it is important to note that the mandates attached to many IMF loans were a relatively recent development).

Although well intentioned, this creates four problems for the IMF. Initially, a moral hazard develops. The theory behind a moral hazard is that if a nation knows that another country or international institution will be willing to bailout their economy in times of need, then that nation is more likely to engage in risky fiscal policy. In other words, providing a safety net and helmet prompts dangerous behavior. This same logic is sometimes applied to insurance companies where it is argued that those who take out insurance

policies engage in much riskier behavior because they know that medical benefits are provided for. Secondly, the structural adjustment programs (SAPs) that the IMF forces upon lending nations can be exceptionally difficult to implement. Loans are given out in tranches, or pieces. In most cases, the IMF initially provides small amounts of currency, usually around 10% of the loan, with demands of how a nation overhaul its' economy. The release of the other 90% from private institution is dependent on the IMF's approval. In other words, the IMF is a small dog with a very potent bite because it can cut off the bulk of the money. Most of these plans involve forcing a nation to balance their budget. This particularly harms the poor since budget austerity programs usually result in the slashing of social service programs that the impoverished rely on for survival. IMF loans, however, are not allowed to make up the difference in these situations. They are usually budgeted towards other fiscal demands, so those relying on government sponsored programs risk losing vital funds. The third problem faced by the IMF involves Special Drawing Rights, where a line of credit is given to the International Monetary Fund by the United States and Japan and is distributed to nations as needed. As opposed to a system where member nations make regular payments, the majority of IMF funding is dependent on approval step by step by the US and Japan, making loans extremely difficult to procure in a timely manner, or at all if a nation is not allied with either of the two major contributors. This brings us right into the fourth problem faced by the IMF: a proportional voting system. Because the IMF votes based on how much money each nation contributes, larger, more advanced countries have the power to draft bailouts that suitable to the needs of the industrialized world, not necessary economic policy that assists developing nations. Furthermore, the voting system has a tendency to place priority on US and Japanese banks being repaid over loans being extended to needy economies. This, of course, creates a fifth problem: the preferential treatment of nations. As already stated, countries with closer allegiances to the US and Japan tend to be the first to receive economic support.

In order to solve the dilemma and problems posed by the IMF, three solutions seem the most practical. Political reforms need to be implemented to ensure that nations receiving

IMF grants can at least have some say in how their economy will be treated. Dominance by industrialized powers neglect the specific needs of nations in trouble, and thus, a more transparent deliberation process, coupled with an appeal mechanism need to be implemented to make sure the bailout packages are not one-size-fits-all ultimatums, but rather custom tailored to the needs of particular countries. This includes making more competitive elections for leadership positions in the IMF and making election procedures more transparent. Perhaps the IMF should even consider eschewing the custom of having a European at the helm and chose a leader from the developing world, who understands (presumably) developing world problems. Secondly, the IMF needs to secure dedicated funding on a regular basis from contributing nations as opposed to using Special Drawing Rights. This will allow the IMF more flexibility in drafting bailout packages, as well as reduce the amount of political clout first world nations enjoy since they will not have to pre-approve every injection of funding into the IMF. Finally, the IMF must find a way to move away from reactionary measures and more towards preventive solutions. The current IMF only acts when requested by a struggling nation, and many argue that had the IMF taken quicker action concerning Thailand's economic morass of 1997, then the Asian financial crisis could have been contained if not squelched (of course, there are also those who say that the actions taken by the IMF worsened the crisis).

Often going hand in hand in with the IMF in contemporary economic analysis, the World Bank also seeks to help the international community by offering economic assistance for development projects. Much like the IMF, the World Bank offers assistance on a case by case basis, but unlike the IMF, seeks to provide economic aid in the form of a loan to construct a tangible object. Simply put, when developing countries seek to build some form of government-owned property, such as a road system or a power plant, they can turn to the World Bank to receive the money necessary to build that product. This greatly differs from IMF policy which is only delivered in times of dire financial need and often goes to economic reform initiatives in fiscal and monetary policy. World Bank loans are more developmental in nature in the sense that nations walk away with some new resource to utilize to gain economic power. To provide such loans,

the World Bank either provides direct loans, which come from developed governments who own the debt, or it brokers loans from private banks, where World Bank governments underwrite and guarantee these loans. Inherent in this loan structure is the fact that developed nations are personally responsible and accountable for whether or not these loans are paid back because they are either directly losing money because they provided the loan in the first place or they are obligated to pay back the private banks that issued the loan.

Like any other economic institution, there are some modifications that need to be made to the World Bank. First, large tangible products may not necessarily be what a nation needs to get their economy growing again. In some instances, smaller incremental projects are needed to build up to larger programs. For example, developing nations dependant on agriculture for their economy would require irrigation systems and water treatment facilities before they require larger plants to process foodstuffs and test for safety. World Bank loans would more than likely not accommodate the smaller needs of these nations because these projects are not large enough in scope. The World Bank must redefine what it considers to be a worthwhile endeavor to make sure all nations that require economic assistance can receive it. To its credit the World Bank began, under James Wolfensohn, to focus on intangible projects. For example, the World Bank is now the largest global provider of education world-wide. Just like the IMF, the World Bank relies on case-by-case funding primarily to provide economic support, which means larger nations get to decide which nations do and do not receive financial aid. The same political bias arguments and concerns that apply to the IMF can also be applied to the World Bank. So just like before, the World Bank needs to secure independent funding through regular contributions, not injections as needed. Finally, nations receiving help should be able to determine what vendors will be utilized to construct the funded project. Currently, the nations providing the loan stipulate which companies will assist in the project, and this almost always becomes Western corporations, who are much more expensive then local outfits, coming in and taking the profit for the project. Allowing local businesses to assist in the construction of World Bank projects will not only boost domestic economic revenue, but will help get the nation in question out of financial debt.

Alphabet Soup: What trade acronyms mean –or- the big letters won’t bite, I promise

As mentioned throughout this chapter, states have formed various agreements and alliances to try to promote the expansion of free trade. On January 1, 1994, the United States, Mexico, and Canada cheered as NAFTA, the North American Free Trade Agreement came into effect. NAFTA’s objectives are to “eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between the territories of the parties, promote conditions of fair competition in the free trade area, increase substantially investment opportunities in the territories of the parties, provide adequate and effective protection and enforcement of intellectual property rights in each party’s territory, create effective procedures for the implementation and application of this agreement, for its joint administration and for the resolution of disputes, and establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this agreement.”

NAFTA has had a profound impact on Mexican society. On the same day that NAFTA went into effect, the Zapatista rebel movement broke out in Chiapas. Demanding protection for the Mexican economy and improved labor standards, rebels cried “first world, ha ha ha!” in the face of international leaders who heralded NAFTA as Mexico’s liberation from its impoverished past. Although the Mexican economy has improved overall since the implementation of the agreement, critics argue that an income gap between the north and the south, which was already pretty severe prior to 1994, was only exasperated because of NAFTA. The Zapatistas fear that NAFTA was crafted to primarily benefit Northern Mexico and some economic specialists validate that claim.

However, there are some positive implications for Mexico’s acceptance of NAFTA. Not only has economic growth in the past seven years been unsurpassed in Mexican history, but the exposure of

American political ideas that accommodates the increase in trade contributed to the democratic election of Vicente Fox, the first non Institutional Revolutionary Party (PRI) president of Mexico in over seven decades. Some would argue that had NAFTA not liberalized the Mexican economy, and their society for that matter, then the PRI would still have been able to hold corrupt elections and maintain their authoritarian grip on power.

The major crisis facing NAFTA right now is whether or not President Obama is going to follow through with campaign promises to renegotiate NAFTA. These promises were made to appease the labor elements of the Democratic party. Mexico and Canada both expressed opposition to any renegotiation and doing so in the face of these protests could cause a serious change in the political relationships between these nations. However, economists within the Obama administration were reported to have made promises to Canadian officials that the statements were purely political and would not be carried out in the future.

South America has already demonstrated their commitment to free trade development through Mercosur, a trading block founded on March 26, 1991 with Brazil, Argentina, Paraguay, and Uruguay as its member nations. The goal of Mercosur is to make a common market by integrating and liberalizing member markets, while simultaneously abolishing trade barriers. Mercosur members, Brazil in particular, are hoping to expand their free trading block by creating a cohesive trade union with the European Union. However, Argentina and Brazil, the two largest economies of Mercosur, have been at odds over trading policy and protectionist measures be used by the other nation.

The other regional organization that will require a great deal of analysis is ASEAN, the Association of South Eastern Asian Nations. On August 8, 1967, Indonesia, Singapore, the Philippines, Thailand, and Malaysia came together to create a union to protect national interests and strengthen their domestic economies. Laos, Brunei, Vietnam, Cambodia, and Myanmar signed on within the next thirty-two years to create a union that was comprehensive of the Southern Pacific Rim. Although the organization was primarily founded as a security alliance at a time where national politics were volatile to say the least, economic cooperation and competition with other Asian powers is a primary goal of ASEAN. The fourth ASEAN summit in 1992 led to the development of AFTA, the ASEAN free trade area. Because member nations are rich in natural resources, and the ten countries combined have a unique balanced of industrialized and developing nations, the raw resources combined with modern technology created a stable, durable economic pact. Although diversity in ASEAN helps in trade, diversity makes developing solid infrastructure difficult. Coupled with a lack of funding, ASEAN member nations are finding it increasingly difficult to get the economic resources necessary to create a coherent region-wide energy policy or institutions necessary to thoroughly monitor trade transactions.

The most pivotal world organization that shapes international trading policy is the World Trade Organization (WTO). Formed out of the Uruguay round of GATT (the General Agreement of Tariffs and Trade) in 1994, the goals and objectives of the WTO include preserving the peace amongst member nations, handle trade disputes, give consumers more choice (thereby keeping prices down), and increasing economic efficiency. By drafting regulations to open up markets, the WTO hopes to increase economic integration.

China's ascension into the World Trade Organization will no doubt dominate policy discussions around the institution. Proponents of Chinese membership cite Jiang Zemin's (China's former President) commitment to economic reform and capitalist changes in Chinese economics. Zemin declared in 2001 that businessmen and capitalists will be allowed into the Chinese Communist Party. Furthermore, China's experiment with capitalism is making it one of the largest emerging developing markets in the world. Therefore, there is some hope that expanded will trade will promote democracy within China. International investors and world political figureheads alike will have more leeway to demand democratic change if Chinese trade is dependent on such reform. Corporations are excited about negotiations mainly

because joining the World Trade Organization would lead to access to a market of over one billion people- an untapped economic resource.

But what would a discussion on China and the WTO be if we did not entertain the opinions of the opposition. There is reason to believe that China's membership in the WTO will do nothing to liberalize the Chinese market. Despite repeated demands by the WTO and the United States, China has yet to develop laws that satisfactorily guarantee intellectual property rights. There is much concern, especially among American corporations, that computer technology and other innovations developed either here or abroad will be stolen by Chinese companies with no recourse by the Chinese judicial system. Some protest the fact that China does not deserve WTO membership in light of its numerous human rights violations (an argument also made in protest to China winning the rights to host the 2008 Olympic games). The counter-argument to democratic development occurring in China due to WTO and international influence is that by granting China WTO status, the international community is sending the message that current political progress is adequate. Some fear that western powers are sending the wrong message to China and that once China is allowed access to international trade on such a grand scale, there will be no incentive to create further reform. All of this must be kept in mind while China faces a transition in power that began in 2003 when Jiang Zemin stepped down, while simultaneously elections are held to replace the national legislative body.

Protesters at international summits of organizations such as the WTO, IMF, and the G8 (G7 + Russia), such as those held at Seattle and Genoa, are protesting several aspects of international organizations that prohibit fair trade.

First and foremost is the outcry to democratize global economic institutions. Like many organizations, policy makers in the World Trade Organization are derived from delegates in member nations. Corporations and leaders of global financial institution are also allowed a say when world trade policy is being crafted. Never are these initiatives but to the test of the vote, however. Citizens in member nations are not allowed to approve (or disapprove for that matter) of new trade policy. Negotiations are also held behind closed doors, barring the general public from being able to weigh in on proposed rules and regulations. Another reason why protesters are upset with WTO policy is that dispute advisory panels, which come together to determine whether or not a country's policy is in violation of WTO standards, are not screened for biases prior to being appointed. For example, if a Mexican corporation had a challenge against the Canadian government, there is nothing to prevent a Mexican business executive or Canadian bureaucratic from serving on the panel to decide whether or not a law was violated.

