The SAIS Europe Journal of Global Affairs was established by the students at SAIS Europe in 1997 to provide a forum for the discussion and dissemination of ideas about current issues in the field of international relations. The Journal aims to provide a formal outlet for thought-provoking scholarship from students and faculty at SAIS Europe and other graduate institutions, and welcomes work from experts and practitioners.

The Journal is published annually and online articles are published on a rolling basis. The views expressed herein are solely those of the authors and do not represent the opinions of the Journal staff. Neither the Journal nor SAIS Europe itself guarantee the accuracy of the data included in this publication and accept no responsibility for the consequences of its use.

**Intellectual Property Rights**

The authors of the articles in this journal maintain the intellectual property rights of the contents. Anyone wishing to reproduce these articles must contact the individual authors to obtain their permission. Please contact the SAIS Europe Journal of Global Affairs for more information.

**Submissions**

Articles for submission to the Journal are accepted on a continuous basis. Article selection for the print edition takes place in March. Submissions will be judged according to the academic merit and relevance to the selected theme. Articles may be submitted at the Submissions Team to the address specified online. Authors should also include a current biography, contact information, and an abstract of the article.

Our website is: http://www.saisjournal.org

Copyright © 2015 The SAIS Europe Journal of Global Affairs
ISSN NO. 1592-3436 print/ISSN 1592-3444 online

Published By: The Johns Hopkins University
Paul H. Nitze School of Advanced International Studies
SAIS Europe at Bologna
Via Belmeloro, 11
40126 Bologna
Italy

Printed by: Tipografia del Commercio
Via del Perugino, 6
40139 Bologna
Italy

Cover Design by Roku Fukui
# Table of Contents

Letter from the Editor ................................................................. 2  
Letter from the Director of SAIS Europe ................................. 3  

Updating the Emergency State  
**David C. Unger** ...................................................................... 4  

The Over-Promised and Over-Threatened Impacts of Eurozone Membership  
**Gabor Debreczeni** ................................................................. 14  

**INTERVIEW**  
On Feminism, Gender Roles, and Sex:  
An Interview with Lynne Segal  
**Editorial Staff** .................................................................. 29  

(Un)Productivity in the Digital Age  
**Mitko Grigorov** ................................................................. 36  

Between Scylla and Charybdis:  
Migrants’ Dangerous Odysseey Across the Mediterranean  
**Valerie Tan** ................................................................. 46  

Holding Trees Hostage:  
Ecuador’s Attempt to Share the Costs of Preserving the Amazon  
**Jayant Gandhi** ................................................................. 52  

**INTERVIEW**  
On the BRICS, the Security Council, and New Global Order:  
An Interview with Professor Andrew Hurrell  
**Editorial Staff** ................................................................. 63  

The Agenda Setting Power of Media in International Affairs:  
How Media Coverage on U.S. Surveillance Programs and U.S. Military  
Operations Prevent Us From Becoming a Distopic World  
**Gerd Gensbichler** ................................................................. 72
Gucci & LVMH:
A Hostile Takeover Battle Across the Atlantic
*Samine Joudat* ........................................... 84

**Book Review**
David J. Blacker’s *The Falling Rate of Learning and the Neoliberal Endgame*
*George Fogarasi* ........................................... 97

**Acknowledgments**

The SAIS Europe Journal of Global Affairs would like to acknowledge and thank those individuals who have provided support during the year, including Director Michael Plummer, Professor Mark Gilbert, Bart Drakulich, Barbara Wiza, the SAIS Europe student government, and members of the SAIS Europe administration. Thank you also to the students and faculty who contributed to the annual fundraising campaign.
2014-2015 Staff

Editor-in-Chief
Colin Wright

Managing Editor of Print & Archives
Carsten Schmiedl

Print Layout & Design Editor
Kara Wilson

Executive Editor - Submissions
Eloise Waldon-Day

Executive Editor - Content
Patrick Rear

Chief Copy Editor
Carly Page

Webmaster
Jayant Gandhi

Director of Business & Fundraising
Katelyn Budd

Director of Marketing
Giuliano Morse

Associate Submissions Editors
Roku Fukui | Jeff Suppes

Social Media Manager
Eric D’Angelo

Graphic Design Leads
Roku Fukui | Briana Lazerwitz | Dana Al Zaben

Photographer
Serena Quiroga

Associate Copy Editor
Nikhil Gupta

Associate Editors
Nicole Ahdiyyih | Olga Belogolova | Chelsea Boorman | Seth Clare | Monica Goncalves
Anthony Gonzalez | Kevin Matthees | Edward Moe | Mitch Rhyner | Elizabeth Rust
Tahira Siddiqui

Marketing Leads
Wyn Bellhouse | Clay Kitchura | Julienne Laufer

Web Design Leads
Waleed Khoury | Xiang Wang
Dear Readers,

With this edition, the SAIS Europe Journal of Global Affairs counts 18 years of publication as SAIS Europe itself celebrates 60 years at the Bologna Center. Our graduate student run publication has previously been The Bologna Center Journal of International Affairs, but the name was changed for two reasons. Firstly, “SAIS Europe” because the European campus in Bologna is but one of the three locations of SAIS, and secondly, “Global Affairs” because current affairs are born of an interconnected world influenced by more than nation-states.