Conclusion

As the world is increasingly integrated both economically and culturally, the issue of international trade will only continue to grow in importance. Good luck!

International Economic Organizations

Kevin Kneupper, Rana Yared and John Mondragon

Introduction

Preparing for topics that relate to the economics of foreign countries, you will often come across references to organizations that can blur together in the minds of those unfamiliar with the international financial system. You often read headlines like “IMF bails out Argentina” or “World Bank reschedules Tanzanian debt.” With the proliferation of banks, political unions, trade agreements, and other entities, keeping track of all the acronyms can be a challenge in an of itself. This chapter is designed to distinguish these financial entities from each other and to give you a basic idea of what each one does and how it came into existence.

International Economic Organizations

This section will discuss the various economic organizations that include nations from across the globe as members. These organizations have a less regional focus – they are all institutions that will accept countries from anywhere as members and all play important roles in the international financial system.

The Bretton Woods Institutions

Many of today’s important financial institutions came into existence as a result of an economic conference that took place in 1944 in Bretton Woods, New Hampshire. This meeting has had monumental significance for the international financial system, and the institutions discussed here were created by the soon-to-be victorious Allies as a means of reconstructing Europe in the aftermath of World War II. The nations at Bretton Woods agreed to important economic reforms to their exchange rates, but also laid the foundation for today’s system with several institutions that remain active today.

The International Monetary Fund (IMF)

The first institution created out of the Bretton Woods conference is the International Monetary Fund, or IMF. The International Monetary Fund (IMF) has three main objectives. First and foremost, the IMF provides emergency loans for countries undergoing economic crisis. More specifically, to serve as a lender of last resort for nations who require economic assistance. Secondly, the IMF seeks to provide a line of credit to nations who need monetary loans. Finally, the IMF evaluates economies and establishes credit ratings for international investors to consult. To achieve these goals, the primary tool the IMF utilizes is the injection of currency into a national economy coupled with mandates to how the impoverished nation needs to reform its monetary and fiscal policy. The IMF has been visible in the news over the last decade – it has orchestrated financial bailouts of desperate countries including Mexico, Indonesia, Russia, and Argentina. The IMF is also an extremely controversial institution – every time one of these bailouts occurs, a debate rages over whether they are even necessary or whether the U.S. should reduce or eliminate its funding for the IMF. The IMF is basically an international central bank (like the Federal Reserve in the United States). It tries to keep economies stable – it generally only acts when some sort of economic panic has set in and it is called in to pick up the pieces.

While other international financial institutions make loans for specific development projects or for countries to do certain things, the IMF is what is known as the “lender of last resort”.

This means that it gives loans to countries when they have no one else to turn to – when their credit rating is so low that no one else is willing to give them money, the IMF remains available to them to prevent them from defaulting on all their other loans. Having a lender of last resort serves a stabilizing function for the international economy – if the countries had no one to lend them money in an economic panic, they would simply default on their loans (not be able to pay them back) and the entire world financial system would crumble. Critics attack this idea as an unnecessary intervention into the affairs of the

market. They argue that the existence of the IMF creates what is called a “moral hazard”. Simply put, IMF’s existence actually encourages the kind of risky behavior that causes economic panics in the first place. If investors know that the IMF will never allow a country’s economy to collapse and never allow a true economic default, they will put money into riskier investments than they would otherwise choose. After all, high risk investments generally pay off more money to investors if they succeed. The problem with these investments is that they as well are more likely to fail. Moreover, if they do, the investors know that the IMF will be forced to lend even more money to a countries economy. An example of this would be a bank lending money to a country that really didn’t have enough to pay it back. The bank can charge extremely high interest rates to that country (since few are willing to lend to them), but it doesn’t really have to worry about them defaulting on the loan – they know that if that happens, the IMF will come to the rescue. The problem is the IMF guarantee of economic safety has also guaranteed that there will be an economic crisis – the bank knows that eventually the country it is lending to won’t have enough money to pay back the loan. It doesn’t have to worry about that happening, however, because when the crisis comes, the IMF will lend the country money to pay back the bank.

This has led many to claims that we would be far better off just allowing those economies to suffer in the short term. While it might be harsh, it would prevent future investments in high-risk ventures and future unsustainable loans. Many also argue that “letting things be” would give countries a greater incentive to adopt economic reforms that could prevent a crisis in the first place. They claim that the IMF stops these reforms by giving an easy way out to leaders facing a tough decision. If you were the president of a country and had to choose between tough economic reforms that would anger many people and might cost you your job or taking more loans from the IMF and putting off the problem for the future, you will probably choose the latter. Many people have – they know that the IMF will save them with more loans and so they do not have the incentive to partake in the economically sensible but politically difficult task of reforming the parts of their economies that cause the crises in the first place.

Another area of controversy surrounding the IMF has to do with the conditions that the IMF imposes on countries that receive their loans. In response to earlier criticism of the IMF’s tendency to discourage reforms, the IMF started to impose requirements on countries that received loans from them. These requirements are known as SAPs, or Structural Adjustment Programs. Structural Adjustment Programs are essentially efforts to reform and alter the structure of the economies that are receiving loans. Since any country that has come to the IMF for money has necessarily been in some kind of economic crisis, there is usually some basic problem with the way their economy is organized or structured. This can range from specific problems in one area such as their banking sector (many countries have few restrictions on what kinds of loans can be made, resulting in loans by banks to friends or relatives who really don’t have the ability to pay them back) to problems in the kinds of goods that an economy makes (many economies are largely dependent on one basic kind of product or one basic raw material and get into economic trouble any time the price of that good goes down). SAPs are an effort to deal with these problems by encouraging governments to make basic changes to their economies if they want the money from IMF loans to keep coming in. Proponents see them as an important way to prevent future economic problems. SAPs often emphasize a shift toward export-led economic growth and balanced budgets, which they see as being the only way for many of these economies to achieve real, sustainable growth. Opponents see SAPs as being a threat to the basic services provided by the governments to their citizens. Most SAPs require that governments balance their budgets – they sometimes do this by cutting off access to health care for the poor and other social spending programs that they see as “expendable”. Many point out that since SAPs can result in increased taxes, they can actually choke off economic growth in countries that desperately need economic stimulus. There is also controversy about whether countries even adhere to many of the “required” reforms. Opponents can point to many examples of countries that have paid lip service to reforms and have actually just refused to implement any part of the SAP that they don’t agree with. Opponents claim that this is because these countries’ leaders know that the IMF would never allow their economy to collapse – even if they don’t do

what they IMF wants. They believe, sometimes correctly, that they are too important for the IMF to allow them to default on their loans. The end result, according to opponents, is that the poor in these countries suffer while the rich refuse to reform the basic problems.

It is important to remember that while the IMF acts on its own as an international organization, it relies on member countries for its funding. Each country that provides money to the IMF receives a “share” that is roughly equal to the amount that it gives in funds. Major decisions by the IMF are made via a vote of the funding countries – each of the major donors gets to use its votes to make some basic determinations of policy. The U.S. is the largest donor to the IMF, and has enough votes to veto any IMF policy. This means that many issues of IMF policy are also issues of U.S. policy as well, since a change in our vote is necessary to make any changes in what the IMF does overall.

The World Bank

The World Bank Group is a sister organization to the IMF. It was created at the same Bretton Woods conference, but it performs a different function in the world economy than the IMF does. The official name is the International Bank for Reconstruction and Development (IBRD), but it is usually referred to in the media and foreign policy literature as the World Bank. Keep in mind, however, that there IBRD is not the only part of the World Bank, just the most prominent; others include: the International Financial Corporation (IFC), the International Development Agency (IDA), the Multilateral Investment Guarantee Agency (MIGA), and International Centre for Settlement of Investment Disputes (ICSID). The World Bank, unlike the IMF, gives money to countries that have a specific project that needs to be done for economic development. For example, if a certain country thought that building a dam on a river might stimulate business by providing cheap electricity to that area, they could apply to the World Bank for a loan to build the dam. Other examples would be a new road, an irrigation project, or improving a country’s main port. The common thread among all these projects is that they are tangible infrastructure built to stimulate economic growth. An important note: the World Bank wasn’t created to simply help the poor in these countries; it was designed to stimulate economic activity in America’s European allies after the war. Because its focus is future economic growth, the World Bank doesn’t loan out money to projects that might help the poor but have no prospect of financial. Unlike the IMF, which only lends money during an economic crisis, the World Bank lends money to countries whether their economies are growing or are having difficulty. Its goal is development over the long term – rather than seeking out economic stability, the World Bank tries to gradually improve economies by funding the infrastructure that an economy needs to grow more quickly. It is important to understand the distinction between these organizations – the media often conflates the two and considers them to be virtually the same entity. Since they act under entirely different circumstances, you should be aware of which one would be the appropriate lender in a given situation. It is accurate, however, to claim that these two banks need each other to exist. While they are similar, there will be many issues that come up that require only one or the other – the general rule is that if it is a crisis, the IMF is involved. If it is just a problem, talk to the World Bank.

The World Bank, like the IMF, has generated its share of controversy. Most of the criticism of the World Bank focuses on the efficiency of the programs that it funds with its loans. Many critics complain that most of the money that the World Bank gives countries goes to pay for expensive expert advice on whatever project the World Bank is funding. For instance, if Tanzania wanted to build a new dam but had no money, it might take out a loan from the World Bank to do this. However, most of the money isn’t spent on the construction materials or hiring workers in Tanzania to build the dam – the bulk is spent paying people outside of Tanzania to do the planning and consulting work to actually design and complete the dam. Since this has less economic benefit for Tanzania (the money goes back to the place it came from, without creating new jobs for Tanzanians), many criticize it as essentially wasteful. They argue that in the long run, having the dam is actually worse for Tanzania – they now have millions of dollars in loans that they have to pay high interest payments on each year. These payments are usually far

higher than the economic benefits of the project being funded – this has led many to criticize the World Bank and the IMF as being a kind of “borrowing treadmill” – once countries step on the treadmill and start borrowing money, it is an endless cycle. They have to borrow money to keep making payments on the money they’ve already borrowed – there’s no way for the country to finally pay off the money and free itself of the debt.

The World Bank has also been criticized for pressuring countries to take out loans to invest in projects that have questionable value or little benefit to these countries. They claim that the World Bank makes its decisions from outside these countries, without specific knowledge of their culture or economies. This causes the World Bank to pressure countries to do things that have little or no real value for their economies. Examples would be things like building a dam in an area where few people in that country were willing to relocate to, or building expensive roads in countries that didn’t have any cars to use them. These critics believe that the World Bank is basically out of touch – it doesn’t have any idea what it is loaning money for, it just gives it out to anyone who asks or it tries to replicate the kind of development that occurred in the West without any regard for cultural differences in the countries that it is lending to. Supporters of the World Bank see it differently – they argue that without World Bank loans, many important projects would never exist. They also see their investments as valuable in the long run, even if they seem less valuable in the short term. The dam or road that goes unused for several years might become the backbone of a particular region’s economy in a decade. They also argue that the economic benefits of their projects can pay for themselves – if a particular project generates economic activity, it will also be creating important tax revenue that can be used to pay back the debt.

A major issue that you might encounter related to this is the quest for “debt relief” by many of the countries that the IMF and the World Bank have lent to. They argue that the amount of money that they owe is now so great that there is no realistic way of ever paying it back. Since there is no realistic chance of them ever repaying the debt, they are asking the World Bank and IMF to “relieve” the debt – basically to write it off and no longer ask the countries that borrowed to pay it back. People from across the political spectrum have supported this issue – a famous example from the news is the new friendship between extreme liberal Bono from U2 and extreme conservative Senator Jesse Helms. Both support debt relief from different perspectives – Bono thinks that foreign aid to governments is helpful and is the best way to aid their people. He sees debt relief as an easy way of giving them money – eliminate the debt at no cost, and the countries then can use the money they had been using to pay interest to help their people instead. Helms also wants to help the impoverished in these countries, but sees debt relief slightly differently. Helms believes that the source of the problem was the loans themselves – he has in fact been a strong opponent of foreign aid programs in the past. The conservative perspective would be to eliminate the debt, but to also cut off future lending that was the cause of the problem. Liberals would like to eliminate the debt and replace lending with free foreign aid. Criticism of the IMF and the World Bank often creates an odd alliance of the left and the right – affirming the old saying that “politics makes strange bedfellows.” The right criticizes the IMF and World Bank as interventions by the government into the free market. The left dislikes them because it believes they are colonialist institutions that try to exploit other countries. For different reasons, elements of the left and right have both become uneasy allies against these institutions.

The World Trade Organization (WTO)

The World Trade Organization is an international trade organization that has evolved from the General Agreement on Tariffs and Trade (GATT), a post-World War II agreement to try to reduce tariffs and encourage free trade among nations. The GATT was created after Western countries failed to ratify the International Trade Organization (ITO). After a round of negotiations over the GATT (known as the Uruguay Round of negotiations), the countries in the GATT agreed to establish an organization called the WTO to enforce tariffs and regulate trade and resolve trade disputes between different member countries. The idea of the WTO is that instead of just ratcheting up tariffs and getting into a trade war with each

other, countries who have a disagreement about trade can submit their complaint to a neutral, dispute-resolution body that will attempt to make a decision about whether a country has violated the rules of GATT. There has been a sharp upsurge in complaints filed under GATT since the creation of the WTO. While GATT had a dispute resolution process, it wasn't viewed as credible and there was no sense that other countries would abide by the results of the decision because it lacked any enforcement mechanism. Since the WTO, however, major cases involving the U.S., Japan, and the EU have established that major countries will abide by even unfavorable rulings in the WTO court system. Besides simply acting as a forum to resolve disputes, the WTO also attempts to facilitate further negotiations between countries of new free trade agreements. It also performs analysis of the trade practices of its members, and encourages them to eliminate practices that it deems to be unfair or protectionist.

Currently, the WTO is mired in a disastrously long round of negotiations called the Doha round. Initiated to resolve long-standing issues of agriculture subsidies in the wealthy countries and other issues of importance to the developing nations (often represented by the G20), it has proved to be the most contentious and threatened to delegitimize multilateral trade negotiations. Since all member nations must agree to any new agreements it is especially difficult to reach an agreement. With important members like the U.S. and the E.U. nations refusing to cut subsidies and developing nations like India and Brazil refusing to guarantee intellectual property rights there seems to be little hope for a successful resolution to the round (in fact the current head of the WTO, Pascal Lamy, is still deciding on whether or not to consider the round of negotiations officially dead).

The Organization for Economic Co-operation and Development (OECD)

Another institution that was created as a part of an effort to reconstruct Europe after World War II is the Organization for Economic Co-operation and Development, or the OECD. The OECD was originally created as an entity to manage funds given out to Europe as a part of the Marshall Plan. Many consider the Marshall Plan, which funded the redevelopment of war-torn Europe, the single greatest showing of international generosity. From a realistic perspective one can argue that the US was trying to maintain a balance of power by limiting communism's influence in Europe – by reconstructing European economies and building them back up, the U.S. hoped to make communism less attractive to their people as an economic system (basically preventing communism by helping promote capitalism). The OECD is the successor to this entity (originally called the Organization for European Economic Cooperation). The OECD is made up of 30 countries (the major developed economies from Europe, North America, and Asia). The OECD's major role is in monitoring the economies of its member countries. It performs important economic analysis functions by ensuring a reliable, neutral source of data and analysis about member countries' economies.

The OECD also attempts to take a major role in encouraging the formulation of good economic policy. The OECD analyzes and reports on specific policies of its member states and often makes policy recommendations for these countries as a whole. These recommendations have an important function in the global economy – they serve for many countries as an ideal to aspire to, even if short term political considerations prevent them from achieving those policies immediately. The statistical data is also used by countries to formulate their national economic policies. The OECD makes sure that each country isn't attempting to bias their data and that all countries have cheap access to data about what is going on in other nations. This is important for foreign direct investment (FDI), which is dependent on individual investors' confidence in this data. With a neutral source of data, investors from abroad can be sure that they have accurate information when they are making a decision about whether or not to invest in a particular country. While the OECD isn't a very controversial agency (while people may disagree with the content of a specific report, pretty much everyone agrees that we should try to collect data about our economies), it still has an importance for analysis because data from the OECD is often cited by articles. There are also many articles that will refer to OECD policy recommendations or something that the OECD said that we should do. What is important for you to remember is that none of the OECD

recommendations are binding. They are just suggestions for what a certain economy should do. While many of these specific recommendations will be controversial, they are not things that we are required to do as members of the OECD.

The Group of Seven (G-7)

The next international institution discussed is not considered one of the Bretton Woods institutions, but it still plays a major role in the world economy and membership is not based on regional considerations. The Group of Seven, or G-7 (or the G-7+Russia, or G-8, we'll use G-8), is a group of the most highly industrialized economies that annually meet together to discuss their economic policies. Members include the US, UK, France, Italy, Germany, Canada, Japan, and Russia. Essentially, the G-8 is an annual summit process where the member countries meet every year to discuss what their economic policies should be. The G-8 originated a summit meeting of the GATT that took place on March 25, 1973 in Rome between France, the U.K., Germany, and the U.S. This group of countries agreed to meet together for further discussions about their economies and also to invite Japan to the meeting as well. The group was originally known as the G-5, or the Club of Rome, but additional countries have joined as they have entered the ranks of more developed nations (Italy, Canada, and Russia). G-8 meetings can have important consequences for the international financial system. At the original G-5 meetings, the countries worked together to replace the Bretton Woods' fixed system of currency exchange with our current, floating exchange rates. The G-8 will often agree to push for policy changes in other international financial institutions – since they are the richest and most powerful countries, if they agree to push for a certain policy change, it is likely that it will occur. Other G-8 activities include forging common treaties, agreeing to common domestic economic policies, and discussing important noneconomic issues like human rights, drugs, and environmental concerns.

The G-8 is important to you because it generally makes a lot of news regarding what policies will result from the negotiations. There have also recently been large protests of the meetings – not so much for any activities of the G-8 as a group, but rather protests against the rich nations themselves for their conduct toward developing countries. These protestors push for debt relief, foreign aid, and an end to the process of “globalization” that they see as a result of the policies of the wealthy nations. The G-8 doesn't have a real institutional framework like many of the other entities discussed in this chapter – it is more of an informal tradition of meetings that are only binding if the countries agree for a specific aspect of them to be. Many issues discussed by the G-8 that are very controversial. You should be prepared to discuss whatever the G-8 is discussing at their meetings. Supporters argue that globalization is the best way to end international conflict – countries become more like each other, and less likely to fight. Opponents argue that it is just a way for multi-national corporations to exploit less developed countries. Before each meeting of one of these organizations, there are likely to be protests about issues of globalization, the environment, and other things that leftist groups tend to be concerned about.

Regional Economic Organizations

This section will address the multitude of different regional economic organizations.

While the above organizations were designed to address problems on a global scale, these organizations are generally more focused with the problems that exist in their own regions, rather than addressing problems for all countries. While these groups sometimes accept members from other regions (for instance, the United States might be a member of an Asian regional organization simply because it is influential in that region even if it isn't located there), they are focused almost exclusively on trying to ensure cooperation in their regions on specific issues. The regional organizations will be introduced by type. Since there is generally a mirror organization for each region, it would be redundant to explain the functions of many of them. Specific organizations that are highly important will be discussed individually.

Regional Development Banks

While the IMF and the World Bank exist to address global financial problems, there are also a number of regional banks that have been created to lend to member countries located in a specific region of the world. It is important to note that these banks were created to supplement the World Bank and the IMF, not to replace them. For the most part this is how they operate. However, both the World Bank and the IMF have attempted to delay or prevent the creation of large institutions that could offer competition within their respective spheres of influence. For the most part, the regional institutions often cooperate with the international banks and exist mainly as a focused source of funds that is guaranteed to help countries in a specific region.

The Asian Development Bank was founded in 1966 to try to assist the development process in many of the poorer countries in Asia. The ADB doesn't perform any of the functions of the IMF; it is mainly like a miniature World Bank that tries to loan money for specific development projects located in Asian countries. Besides merely giving out loans, the ADB also tries to provide technical assistance to Asian countries that need knowledge to build a specific project. Recall that one of the criticisms of the World Bank was an excessive loan focus on paying for this kind of technical know-how. The ADB has attempted to mitigate this concern to some degree by providing this kind of assistance to countries that need it. The ADB has also tried to promote private investment in Asia as a means of development. Instead of a pure loan-based attempt to improve their economies, the ADB model is an attempt to use those loans to convince as many private investors as possible to invest in Asian economies. The ADB also has some coordination mechanisms for its member countries; it tries to facilitate economic cooperation between the lesser developed countries in Asia.

The Central American Bank for Economic Integration (CABEI) is a regional development bank focused on lending to countries located in Central America. CABEI focuses more on quality of life standards than the World Bank. Instead of evaluating projects on whether they can provide a financial return to the specific country, it tries to fund projects that maximize the benefits to the people of the countries that are borrowing money. CABEI also tries to use its funding to guarantee greater loans for Central America from other external sources. It is essentially an effort to draw funds into Central America from other regions. CABEI also tries to provide technical assistance programs to Central American countries that need help with a specific project.

The Inter-American Development Bank (IADB) was founded in 1959 works to improve both economic and social development in Latin American and Caribbean countries. The IADB focuses on providing smaller to medium size businesses with capital to expand or to begin operations. The IADB focuses on private sector businesses in an effort to stimulate economic growth from the "bottom up". While the IADB includes richer countries like the United States and Canada as members, the investment focus is on the poorer members located in Latin America and the Caribbean. The rich countries provide money for investment, the poorer members are mainly recipients.

The European Bank of Reconstruction and Development (EBRD) is a bank founded in 1991 after the collapse of the Soviet Union to try to integrate the newly democratic countries that had been a part of the Eastern bloc into the capitalist system. The EBRD provides support for these countries, many of which have been experiencing economic difficulties as a part of the transition from communism to capitalism. The EBRD had an important role in planning major economic reforms that the former communist states were implementing to make their economies more capitalist. Today, it tries to both enhance democracy in these countries and to promote the growth of a strong, entrepreneurial private sector. It has also supported the development of Western-style legal systems and of infrastructure that is necessary to have a healthy private sector.

The African Development Bank is another regional development bank that focuses on development projects specifically in Africa. The ADB has three basic functions. First, it provides loans for projects and

companies that it considers important for economic and social development. Second, it invests in private companies that it thinks would accelerate economic growth if they were to take off. Third, it also provides technical assistance to companies and governments that request it in specific instances.

The ADB primarily focuses on financing specific projects, but it also gives some funding for national economic planning designed to enhance growth. The ADB has quite a challenge, as Africa is a region that has had unusual trouble finding a path toward economic development.

Each of these organizations is essentially a more localized, focused version of the international financial institutions. The banks were initially funded mainly by donor countries (richer countries like the U.S. and Western Europe), but now fund themselves from the profits from their lending and investments. These banks often have cultural and technical knowledge that is specific to the regions that they are oriented toward, and as such have been more successful in finding development projects that fit the needs of the people in their target regions. There is still criticism of many of these banks, however, for the same reasons that criticism occurs of the larger, global international banks.

The regional banks will be less important to you in preparing for competition. I wouldn't go so far as to memorize facts about each one of these banks, but if you can hear the term "African Development Bank" and have a general idea of what regional development banks do, it will help you in tackling topics that deal with development issues in general. It may also help out if you are addressing a question of whether the IMF or the World Bank are positive forces in the global economy. It is very easy to defend these regional banks as better, more focused alternatives to the monolithic IMF or World Bank. You may also want to refer to them if you encounter a topic about the economies of a specific region or about a specific developing country – the regional banks are major actors within their regions and are often important to ensuring stability and growth within the countries that they operate in. They are also usually major advisors when determining certain countries' economic policies. If you are discussing a developing nation and what it should do to try to improve its economy, the regional development bank for that country is closely tied to its policy decisions.

Regional Free Trade Groups

Many free trade areas are also important economic groups that should be considered. These are usually groups of countries that have similar economic interests and are in the same region. If those countries have large volumes of trade, it is often beneficial for them to engage in a cooperative free trade agreement. These groups are called trade blocs – countries that have free trade among all the countries in the group. There are many regional trade blocs, with different levels of free trade among each group. This section will address the most important of these (excluding the European Union, which will be in the next section).