This year we also forwent a theme, opting instead to review any submissions relevant to global affairs. We did so for the Journal to reach a wide audience and for our submissions team to have unlimited room in seeking new submissions. Rather than establishing a common thread for authors at the start of the year, the tone of the publication would unfold with global events and authorial ideas. Owing to this broad approach, and our submissions team’s hard work, you will find herein a set of articles spanning many disciplines -- from interviews with renowned academics analyzing emerging markets, to tales of corporate takeovers written by bright graduate students. The decision as to which published articles would be included in this physical subset was a difficult one, but these represent some of the best submissions to our journal this year.

The staff this year worked tirelessly to update the Journal so that its previous academic publications would be more accessible to researchers. To that aim, we redesigned our website entirely with markedly more interactivity, and digitized every article published in the Journal since its inception. I encourage you to appreciate the fruits of their labors and view our other publications at www.saisjournal.org. We also investigated new and exciting avenues for marketing and fundraising which have helped to grow the reach of the Journal. This was no small set of tasks, and I commend the efforts of the volunteers who worked towards its completion for such long hours.

Building on the previous 17 years of thoughtful academic contributions, and after a year working alongside a committed and innovative team, I am proud to present Volume 18 of The SAIS Europe Journal of Global Affairs.

Sincerely,

Colin Wright
Editor-in-Chief
April 2015
Letter from the Director

Dear All,

I am delighted to open this year’s new SAIS Europe Journal of Global Affairs, which may have a new name but continues a great tradition of scholarship that is now in its 18th year. The new moniker underscores the global nature of the journal and is reflective of the interests of current SAIS students and alumni. This year the Editors decided to forego a central theme in order to focus on a broad audience, permitting the exploration of a wide variety of multidisciplinary topics. There is plenty there for all of us to enjoy!

The launch of the SAIS Europe Journal of Global Affairs is particularly fitting given that this year marks our 60th Anniversary. SAIS Europe has grown from a small cohort of European and American students focusing on transatlantic relations in 1955, to a truly global institution including students and faculty who hail from all corners of the world. Subjects studied range from functional areas such as international economics and conflict management to regional studies on Europe, Latin America, Asia, and the Middle East. It is the oldest American graduate program in Europe and we are very proud that our graduates have risen to prominent positions in government and business all over the world. Our alumni now number over 7,500, and represent over 115 nationalities.

SAIS is dedicated to cutting-edge multidisciplinary research. Our faculty are all experts in their respective fields, and their reputation has ensured our continual presence at the very top of the rankings of professional schools in global affairs. The SAIS Europe Journal constitutes an important expression of this research focus and has published innovative and pioneering work over past decades, pushing the envelope in a wide variety of areas. I’m sure you’ll agree with me that this year’s issue is no exception.

The SAIS Europe Journal has built a new website (www.saisjournal.org) to better showcase the hundreds of articles that have already been published in the Journal, building a future on the firm foundations of the SAIS tradition. I’m sure you’ll find it to be an excellent resource.

Sincerely,

Michael G. Plummer
Director of SAIS Europe
Eni Professor of International Economics
The Johns Hopkins University
April 2015
Torture and Accountability

Last month, the Senate Intelligence Committee offered the world an edited but gruesome glimpse at how far Washington and its national security agencies strayed from America’s founding values and traditions, as well as international and domestic law, during the years after the Sept. 11, 2001 terrorist attacks. Repulsive as many of the grisly new details revealed were, they came from a redacted executive summary of a longer and far more detailed classified report detailing the variety of cruel and unusual punishments the Central Intelligence Agency and its contractors inflicted on hundreds of secretly held prisoners, many
later discovered to be innocent of any
terrorist crimes. Blandly called a “Study
of the Central Intelligence Agency’s
Detention and Interrogation Program,”
the committee report was a catalogue of
tortures carried out under the authority
of the United States government on
detainees in United States custody who
had been covertly whisked away to “black”
off-the-books prison sites around the
world.¹