The United States is a part of, NAFTA, or the North American Free Trade Agreement. In the early 1990's, there was a contentious debate in the United States over whether to join NAFTA and create a free trade area in North America. The U.S. ultimately agreed to join, but only after a strong response from protectionists who opposed NAFTA as a way of exporting U.S. jobs to Mexico. The debate over NAFTA focused on whether free trade was ultimately a beneficial idea, and demonstrated that despite the consensus among economists, there is still broad political opposition to true free trade. NAFTA eliminated duties on goods between the United States, Canada, and Mexico in an effort to create an area in which goods could flow freely (much like between states in the U.S.). NAFTA was actually proposed by the Mexican president at the time, Carlos Salinas, who proposed a free trade agreement with the United States in June 1990. Despite initial wariness of the Bush administration, Bush ultimately finalized an agreement for free trade in August 1992 with Canada and Mexico.

This agreement is massive; with five volumes and 15 pounds of paper, it would be virtually impossible to understand every detail of NAFTA. The important thing is to get the basics of what the treaty does. First, there was a general reduction or elimination of most tariffs (despite the retention of some tariffs for specific, powerful lobbying interests in all three countries). NAFTA eliminations of tariffs were phased – they didn't occur immediately. Most were over periods ranging from five to fifteen years (designed to give industries affected by the tariff reductions time to adjust to the new economic situation). NAFTA didn't eliminate tariffs on every good to come from Mexico or Canada, however. These goods must adhere to standards in NAFTA called the "rules of origin" that determine whether they qualify as a part of the agreement. These rules are designed to prevent a country from exporting to Mexico and then to the United States to avoid tariffs. For instance, assume the U.S. had tariffs of 40% on Bermudan steel. If Mexico had tariffs of only 10%, Bermuda could export to Mexico, pay the 10%, and then export the steel from Mexico to the U.S. for free, avoiding the 40% U.S. tariff. The rules of origin prevent this – they say that a product must have been substantially modified while in Mexico to qualify for export under the NAFTA agreement. If it was originally made in Mexico, it automatically qualifies. If the steel had been imported to Mexico, and then made into a car, it also qualified – the steel is no longer in the same condition as when it entered Mexico, and thus qualifies for NAFTA reductions in tariffs. Second, NAFTA required protections of the property rights of investors who invest across borders among the three NAFTA countries. Prior to NAFTA, there were many restrictions on the activities of U.S. companies who invested in Mexico, for example. Mexico would often require foreign firms to use only Mexican raw materials. NAFTA also included property rights provisions relating to nationalization of industries. NAFTA required any country nationalizing an industry to pay fair compensation – an effort to avoid past Mexican seizure of U.S. companies' assets in Mexico. There are many other components of NAFTA (including protections of intellectual property and efforts to reduce non-tariff barriers), but it is primarily important to understand that NAFTA was a major reduction in tariffs and other barriers to trade.

NAFTA has recently garnered attention because of President Obama's campaign promises to renegotiate the pact when entering office. His actions up to this point and the leaked promises by staff economists that there weren't any serious intentions to renegotiate indicate that this is not a serious possibility.

As for other current controversy, there has been a major dispute over the quality of Mexican trucks entering into the United States. To have true free trade, Mexico has to be able to ship its goods to the United States. However, the Mexican trucking companies often don't adhere to U.S. vehicular safety standards. This has led for a call to try to impose these standards on any trucks entering from Mexico into the U.S. – a potential divisive issue that might result in some kind of Mexican retaliation.

There are also other free trade areas besides NAFTA that you might encounter. One proposed free trade area that would include the U.S. is the FTAA – the Free Trade Area of the Americas. The idea behind this is to create a kind of NAFTA for the entirety of North and South America – one standard free trading zone. While the political details have not been worked out, the power to negotiate this area was part of Bush's motivation in seeking fast track trade promotion authority from Congress. However, he left the administration without achieving this large of an agreement. Instead progress on CAFTA (central America) and an agreement with South Korea were the major steps taken in trade.

Other free trade areas include Mercusor in South America, Russian free trade with former Soviet states, and the European Union. There has been much debate over whether this trend of having more regional trade areas is a good thing or a bad thing. Proponents say it is a gradual step on the way to global free trade – that eventually, the areas will combine into one global free trade system. Opponents say that regional trade blocs actually discourage global free trade – they make countries trade within their regions, rather than encouraging trading with countries outside the bloc. They also encourage trade disputes between blocs – i.e. an EU-NAFTA trade war might be broader and affect more countries than would have occurred if it was just the U.S. and France in a trade dispute. While this debate is unsettled, the trend

is decidedly toward more regional blocs – the U.S. is promoting them, and no country wants to be left out. The real issue is not whether it should happen, but how to deal with it and how to make it less likely to result in the kind of hostility between blocks that opponents fear.

Regional Political Organizations

Many regional political organizations exist that attempt to produce either progress toward common political goals of a group of countries or even political union between groups of countries. This section focuses on the political organizations that can also have major effects on countries' economic policies. After all, political and economic integration almost always go hand in hand – while it's possible to have a "one country, two systems" policy, most political integration is actually preceded by economic integration.

The European Union (EU)

The European Union is the most prominent political organization. It also, coincidentally, began as an economic union between European countries after World War II. The European Union started out in 1957 as the European Economic Community, a grouping of European Countries that wanted closer economic relations to enhance the overall economic growth of Europe. In the 1980's, the increased level of political cooperation among the countries led people to begin calling it simply the "Economic Community", or EC. In the early 1990's, the name was officially changed to the "European Union" to reflect the political union that had come about as a result of the initial economic cooperation.

The EU is fundamentally a confederation of European states – each country has agreed to give up some of its sovereignty in order to have a "common" economic policy for Europe. Most of the countries have now agreed to abandon their national currencies and replace them with the "Euro", a newly created currency to serve all of Europe instead of just one country. They have also agreed to let the European Union function as their own central bank – the European Union coordinates national central banks and has taken over most of their functions. Besides setting monetary policy, the EU has also achieved several other steps towards economic and political integration. The EU has also created what is known as the CAP (Common Agricultural Policy), a system of subsidies designed to bolster European agricultural concerns and transfer resources from the wealthier European countries to the poorer ones. They have eliminated tariffs between countries, and allowed for freer travel between all of the EU members. Politically, an EU parliament has been established and each country has been granted representation. They have also unified most European foreign aid structures and have been working towards creating more unified policy in areas such as defense and immigration.

There has been major opposition, however, at every step of integration. Many EU members see further integration as a loss of national sovereignty – if they let the EU make decisions for them, they will have far less input over what the policy is for their specific country. Some countries, like Britain, have been more resistant to even some of the basic economic integration – Britain and several other countries have retained their own currencies for now in a "wait and see" approach to joining the Euro. There has also been a divide between the wealthier EU countries and the poorer ones on EU economic policy. Countries that have major agricultural sectors such as France or Italy are supportive of truly massive subsidies embodied in the CAP while others are less willing to continue to contribute. Poorer countries vote for redistributive measures while richer countries are wary of this – they see the efforts to bring the poorer economies up as really an effort to take wealth away from them. There is also controversy over new defense initiatives – while some members want a completely unified European military, others want to retain individual national armed forces but work together to develop the weapons that each nation uses.

A more recent controversy that has arisen from the collapse of the Soviet Union is the debate over whether the EU should expand to take in additional members. The former communist countries have been eyeing the European Union with the goal of eventually joining as full members. Since membership in the

EU is essentially a guarantee of economic stability and faster development, the former communist countries want to join to improve their chances of maintaining the progress they have made since their transitions to capitalism. The EU, however seems to be split on whether they want to admit new members or not. While it is in the EU's interest to allow these countries to be members (allowing them in the EU both expands the common market for goods and ensures economic and political stability in Europe), there are many reasons for political opposition to expansion into Eastern Europe. First, many of the wealthy countries are wary of allowing in the poorer, more agricultural Eastern European countries. The money spent under CAP to improve the economies of Spain and Portugal would pale compared to the amounts that would be required to subsidize the farming activities of new members from Eastern Europe. They are also worried that allowing these countries in will force them to contribute more annually to the EU budget – that the costs of assimilating the Eastern countries will be borne out via higher taxes on the wealthier countries in Western Europe. This has led to a kind of foot-dragging on membership – officially, there are many new countries that supposedly have priority for membership (12 in all have filed applications for membership). However, these countries have been required to meet strict economic requirements in order to be considered for membership. The membership bid for Turkey has also been extremely contentious and given rise to discussions of preserving European culture, what it means to be a part of Europe and whether or not an Islamic nation can be a part of that.

Additionally, the European public seems to have turned on efforts to further expand the EU. One issue that has risen recently is the rise of right-wing parties in Europe. Whether this is a “problem” depends on your ideology (many have accused the media in the U.S. of tossing out terms like “far-right” and “neo-fascist” to describe what are essentially moderate conservatives in Europe – the slain Pim Fortuyn in the Netherlands is a good example of someone who would be considered moderate in the U.S. but was labeled as a “far-right” politician), but it is definitely a phenomenon that is related directly to European Union policies such as expansion. Much of the support for these parties is from individuals who think that expansion of the EU (both to other countries and expansion of its powers) is a violation of their country's sovereignty and right to make its own decisions. This had led to fears that the very attempt to expand the EU will lead to its own implosion – the wealthier countries could withdraw as a result of public backlash or at least dampen opportunities for further integration. The EU may well have to choose between “wide but shallow” integration or “narrow but deep” integration. The “wide but shallow” approach would be to try to admit as many countries as possible, but at the expense of the ability to actually adopt further political integration such as a common military or a common European political structure. The “narrow but deep” approach would result in the EU remaining with its current number of countries, but marshalling more support for increasing the political integration of the relatively smaller number of countries that would be members. It may be politically impossible for the EU to both expand the number of countries that are members and pursue deeper economic and political integration.

Besides these domestic issues inside the EU, there are also issues between the United States and the EU that you should take note of. Most of these relate to trade – the U.S. and the EU are becoming major competitors for international markets, and the emergence of the EU as a common market has led to greater conflicts between Europe and the United States over trade issues. Some of the EU domestic issues have implications here as well – the CAP, for instance, is strongly opposed by American farmers who see it as a protectionist system that props up non-competitive European farming interests (European farmers have similar things to say about U.S. subsidies for sugar and cotton). There are also other long-standing disputes – a dispute over European purchases of bananas (the European market has been closed to bananas except for countries that were recently former European colonies – this angers U.S. banana producers who make their bananas in Latin American countries without this benefit) along with European opposition to recent imposition of tariffs on steel imports. Many of these disputes have been resolved within the World Trade Organization (another entity to be discussed), but others have been considered to be issues that could threaten a full-scale trade war. There are also political disputes between the U.S. and

the EU as well – on the Kyoto treaty; for instance, the Europeans have been pressuring the U.S. to sign and cut carbon emissions. There are many other areas in which Europe has accused the U.S. of “going it alone”, while the

U.S. has accused Europe of trying to pressure us into ceding away our sovereignty. While these conflicts will probably continue as long as the U.S. is the world’s dominant country, you should be aware that there is political tension between the U.S. and the EU that is mainly a result of competition for power and influence between the two states.

ASEAN: Association of Southeast Asian Nations

ASEAN, or the Association of Southeast Asian Nations, is another political organization that can have influence over economic policy. ASEAN is an organization created in 1967 by several Southeast Asian countries to serve as a forum in which disputes between Asian nations could be resolved. ASEAN isn’t exactly an Asian European Union – the goal here is to have an international body specifically designed to promote cooperation, not integration. Rather than politically uniting the countries, ASEAN’s purpose is to promote economic and political stability in Southeast Asia. If countries have an economic or political dispute, they can bring it for review to ASEAN and request that they mediate the dispute. ASEAN has taken a strong role in regulating such supra-national economic activities as fishing, which requires cooperation between all the Southeast Asian states to achieve any real action. It has also attempted to promote an “export led growth” strategy for Asia, in which Asian countries try to make themselves net exporters of goods in an attempt to make more profits from exports. ASEAN is mainly important if you have an issue relating to some issue in Southeast Asia – consider suggesting it as a forum to resolve disputes for problems that require some sort of international cooperation.

How the U.S. fits into these groups

This chapter has discussed a variety of groups – it is important to understand that each one has a varying degree of U.S. participation and influence. First, realize that most of the global, international organizations were in essence created and funded by the United States. They bear the stamp of this influence – they tend to advocate the same policies as the U.S. and they tend to follow U.S. requests for policy changes. Because of the substantial U.S. funding, the U.S. often has a dominant voice in their policymaking process and is an important actor in each one. This means that when considering the policies of all these groups, you must take into account domestic U.S. political considerations – these groups get funding and support only if they can convince the U.S. Congress to continue doing so. While for most there is broad support, the ones that generate controversy (such as the IMF) can risk funding cuts unless they agree to broad changes in policy that the U.S. has sponsored. Second, the U.S. is also the dominant member of regional organizations that affect the Western Hemisphere. We either provide their funding or, in the case of free trade agreements, are the major market that all other countries in the region want access to. This means that U.S. domestic political constraints are again crucial to whether new regional free trade agreements will pass, or whether regional economic and political organizations affecting Latin America are able to successfully resolve disputes or provide funding for development activities. For regional groups outside the U.S., the U.S. role is mixed. Some, like ASEAN, welcome a U.S. presence as important to negotiating political compromises in the region. Others, like the EU, see the U.S. as more of a rival – they want us to stay out of their affairs, and want to meddle in ours. The U.S. has to consider its role in the world economy when interacting with these organizations – many other countries are resentful of U.S. power, and form these regional organizations as a way to counterbalance what they see as a threat of U.S. dominance over the other international organizations that were all created and funded by the U.S.

Remember whenever you are reading articles about what these organizations do that it is often not just a question of what that organization wants – they have to satisfy member states, while still appearing to be neutral and unbiased. They are engaging in a balancing act – this explains how sometimes they will seem opposed to the U.S., while at other times they seem to grovel at our feet.

You should have at least an idea of what each of these organizations is and the kinds of things they do. Some questions will directly ask about the organizations, some will mention things that those organizations are involved in. Mentioning the role that you think those organizations should take will make you seem more knowledgeable about these questions and will demonstrate a sophistication about international issues that can improve your performance.

Problems of Developing Nations

Matt Williams and John Mondragon

Introduction

As ever-increasing communication and interconnectedness makes the world seem smaller with each passing day, people in the West have become aware of the less fortunate situation of the third world. While it seemed more possible to ignore in the 1980's and early nineties, anti-globalization protests and rhetoric from world leaders about prioritizing poverty reduction have made the issue come to the forefront of international politics. In the New World Disorder of widening wealth gaps and decreasing wages, cynicism abounds. Consider what the United Nations Human Development Report 2002 has found:

- “In 1999, 2.8 billion people lived on less than \$2 a day, with 1.2 billion of them barely surviving on the margins of subsistence with less than \$1 a day.”
- Only 52% of the world's population lives in fully democratic countries.
- Internal civil wars and ethnic violence have claimed the lives of 3.6 million people since 1990 alone; 90% of deaths in post-Cold War conflicts were civilians.
- The segment of the global population that lives in countries with a free or partly free press is only 62%.

Though this situation is indeed bleak, it appears that the expansion of civil rights throughout the world is pressing on, albeit in limited dimensions. Many wonder what the importance of civil society has to do with developed nations in the first place, and this confusion itself comes from a lack of understanding of what underdevelopment is. The phenomenon of underdevelopment itself has arisen as the result of complex human interactions in an age of clashing civilizations, post-communist and post-colonial power vacuums, and a broader lack of appreciation for civil society itself. At this point in history, the most pressing questions related to developing countries probably shouldn't be regarding who's to blame, but instead what can be done to alleviate the current crisis in the third world.

A simple treatment of the problems of developing nations simply won't do. This produces surface-level analysis, founded upon ideal-driven economics. As an example of what I mean, let's take a brief look at the current views of the left and the right on developing nations. The modern leftist view doesn't advocate typical socialist programs as a solution to these problems, but instead, a drastic step back from free-trade and liberalization measures which appear to have created a host of different problems. Revered linguist and New Leftist Noam Chomsky claims that a democratically-oriented form of globalization is the solution for global poverty and warfare, but pessimistically declares that Western policies which advocate free trade are merely pliant tools of a wealthy and oppressive first world minority. The key assumption here is that nothing which has been done thus far on the part of international trade bodies and governments has been motivated by anything but corporate greed. The left remains utterly insistent that market economics is the cause of the problem, basing its economic explanations on class warfare and politics. The right is a different beast entirely, which may advocate one of two positions. The first is the view that saving faith in the market alone will solve all problems related to developing nations, and that a widening wealth gap only suggests short-term problems with the transition to a market economy. This view tends to be advocated in the mainstream, albeit in different forms. Some would accuse writers such as Thomas L. Friedman of being shameless and naïve in their advocacy of liberalized and less regulated markets, at the cost of further public support for immoral policies. A second (and thankfully less popular) view on the right is that the malaise of developing countries is caused by cultural inferiority and an overarching lack of a Western worldview. This idea is usually expressed more suggestively and rhetorically in ultra-conservative publications such as the *Weekly Standard*.

The paradigm which I'll speak from in my discussion of the ills of developing nations will assume that the dogmas of the left and right are counter-productive to understanding the problem and finding a solution. History is here regarded as neutral- an unintentionally created network of human acts, some of which were right and some of which weren't. In order to analyze developing countries, views which aren't founded on the basis of historicity and conspiratorial intention is absolutely necessary. Suggestions from either side of the political spectrum generally only help speakers to look opinionated and misguided. Because all solutions to problems of development ultimately tend to take a political tone towards left or right, I'll seek only to explain the problems and allow you to make your own decisions with regard to advocacy.

An understanding of the problems of underdevelopment is the best foundation for any view on how to solve them. Here we will analyze the lack of capital infrastructure as the primary cause of underdevelopment. The transitory phase from colonialism and communism to capitalism is identified as a secondary cause for problems of developing nations. Finally, conflict in developing countries is examined as both a symptom and a cause of underdevelopment. An in-depth understanding of the overarching causes of the special problems of the third world will allow speakers to advocate solutions based upon sound and fresh analysis. Sorting out the mess of developing economies isn't an easy business- but it's the first step to formulating unique and convincing positions on how to clean things up.

Capital Infrastructure: the Wellspring of Development

In order to evaluate what an underdeveloped economy is, we must first understand what developed economies have that others don't. In two words, it's "capital infrastructure." This simple concept incorporates a host of different ideas and actors, but can most simply be explained in terms of investment and technology. The root of low wages, stunted democracy, and overall economic malaise in the third world comes from a lack of technological advance and the money to bring it about. Even though capitalism certainly doesn't work smoothly at all times in the West, it is generally considered to be the best shot humanity has at sustainable development. The expansion of capital itself is the foundation for economic growth in market economies, and it is present and ever-growing in developed countries.

As a starting point, consider the pesky road construction that you might see when driving to and from school on any given day. Workers in hardhats and orange vests, a multitude of bright orange signs, and more pickup trucks, yellow backhoes and tractors than one can count all seem to boggle the mind. Now change this scene around in your mind a bit: instead of a few construction workers manning heavy equipment, 200 laborers are hitting the concrete with shovels, mixing cement by hand with a steel paddle, and using dynamite to eliminate the largest obstacles. If it seems like traffic slowdowns are a pain now, imagine what they'd be like under these circumstances! Capital infrastructure is the reason that Western countries have fewer workers, more machines, and better efficiency in completing tasks such as construction. It's essentially a structure that supports continued investment and advancement in technology. The availability of labor-decreasing and cost-cutting technology comes from investment into research and development of more efficient methods of production. And of course, there is no investment without money. Even the higher wages of blue-collar workers in the United States come from these technological advances. Because of the availability of labor-saving devices, fewer laborers are needed, and workers are paid more on the whole. If a construction crew of 30 men, for instance, is paid \$15 an hour, the wage would be proportionally smaller if it was spread across 300 workers. Because there's a finite supply of money and everyone needs a piece of the pie to survive, having less laborers on the whole can cause greater unemployment in the short term (that is, when new technological advances put people out of their jobs), but this is offset by higher wages and new jobs due to expanding industry.

Technology isn't the only thing that capital infrastructure creates. It also aids in an increased sense of dignity for workers, because they become worth more for their tasks. In an economy where businesses take risks by investing in new projects, technology, and locales, the ultimate ability for the individual to

shape their own destiny is enhanced. So if the creation of capital infrastructure is so beneficial to economies, why are world poverty and unemployment still such grave issues? Capital infrastructure demands money, and investors don't intentionally throw their money in the wrong places. The self-interested acts of all parties that participate in the creation and maintenance of capital infrastructure, from the CEO on down to the janitor, is what makes development work. These acts of mutual self-interest won't happen unless people have a fundamental faith in the setting in which development takes place.

The necessary preconditions for investment to take place are all rooted in good governance. Without regard to complexities such as how much a government chooses to regulate the market, three key factors can be identified as of singular importance to infrastructure development: an effective currency scheme, some sort of fiscal system, and most importantly, a constitution that ensures property rights. The stronger these three characteristics are within a nation, the more investment the country will draw in. To see why developing nations are the way they are, we must look deeper at each of these preconditions for capital infrastructure.

Money - the Root of All Evil (and Most Good, too)

The Somali Shilling runs roughly 11,000 to one US dollar, meaning that the citizenry has next to no purchasing power- which winds up facilitating the continued existence of a barter economy. Because currency inflation is over 100%, businesses actually wind up printing their own money for making real monetary transactions, though the motivation to trade this cash for goods and services is obviously low. What Somalia shows us about money is the very need for it- a stable currency that's backed by a stable government. This is what investors look for as well, and because of this, countries like Somalia have little to offer for cultivating capital infrastructure. Even if the technology exists to bring various kinds of industry to a country like Somalia, what would the point be if such investments were in useless currency, and any goods produced for domestic consumption were out of the buying reach of the Somali citizen? A monetary authority and the banking institutions to support it are essential to avoid tragic situations like Somalia's. While international banks offer investors the possibility to avoid corrupt and mismanaged third world banks, the issue of doing business in such countries is still complicated by the complex nature of business. Say a company wanted to build a factory to refine sorghum molasses in Somalia (one of the nation's key remaining exports). Workers would be paid in the Somali Shilling, raw materials would be bought with it, and any means of production that are directly available within the country itself would be as well. Doing business in Somalia requires direct exchange in the country's currency. But dealing with a currency that isn't established by a government is risky for investors, and is a disincentive for economic involvement. In part, governmental stability is critical to the success of a monetary authority, but an overriding sense of faith in the currency on the part of the people is equally as important. Since everyday goods in many developing countries are still easier to obtain by bartering, the unfortunate reality is that investment in such economies remains a fantasy.

“...Death and Taxes”

In many developing nations, the lack of an effective fiscal authority in the government is a secondary issue, but still has massive implications. It ensures that citizens are left with almost nothing, lacking government programs to alleviate poverty and stimulate investment. Death is still certain, but taxes are not. A case in point is Russia during the mid-nineties. President Boris Yeltsin's administration was gripped by political paralysis with regard to fiscal policy, because at the fall of the Soviet Union, the mafia took over “tax collection.” Extortion of small businesses, corruption within even the largest and most apparently stable corporations, and protection rackets all took the place of an effective taxation system. This meant that the government was fundamentally unable to act on a host of issues, and international investment in Russia was severely hampered as a result. It wouldn't be until several years later that fiscal accountability procedures would be established. Once this happened, Russia's messy transition to full capitalism was already underway, and it began a steady ascent from the ashes. Lacking a

decent way to tax its citizens, government operation becomes infected with corruption and illicit money (at the most unstable stages of fiscal disarray especially).

Even with further development of a fiscal structure, it often takes time for a government to start spending the money efficiently and productively. Usually, taxation comes before faith in the monetary system itself takes root; an established fiscal system is therefore an indirect reflection of the strength of a nation's monetary authority. Due to the years of transition that it may take for developing nations to fully put effectual fiscal policy into practice, investment only trickles in slowly. Ultimately, the government of any capitalistic country must work with businesses, and taxation procedures are one of the most important ways in which this cooperation must happen.

Constitutions and Property Rights: the Missing Link

Money doesn't have any worth in and of itself. Even in the most stable of economies, with trusted monetary authorities and effective fiscal policy, the economic glue that holds everything together is a faith in property rights. What's the point of investing in a country if its currency is stable, but the government can seize assets at any time? And what's to guarantee that property rights themselves will even be around when political problems arise? In answering these questions, it's apparent that a constitution is necessary to ensure property rights, but that some degree of social cohesion is necessary to sustain the constitution. Property is the sole motive for further development in a capitalistic economy. If people can't own it, or are uncertain of whether they will be able to in the future, investment is utterly pointless. For that matter, so is currency itself, as well as any taxes that the government seeks to levy upon citizens.

An example of what happens when property rights aren't effectively established and upheld is the case of Zimbabwe. This sub-Saharan African nation has been independent of British colonial influence since 1980, but has seen many changes since. Throughout this time, only one man, Robert Mugabe, has ever been president, and his manipulation of the economy in the last several years has given him the reputation of a power monger. Though only less than 1% of the country's population is white (generally descendants of colonizers), this segment of the population possessed most of the country's wealth, and managed most of the country's agricultural production. Though more equal wealth distribution was naturally beginning to take place through development, Mugabe seized countless white-owned farms and nationalized them. "Economists estimate over \$20 billion worth of moveable assets have been illegally impounded or looted since February 2000" (Zimbabwe Independent, 9/6/02), and this has thrust the country into economic anarchy. Currently, Zimbabwe has the highest inflation rate in the world. More importantly, it convinced outside international investors that Zimbabwe wasn't safe enough for their money. Even though the colonial legacy was obviously immoral in its roots, the family farms that were seized constituted a great deal of production for the country, which was tantamount to Mugabe shooting his nation in the foot for the sake of political popularity with the African population. All contentious issues of race relations aside, the point is that no one in Zimbabwe has real security in their laboring and investment. The constitution doesn't secure property rights well enough, and the laws and courts don't effectively uphold the constitution. We'll return to this example later to explain another side of the story- the implications of post-colonial transition.

Property rights are the basis of all capital. Marxism (and any derivation thereof) fundamentally requires government seizure and control of property to ensure that the "prosperous few" don't control it, which ultimately puts the government in complete control of the economy and the potential to invest. While the aspiration of revolutionary politics is sometimes benevolent, it has never once in the course of human history succeeded, because the right to property is the basis for civil society as well as investment. The term "civil society" is often times understood as the condition in which a democratically oriented government exists, and since democracy can be defined as anything which benefits the people, any policy which is directed towards the end of increasing "democracy" can be justified. This is a fundamental

misinterpretation of civil society, because the term actually refers to the non-governmental balance which ensures the safety of capital. Capitalism must exist in the first place to allow civil society to take root, and democratic capitalism requires stable property rights.

Civil society itself is a matrix of different (and often contradictory) beliefs within a culture which balance the negative inequalities which capitalism creates. A number of current political manifestations can describe the concept: environmental and social equality movements, humanitarian organizations, religious beliefs and the social mores which they promote, and scientific and educational endowments. The contradiction within this matrix of worldviews, combined with government support for the free will of individuals who hold them, is the foundation for civil society. If a government controls an economy, it must naturally control the beliefs and aspirations of those who participate in it. This becomes anti-democratic in a very disturbing sense. Unfortunately, civil society often goes unappreciated because of its amorphous and complex nature.

Within capitalist economies, the “third sector” (distinct from public and private sectors) is the most reliable construction of civil society. In America, “under the Internal Revenue code, over 20 categories of organizations are exempt from federal income tax, but most organizations eligible to receive tax deductions fall into... Section 501. One-third of nonprofits in this category are charities and foundations while the rest are universities... Nonprofits have no shareholders and are not owned by anyone, except abstractly by the public” (Bruyn 11). Therefore, the responsibility to find solutions to social problems within capitalist societies lie in the hands of the people, and governments ought to facilitate this task as well as the development of a free market economy. Only when this happens can third world nations move beyond the structural and political problems which stunt the growth of capital infrastructure.

Post-Communism and Post-Colonialism in Transition Economies

There’s a third world and a first world, but what about the “second world”? This term is used to refer to economies in transition from non-capitalistic structures to market economies. Many developing nations, which are often characterized as “third world” (which is only a difference in semantics, for the most part), come from the background of colonialism or communism. Both structures will be presented here as deeply flawed, and as the root causes of stunted capital infrastructure development. Post-communism will be covered in more depth because communism and its fall are relatively recent developments in world history; many colonialist power structures fell years beforehand. Though the lack of capital infrastructure usually looks the same in any country due to the common preconditions for it, special issues related to these two backgrounds demand a unique approach depending upon context.

Post-Colonialism and Equalization of Opportunity

Most analyses of post-colonial societies emphasize the racial and religious imperialism that motivated the colonial mentality, and shape subsequent economic explanations on these issues. My opinion is that this approach is about 100 years behind the times, because multinational capitalism is largely unconcerned with these issues. Once more, the most important questions now aren’t related to can be blamed for the current problems in poor nations, but what can be done to democratically develop these unfortunate countries. A starting point is an understanding of underdevelopment from a realistic angle. The postmodern left often times identifies underdevelopment itself as a construct of market economics, which was created to justify the spread of multinational capitalism into these nations. This point of view would likely be overly theoretical and highly impractical as well. Though different cultures have different standards of living, most people don’t choose to live in abject and horrifying poverty because of cultural reasons (i.e., some on the left might say that an absence of capitalist materialism motivates people not to be consumerist in a country such as Nigeria, where a lack of goods and money is clearly the case instead). For readers who are interested in critical theory analyses of post-colonialism, I recommend reading Arturo Escobar or Franz Fanon. The treatment of post-colonialism here will be from a capital perspective, not a Marxist or critical theory one. Working from the previously established framework of

capital infrastructure as the means for development can help us to best understand the problems of underdevelopment which were caused by colonialism in the past.

History happens. As mentioned earlier, there isn't a grand conspiracy that explains the problems of our times, and presenting history from that perspective is usually counterproductive to finding solutions. A fundamental question that explains many forms of economic inequality is "who started with what?" Obviously, if you were born into a rich family with colonial roots, you'd have a better shot at a sustainable life than a poor subsistence farmer. Post-colonial tension usually comes from a structural lack of equal opportunity between people. A number of factors cause unequal opportunity to persist.

A continued lack of communication between different races, cultures, regions, and religions is a first cause. The human interactions that shape all aspects of life are usually tainted by negativity because of misunderstanding. Though this can be from language barriers in some cases, culture clash is more fundamentally the cause of misunderstandings. One old example that describes a culture clash in a post-colonial country is how the government dealt with AIDS in South Africa in the late nineties. Though the West thoroughly understands the preventative measures to curtail the HIV spread, the government of South Africa had confounded health organizations for several years because of its misguided education and medicine program. The administration of President Thabo Mbeki catered to cultures within the region that were skeptical of the West by discouraging the use of the drug AZT, claiming that it actually caused HIV to turn into AIDS. AZT was designed to prolong the life of HIV/AIDS patients- the exact opposite of what Mbeki's administration told its constituents. Though this answer made him politically popular among those who culturally disagreed with the Western view (because of the citizens' historical grudges and continuing mistrust of whites after the apartheid), it certainly prolonged the suffering of many South Africans by coercing them not to accept medical help which was offered.

Another cause of unequal opportunity is the differences in regional resources, and how the government fails to deal with them. When the government doesn't attempt to level the playing field between races and classes, economic underdevelopment and political strife become further entrenched. Fundamentally, this apathetic sort of policy causes a strong disincentive for capital infrastructure development, because efforts to develop local economy through investment and good resource allocation are already woefully inadequate, and investment becomes even more limited as problems worsen. As an example, if a remote locale within a developing country only has rubber plantations, the obvious solution to local food shortages would be to trade the rubber for food. However, failure to develop the rubber producing area's economy through establishing an effective and balanced import/export system not only would cause people to starve, but also persistent poverty and underdevelopment. These conditions would create a vicious cycle, deterring future investment until the government takes action. When divided along race lines (as is often the case in a post-colonial setting), unequal opportunity can develop into an explosive political issue. Returning to the example of Zimbabwe, the Mugabe government seized the farms of white landowners specifically, and encouraged the black population to occupy the farms to take their place. Problems quickly arose: many of the new occupants knew how to farm, but not how to run a farm. White landowners fled from the country, knowing that they were now targets for the government's wealth redistribution plan, as well as violence instigated by the indigenous population. Ethnic violence broke out between different tribes as well as blacks and whites over who would control farms, because there simply wasn't enough developed and arable land to keep everyone employed. In the ensuing anarchy, Mugabe maintained his political power, but it came at the cost of losing a myriad of investment opportunities for the long term good of his people. The effective solution to the problems of black poverty would have been to draw in investors to create jobs, and to levy taxes for social and educational programs. Now, Zimbabwe's development and the possibility of economic advancement for the poor have been set back for years. Throughout the underdeveloped world, post-colonial problems shape the economic and political landscape. The best way to resolve these problems is through more effective government management,

measures to bridge gaps in cultures through educational and social programs, and drawing in investors by creating better economic organization.

Post-Communism - Up from “Equality”

In post-colonial nations, the withdrawal of a colonial power helped to enable corrupt leaders and cause wars over resources and wealth. While the power vacuum effect exists in post-communist nations as well, it usually manifests itself in much different (and markedly more consistent) ways. In its truest sense, communism never aimed for equal opportunity, despite the rhetoric of equality that its proponents used. Instead of “leveling the playing field”, it attempted to level the players, assuming that an overall restriction of freedoms could somehow achieve equality in status. It did, to an extent- every nation that has ever professed communism or socialism has been rife with repression and poverty, which “leveled” all of the population except for the governmental elite. In your analysis, a number of questions on post-communist nations may be asked, and seeing how the recent past created the present is essential to answering them. After holding a profound role in the New Left movement of the sixties, writer David Horowitz swung to the far opposite of the spectrum in the wake of continuing failure of the communist program throughout the world. He declared, “the leftist counterrevolution against liberal democracy has meant permanent war against bourgeois society- against the culture of individual rights and political pluralism, against the private property foundations of the liberal state. To have been on the left is to have been at war with the only democratic and free societies the world has ever known. It has been a war conducted in the name of ideals that cannot be implemented and a future that cannot work, and has brought misery and oppression of incalculable dimensions to uncountable millions” (143-44). This sentiment may seem hair-raisingly conservative to many, but in actuality, it is liberal in the classical sense. What Horowitz professes is that the foundation of political freedom is economic freedom, and freedom itself is a hallmark of liberal societies. Though capitalist countries are far from perfect, they usually provide the greatest degree of equality of opportunity and edification of the individual economic rights. Remembering the importance of civil society to capital development, we can identify the causes of post-communist nations’ problems as: a lack of established economic freedoms, a habitual tendency to solve problems through repression, and the birth of a new criminal oligarchy.

Initially, post-communist nations lack a firm foundation for economic freedoms. As mentioned earlier, economic freedoms are the basis of all freedoms in a capitalist society, and the lack of them in many second world states continues to stunt the development of democratic capitalism. Instead of manifesting itself in obvious ways, such as a lack of freedom to buy certain goods, or legal restrictions against private land ownership, however, post-communist countries are ridden with bureaucracy and mismanagement. Though this doesn’t sound like a very serious problem, its consequences are poverty and starvation. This perpetuates an overriding lack of faith in the government, which is sometimes blamed on capitalism itself. “Who can be in favor of nationalized industries which go broke, results in shortages and long lines, and have the effect of putting everyone on the public dole? Today, nearly all sophisticated socialists are also opposed to traditional socialism. They, too, abhor the gigantic bureaucracy of state-owned industry” (Novak 44). It is the continuing crisis of a socialized economy that makes government inefficiency a crisis in the post-communist world, causing poverty, environmental destruction, and unsuccessful social reforms.

Instead of pointing out another bleak example of a seemingly hopeless country, let’s see how increasing capital infrastructure can resolve these problems in practice. Poland is largely considered to be one of the world’s most successful transition economies, because since 1992, the government has embarked upon a “shock therapy” program to privatize industry. While rapid privatization of industry (especially agricultural ones) usually results in high rates of joblessness and helps to destroy the public’s faith in the market, Poland’s program worked due to a more balanced approach to fixing the problem of nationalization. Coal, railroads, steel, and the energy industry were all partially privatized, with government supervision and outside observation by the European Union. The worst parts of Poland’s

economy remain in agriculture, where a large network of public and private farms lacks the central structure to produce consistently. It is worthy of mention that, despite the common myth that privatization hurts the environment, Poland's environmental condition changed drastically for the better after embarking on a course of liberalization. This is no anomaly; throughout many post-communist countries, the economic destruction wrought by the socialist state was often justified as a short term cost of "the revolution." Unfortunately, no one wound up noticing the blackened skies and toxic seas, because the motivation to act towards economic good is never a specifically altruistic thing- it has usually been motivated by self-interest, which communism simply doesn't allow for. A final comment on Poland is that the country is still in transition. Finding a more effective scheme to draw in investors to replace inefficient state-run farms and the transport industries that link them to central suppliers is essential to the future well-being of Poland. A desire to enter the European Union is now the principally motivating factor for these reforms.

Governmental repression is a second major problem of post-communist transition states. The underlying linkages to civil society have already been explained, but the root causes of the repression itself are hidden in the legacy of socialist wealth redistribution. Three years before one of his former Stalinist contemporaries buried an ice pick in his head, Leon Trotsky noted that "in a country where the sole employer is the State, opposition means death by slow starvation. The old principle: who does not work shall not eat, has been replaced by a new one: who does not obey shall not eat" (Trotsky qtd. in Hayek 132). Indeed, this kind of thinking is idealism in its most ironic form. In practice, the doctrine succeeded in being even worse, however. Those who didn't obey were sent to work camps, or "gulags", where they might spend their entire lives interned. The grounds for being sent to prison were manifold, because the state-oriented outlook of communism had made repression essential. Though the necessity for repression ceases to be when communism falls, the mentality that rights restriction can motivate people to obey still remains. Continued mistrust of the government among citizens can sometimes serve to justify new forms of oppression to acquiesce the public to obey. This makes outside monitoring of transition states absolutely essential, because structurally and socially ingrained repression simply doesn't go away overnight. For example, in Russia, Vladimir Putin waged a brutal war on Chechnya for years, attempting to stave off its separation from the motherland under the pretext of stopping terrorism. Countless thousands were murdered and starved, but the media managed to turn a blind eye to the more grisly parts of the conflict. When outside observers inquired about the violence, they were often met with a sense of isolationist hostility by Putin's administration. In the ongoing, sometimes convoluted transition phase from a socialized economy to a market one, repression still occurs regularly. Though not always officially sanctioned, solving problems through violence isn't unfamiliar to leaders with backgrounds such as Putin's (a former KGB spymaster and Judo expert).

The restriction of rights for the common good doesn't have a place in a market capitalist setting, because the ultimate development of civil society is essential to economic stability. However, the repression in post-communist states is often carried out by individual soldiers who lack the approval of higher authority to do so. In the case of Cambodia, certain remnants of the Khmer Rouge (a brutal communist army that had controlled the country for almost 20 years since 1975) were combined with the regular Cambodian army and police force in 1999. This brilliant idea succeeded in causing a number of deaths, as well as a more corrupt mentality in the police and military. Simply put, people who are used to resolving social conflicts with bullets don't easily unlearn those habits. Unfortunately, the remaining holdouts of the Khmer Rouge were still holed up in remote parts of the country after the restoration of democracy in 1993, and after years of continued fighting through the nineties, the government finally felt that it had to bait them out with the possibility of a new place in the legal order. These kinds of uneasy compromises are common in post-communist nations, and make for some strange bedfellows indeed. Therefore, the continued violence inflicted by the government on the citizens of transition states isn't always explicitly intentional, though it is obviously never justified.

A final problem in the post-communist transition is that the lack of established laws and capital controls allows organized crime and a criminal underworld to take root. At the very least, this is manifested through extensive bribery and corruption in many levels of the government, especially the highly vulnerable local one. In the worst case scenario, however, a criminal underworld winds up controlling major parts of the economy behind the scenes. This was the case with Russia during the mid-nineties, but the situation has somewhat improved because of the harsh crackdowns of the government and increased police action. Many Marxists in post-communist states identify this as a common problem with capitalism, which can't be resolved through programs which aren't socialist in nature. However, the reality of this pernicious situation is that the fall of communism creates a power vacuum, and enables the construction of hidden mafia strongholds within the government and neglected economic sectors. Not least of these areas are the police, which can be bribed to do almost anything in certain states. In Kazakhstan, for instance, the government has had to set up a large network of anti-corruption organizations, many of which are from outside of the country. This is because the police force is populated by many ex-KGB operators, who in turn, were hired into the Soviet police force out of organized crime. The KGB, and its predecessor, the Cheka, stood synonymous with the mafia in the USSR. Structurally, this makes outside observation of the economy and of internal regulatory bodies absolutely necessary to prevent the spread of corruption in post-communist Eastern European countries. This has worked thus far on the political end in Eastern Europe, but the black market still constitutes a large and indefinite economic void. Obviously, goods such as illicit drugs and small arms are sold without taxation, with the profits falling solely into the coffers of the criminal elite. The oligopoly which existed throughout central and Eastern Europe in the nineties may have been dismantled by increased government regulation, but a criminal oligarchy still is alive and well in post-communist countries.

There are a number of issues on post-communist transition economies that one may wish to analyze, and understanding the Marxist roots of the current problems is a good starting point for answering them. A highly important part of one's analysis should be on how outside actors are essential to building democratic capitalist structures. This not only means monitoring of the real economy, but the political one as well.

The Conflict Economy

A final issue in evaluating developing nations is how conflict affects their economies. The effect of warfare on developing countries' economies is vastly different (and much more inconsistent) than in the West and developed countries in general. Because conflict economies are so different depending on the varying raw materials, production methods, and political situations in each country, I will only briefly cover this issue. At the crux of a developing country's economy in wartime are two indicators which gauge its overall political/economic progress: the loss of national income and the infant mortality rate. Both not only explain the present situation, but are also grounds for predictions of the future.

With regards to the loss of national income, this category of problems can include shrinking production in all industries (agriculture being especially vulnerable), decreasing investment and savings, and per capita income growth (Stewart and Fitzgerald 5-6). On top of this, increasing inflation and budget deficits due to military spending cause the economy to travel further down the spiral. In terms of capital infrastructure, most attempts towards bringing in investment are rendered useless, and the economy stagnates or shrinks. This is somewhat contrary to the wartime economic models in Western countries, where war can actually stimulate industry and cause an economy to grow. In the third world, however, government corruption and mismanagement combined with unhealthy and exploitative forms of investment ultimately equate to economic catastrophe. A perfect example of this phenomenon is Sierra Leone. Now coming out of a prolonged civil war, the country is hard-pressed to find alternative forms of income besides diamonds. Because a rebel insurgency had controlled and fought over diamond mines, most of the country's income had been decimated by the government's loss of control over the mines. Sierra Leone shows not only how conflict can harm economies, but also the future potential for the development of capital infrastructure. In

sum, finding an effective way out of economic malaise requires that war-torn countries diversify industrial development. When governments put the war effort first, it ultimately helps to ensure that this doesn't ever happen. The consequences of these economic quagmires may last for years, depending upon the nature of each conflict.

Rising infant mortality rates also have a profound effect on conflict economies, but the economic cost isn't seen until years later. Because of the nature of third world conflicts, infants are the first to perish- from a lack of immunizations, poor diet and nutrition, contaminated water, and general neglect. Children also bear the brunt of such conflicts, because they're often orphaned due to the death of their parents or neglect. While the human cost of these conflicts is indeed staggering, the economic consequences often go unnoticed until years later. The destruction of the future workforce, combined with the slump caused by ever-decreasing national incomes, makes sustainable development impossible in the long term. This creates a vicious cycle, because the scarcity of goods due to labor and capital shortages will motivate more warfare in the future. Though the actual amount of future gross domestic product that will be lost is hard to predict, looking to the infant mortality rates compared to the cumulative loss in income in the past shows the overall costs of conflict. In Sierra Leone, a .57% loss of infant lives over a 30- year period resulted in 1.47% loss in income over the same period. With other countries, the cost of conflict can be even worse- the 1.5% infant mortality rate in Iraq from 1965 to 1994 caused a whopping 48.06% loss in overall national incomes. Clearly, when dealing with conflict you'll find huge variations between the indicators for each country. What's more is that the uniqueness of each case is also dependent upon regional economic and political factors, and these deserve attention as well. Regardless of the differences between countries, however, use of income loss-related statistics and infant mortality rates is an effective technique to explain the effect of conflict on economies.

Conclusion

Though every developing nation is different, the primary factor that can be identified as the cause of underdevelopment is a lack of capital infrastructure. Building this infrastructure requires effective monetary and fiscal institutions, built upon a solid foundation of civil society. In post-colonial and post-communist states, more unique problems exist, and they deserve more in-depth analysis depending on the context. Because so many underdeveloped countries come from one of these two backgrounds, it's important to know about the situation of specific developing countries and how anomalies from the typical framework of development analysis might affect what should be advocated when speaking. Finally, conflict plays a role in some developing countries' economies as well, but general rules to describe the effect of conflict on these economies are harder to find. Ultimately, succeeding competitively when speaking about these nations will require yo understanding each national situation specifically. On a final note, don't talk about the economies of developing nations as much as how the economic situation affects people. This isn't just for the sake of getting to the judge to win the round- more importantly, economics is a social science, and none of it means anything without the people that make individual economies work or fail. The horrifying situation in the underdeveloped world today often goes neglected in news coverage and analysis, and finding a middle ground between analysis and emotion is essential to both speaking and policymaking. Though the world does seem to be getting smaller and smaller, this raises a new opportunity for humanity to be drawn closer together as well. Knowing that developing countries do affect the West in profound ways- least of which is our conscience towards their condition- can help to bring first world leaders to action to resolve the crises that cause the suffering of untold millions of people.

Selected Bibliography

- Bruyn, Severyn T. *A Civil Economy: Transforming the Market in the Twenty-First Century*. Ann Arbor: University of Michigan Press, 2000. An interesting look into accountability structures, public and private, in a capitalist economy. Especially strong in its advocacy of specific, practical solutions to problems of privatization and globalization.

- Central Intelligence Agency World Fact Book, 2001. <http://www.cia.gov/cia/publications/factbook/> - A great source for general political and statistical information on every country in the world, ideal for extra filing material.
- Hayek, F.A. *The Road to Serfdom*. Chicago: University of Chicago Press, 1994. A quintessential advocacy of classical liberal thought, where Hayek identifies the same causes for the problems of Nazism and socialism, and offers a liberal view of economics as a counterweight against collectivism.
- Horowitz, David. *The Politics of Bad Faith*. New York: Simon & Schuster, 1998. The Companion book to Horowitz's autobiography, *Radical Son*, where he mercilessly attacks the political left. Excellent analysis throughout, with an undue amount of rhetoric as well.
- Novak, Michael. *Three in One: Essays on Democratic Capitalism, 1976-2000*. Ed. Edward W. Younkins. Lanham: Rowman & Littlefield, 2001. Novak's collection of essays defends the religious, moral, and cultural cohesion that create a civil capitalist society.
- Stewart, Frances and Valpy Fitzgerald. *War and Underdevelopment*. New York: Oxford University Press, 2001. A set of case studies of the impact of war on developing economies. Highly useful for its statistical information and in-depth analysis of specific causes of economic underdevelopment due to conflict on a country-by-country basis.
- United Nations Human Development Report, 2002. <http://www.undp.org/hdr2002/> The entire report, available online, is invaluable for fact-finding on global poverty and conflict statistics. A highly credible and citable source.

The 2008-2009 Financial Crisis and Recession

John Mondragon

Introduction

2008 and 2009 have been tumultuous years for the global economy. At the time of writing U.S. unemployment hovers at 9%, global trade has decreased by double digits, and numerous financial giants have collapsed. The depth and breadth of the recession have led many to question the structure and ends of the current economic order. Proposals range from doing nothing to regulation to a complete abandonment of the capitalist structure. While it is not ideal to attempt to understand the recession from what appear to its deepest depths, there are certain elements that seem to be well-understood. I will explore these with an emphasis on possible causes of the recession and what might or might not be significant components. I do not spend much time on the facts of the crisis (unemployment rate, changes in output, loss to the financial market) as the specifics of these will have changed by the time of printing and so any comparisons to other recessions would probably be inaccurate.

An important point to understand is that the financial crisis and the recession are two distinct topics. When I speak of the financial crisis I am speaking of the collapse of financial institutions, the loss of confidence in financial investments, and the morass in which the banking industry finds itself. When I speak of the recession I am speaking of the drop in output (GDP), rise in unemployment and other economy-wide topics.

Before continuing it might be wise to familiarize yourself with the fundamental concepts of GDP, investment, and finance. These concepts can be found in the appropriate sections of this book.

Financial Crisis

A financial crisis is broadly understood as when a significant portion of the assets in a financial system loses its value. A financial system, to review, is a way to allocate funds to investments. Certain agents sell assets (be they parts of a company or promises to future funds) and others buy them. The crisis occurs when something happens so that no one wants to purchase a large amount of assets that had been considered valuable. If this happens the holders of those assets lose the money that they had used to purchase them. For example, if I had purchased a share of Failboat Co. at \$20 and it later emerged that they produced boats that could not float then no one would want to buy my share (which I desperately want to sell). I own a share of Failboat, but it is now worthless. I have lost \$20. A crisis occurs when this happens on a large scale. In modern economies like the U.S. investments are a large part of the economy, so if a significant portion of investments turn out to be worthless then the economy has quickly lost a lot of its wealth.

The current financial crisis is especially dangerous as no one is quite sure which assets are the worthless assets. This means that few people are willing to invest in anything because they cannot be sure that it is actually worth anything.

Securitization, Subprime, and the Contagion

In discussing the financial crisis one will inevitably hear the word securitization (most often in an accusing tone). It is true that securitization played an important role in the current crisis, but in and of itself it is not a bad thing. Securitization is the practice of bundling or pooling different assets into a single asset and then selling pieces of this single asset. To understand why this was done and how it was used it is necessary to discuss the U.S. housing market.

If you buy a house you will most likely take out a mortgage. A mortgage is a sum of money the bank will loan to you so that you can buy your house. This is necessary, as most people do not have the ability to pay for a home out of their pocket. In exchange for giving you this money the bank receives two things: First, the promise that you will pay them back over a certain period of time. Second, the ability to take your house from you if you do not pay back the loan.

This mortgage is a debt for you, but it is an asset for the bank. This is because the bank will charge you enough interest so that it will make money from allowing you to pay back your loan over time. There is a risk that you will not pay back your loan, but if this happens the bank can take your house back and, hopefully, sell it so as to recover the money it spent on the house in the first place.

In the housing market there are people who are likely to pay back their loans and people who are not as likely to pay back their loans. Loans made to people who are less likely to pay it back can be called “subprime” loans. This is because the risk of “default” or not getting the money back is greater.

Now, imagine there are five small banks in a city and each one has made a sup-prime mortgage with all of the bank's money (they have lent money to someone who has a relatively high risk of not being able to pay it back). Let's assume that the risk of each mortgage defaulting is 10%. So, each bank has a 10% chance that it will lose all of its money and collapse if the person defaults and it cannot resell the house. Now, let's pretend that a new bank comes to town and it buys all of the mortgages from the other banks (it pays them the expected value from the future payments on the mortgages). The probability that this bank loses all of its money is the probability that ALL of the mortgages go bad. To calculate this, assuming that the probabilities are independent (e.g. the probability of person A defaulting doesn't depend on the probability of person B defaulting). Or, 0.001%. This seems like an improvement! Before, we would lose a bank with 10% probability but now it is extremely unlikely that we will lose a bank.

This is the justification for securitization. It decreases the risk that there will be serious shocks to the financial sector because the risk that anyone will lose everything is significantly less. It can be a good thing as now the banks can make more loans to people who want homes or want to open businesses and fewer people are losing their savings because of investments gone bad. It has been standard practice in the financial industry since the 1970s and has typically been a stabilizing force.

It was used to combine different grades of subprime loans (really risky loans, somewhat risky, etc) and create an asset that was a hybrid of these. If one of the loans went bad the asset would lose a little value, but it would not lose all of its value. Before, if you had owned only one of the mortgages that went bad you would have lost all of your money.

Clearly, it went wrong somewhere. Before we get to that we need to discuss the effects that this structure had on the economy. People reasoned that because these securitized subprime assets were less risky and they were able to pay more than previous assets at the same risk level then they were an excellent investment. This led to a significant inflow of money into the institutions providing these assets. With this money these institutions could make more loans and so create more subprime assets. More people can afford homes, more people have safe investments to use for retirement, and more people are making money in the middle. It seemed as if everyone was winning.

There were two fundamental problems with this setup. First, everyone was assuming, either explicitly or tacitly, that the value of the housing market was going to continue to increase. If this was true then banks would have no problem taking loans that people defaulted on and re-selling the house for more money. Or, people who didn't have very much money and wouldn't have been able to afford an expensive house before could use the glut of money flowing into the subprime sector to take a mortgage and then bank on being able to sell the house for more money in the relatively near future. A key component of many of

these loans is that they featured variable interest rates (so that the amount of interest you would be paying could change significantly). As long as times were good then the interest rates wouldn't be a problem. If the banks started to need money then they might increase the interest rates, which would be bad for the borrower.

Second, the industry assumed that the risk of each mortgage defaulting was independent of the risk of other mortgages defaulting. They thought there was no reason why many of the subprime mortgages would default at the same time. Remember that the reason why the risk had decreased was because for a bank to lose all of its money all of its loans had to go bad independently of each other, roughly equivalent to flipping a coin thousands of times and getting heads thousands of times. But if the risks aren't independent, then the risk hasn't changed at all. You are still flipping the coin only once.

Unfortunately, both of these assumptions were false. The U.S. housing sector gave rise to a bubble much like the bubble in the internet industries in the early 2000s. People believed that houses would continue to grow in value when in reality the supply of houses was rapidly outgrowing the demand. It would soon become clear that we could no longer count on re-selling our houses a year later for 120% of what we had paid. With the fall of this assumption the second assumption fell as well. If we could no longer count on re-selling houses for a profit, then banks could no longer count on recouping their losses when mortgages went bad. Since ALL of the subprime assets were based on house values, this meant that ALL of the assets had the same risk of becoming worthless.

It went like this. Many loans were made to people who wouldn't normally have received loans. Now, there was so much money in the system that there was little reason to not give loans to many more people. Inevitably, many of these people found that they couldn't repay these loans. When the banks turned around to sell these houses (or when the people attempted to sell a house they wouldn't be able to afford much longer) they found many other people doing the same thing. The increase in people buying houses had spurred a binge in house production. A surplus of houses and a deficit of buyers meant that the prices of houses had to decrease. Now, the banks were going to lose money on many of their loans. Now, those assets that were built on combinations of all these different loans became worthless because all of the loans that hinged on being able to sell the houses for at least what they had been purchased for were worthless.

Institutions "lost" billions of dollars in matter of days. Everywhere they turned the loans that had been considered low-risk were turning out to be "toxic." What's worse, these assets were everywhere and while not all of them were worthless it was no longer clear which were worthless and which were not. Any asset that depended upon mortgages became suspect. This was the point of financial contagion. Investors became frozen in that they would not buy anything that had anything to do with mortgages while banks and institutions panicked and attempted to unload the assets at any price. Obviously, the price of these assets crashed through the floor making them worthless in effect if not in fact.

Now, huge, stalwart financial institutions were becoming worthless because no one was willing to buy ANYTHING because it was unclear how much everyone had exposed themselves to the risk from the subprime loans.

The Recession and Responses

As mentioned, investment is large part of the economy. When billions of dollars disappear overnight, it is a serious shock to the rest of the parts of the economy. Banks that have lost money will stop lending so as to make sure they can cover their current obligations. This means that they will not only stop lending to household and commercial borrowers but to each other as well. The normal exchanges that allowed banks to lend large amounts and cover themselves at the end of the day fell apart causing banks to collapse.

The collapse in personal and commercial lending is disastrous as well. It is not an understatement to say that modern economies run on credit. Consumers and businesses use it to smooth consumption as well as make capital investments. Without it consumers restrict spending so as to cover current obligations and businesses stop expansion. The combination of these effects means that businesses produce less, take in less money, and hire fewer people (or even fire more). Unemployment increases causing fewer people to be able to afford to spend, which returns to damage business. All of these things have taken place as a results of the current financial crisis and so have led to the National Bureau of Economics Research to announce that the U.S. is in a recession.

Unfortunately it is not only the U.S. that is suffering. The U.S. is an integral part of the global economy both because of its financial system and its consumption. The collapse of the financial system has caused much of the world to lose money and so has affected their financial systems in a similar manner to ours. Additionally, the sharp decrease in consumption means a decrease in imports. This has had disastrous consequences for economies like China and India, who depend heavily on exporting to the U.S. and other first world nations. Global data indicate that it is truly a global recession and that theories of decoupling, where the global economy is said to have diversified to the point where the U.S. is not as primary a player, have been shown to be patently false.

The recession is serious and understandably many have called for action by the world's governments to counteract its effects. These have taken a number of forms. Ben Bernanke and the Federal Reserve attempted to use monetary policy to stimulate the economy by decreasing the interest rates. To understand how this mechanism works you should read the pertinent chapters of this book. Unfortunately, this has proven to be unsuccessful and now real interest rates are effectively zero. It is not possible for the Fed to stimulate the economy if this is the case.

Fiscal policy has been attempted as well. President Obama signed into law an 800 billion dollar stimulus package in addition to the Treasury implementing several bailouts worth several more hundreds of billions of dollars. These bailout packages were intended to bolster the banks and financial institutions so that otherwise healthy institutions would not collapse as a result of a quick panic. It is relatively sound reasoning. However, in this case it seems to have encouraged the creation of zombie banks. Banks that will not collapse but will not lend or function as banks do. This might have happened because it sustained banks that were, in fact, insolvent. Without letting these banks and institutions fail investors are still not confident that there are safe investments and so will not re-enter the market. The stimulus package is a classic Keynesian attempt to replace private spending with government spending and so encouraging businesses to begin hiring and consumer to recommence spending. Whether or not it will work is to be determined. Some economists argue that efforts along these lines will be ineffective until confidence in the financial sector is restored as any gains from spending will stagnate with banks that refuse to lend and investors who refuse to invest.

Lessons of the Crisis

It is difficult to draw any complete lessons from the recession and crisis at this stage, but certain points can certainly be made.

Many are claiming that this recession is comparable to the Great Depression. This is, currently, silly. Unemployment in the Great Depression reached levels of 25% and GDP dropped below zero growth rate by 20% (meaning it not only stopped growing but it contracted by 20%). The actual contraction in the U.S. economy is roughly 2 to 3%, well within the standard deviation of a typical recession. In reality, more accurate parallels can be drawn to the recessions of the 80s or 70s than to the Great Depression.

A lack of effective regulation is often faulted for allowing the housing bubble to emerge and for allowing securitization to take place. First, securitization has existed since the 70s and the housing boom is a more recent phenomenon. Second, the problem was not so much in the mechanisms that were allowed but rather how they were understood. Perhaps there were regulators that understood the risks to the economy, but most people did not foresee the problems in the assumptions that had been made. Third, perhaps regulations may have stopped this recession...but it is no guarantee. Counterfactuals are difficult and much of the financial industry thrives on finding legal ways around regulations. If the fundamental problems had remained, and there aren't any real reasons to believe that they wouldn't, then regulation would merely have been another cost of doing business.

Perhaps the most important lesson from the crisis is that there is no one person or institution to blame. Everyone who took a loan they couldn't afford contributed, as did the companies that made those loans. Fannie Mae and Freddie Mac participated by using government guarantees of their assets to encourage more cheap mortgages. AIG and other financial institutions contributed by not fully understanding the risks of the financial instruments they were using (or perhaps understanding and using them anyway). The administration has possibly contributed by prolonging instability in the financial industry. Ultimately, there are a lot of dirty hands, which is part of the reason why it is such a serious recession.

Looking forward, it will be important to see if the U.S. falls into an extended recession along the lines of Japan, which failed to recover for a decade because of frozen banks, or if there will be a relatively quick recovery as has followed most of the other U.S. recession.