How did this happen in a country whose
Constitution explicitly bars inflicting
“cruel and unusual punishments” and
guarantees all persons “due process of law”? And how can those responsible for these actions not be prosecuted by a country which is a state party to the International Convention Against Torture, the relevant provisions of which have been enacted by Congress as binding domestic law for offenses committed inside and outside the United States”?² Dubious legal opinions by Bush administration officials before the fact and exceptions enacted by Congress in the 2006 and 2009 Military Commissions Acts after the fact fail to provide adequate answers.³

In fact, those White House and congressional actions constitute part of the question we are asking here. Such illegal and unconstitutional practices were not and are not supposed to happen under the authority of the United States of America. But they did happen. Further, similar departures from constitutional standards repeatedly took place even before 9/11 - e.g., undeclared wars from Korea in 1950 to Syria in 2014, internment of hundreds of thousands of Japanese citizens and non-citizens during World War II, etc. And such violations of our laws in values by our elected leaders will almost surely happen again in the future; that is unless or until the American government and people insist on a return to constitutional norms, consistent adherence to the rule of law, greater transparency in government decision-making and accountability for those who knowingly set aside the law and the Constitution to commit patently illegal acts in the name of national security. The Obama administration’s refusal to prosecute those implicated in the unlawful activities under the CIA’s Detention and Interrogation Program, including those ranking officials who ordered or authorized it, is a thoroughly discouraging sign. The crimes may have been committed under George W. Bush, but the cover-up, or at least the refusal to prosecute, is taking place right now under Barack Obama. The Emergency State, as ever, remains a bipartisan project.

Consider the message this refusal to prosecute sends to future national security operatives trying to balance political pressure for results with moral and legal scruples about resorting to illegal methods. As things now stand, that message seems to be “go ahead and do it”. Lack of results may turn out badly for your career, but “taking the gloves off” and operating on the “dark side” likely will not. Such signalling will shape the conduct not only of future interrogators, but also of their political and bureaucratic bosses tempted to give such orders. The
same kind of signal, unfortunately, is sent by polls taken after the release of the Senate Intelligence Committee’s report that show most Americans now think torture can be justified. Neither the American government nor the American people now seem to be demanding a return to America’s lawful and constitutional traditions. That makes it all too likely that this sorry chapter of American misconduct, with all the damage it has done to our democracy at home and our reputation abroad, will be repeated.

Still An Emergency State

In my book, The Emergency State, I describe and analyze what is now a 75-year-long history of constitutional short cuts and evasions taken in the name of national security that have incrementally endowed the United States with a kind of parallel national security constitution. It periodically reverts to this alternative playbook when the requirements of the real Constitution seem too cumbersome, too politically perilous or too difficult to explain to the public. Since the end of the Cold War and its attendant thermonuclear perils, these shortcuts have rarely been justified by any operational need to act faster than the Constitution allows. Think about the 18-month lead up to the 2003 invasion of Iraq or all the agonizing back and forth media discussion about bombing Libya, Syria and Iraq. Even the retaliatory attack against Afghanistan after 9/11 had an almost one-month lead-time, plenty of time for doing things the constitutional way, as the United States had done in a much shorter space of time after Pearl Harbor. Presidents ignore the Constitution’s requirements because they can, and they can because voters and legislators let them get away with it. And when they are challenged, they cite Emergency State shortcuts taken by their predecessors, and the negligent passivity of past congresses, as if those were constitutionally justifying precedents.

This Emergency State alternative rulebook has now come to apply not only to national security questions, but to wider areas of our national and international life. One example is Congress’s habitual readiness to delegate much of its constitutional authority over international commerce to the executive under so-called fast track authority. This unfortunately allows presidents to shape the trade, investment and intellectual property regimes that now govern so much our economic lives behind closed doors with minimal democratic transparency and oversight. With so many important decisions about war, peace and the ground rules for globalization essentially taken off the table for open political debate, it is little wonder so many Americans feel alienated from their politicians and distrustful of Washington looking out for its own.

The main thesis of the Emergency State is that the politics of national security, especially during the Cold War decades, contributed to an expansion of executive powers, including a much expanded power to keep government actions veiled in secrecy. That makes it
almost impossible for ordinary citizens, and even most of Congress, to know what our government is really doing and to hold it democratically accountable. The way national security policy has developed under the Emergency State pushed aside the separation of powers and the democratic accountability that the framers of the U.S. Constitution counted on to preserve the republican and democratic achievements of the American Revolution.

The original rationale for the national security state was fear. U.S. foreign policymakers of the 1940’s and early 1950’s, men like Dean Acheson, James Forrestal, Paul Nitze and John Foster Dulles, sincerely believed that expansionist Stalinist Communism posed an existential threat to America’s freedom, prosperity and survival. With the benefit of hindsight and archives, we now know that a great deal of misreading of Soviet capabilities and intentions and some fevered worst case hypothesizing underlay these views. But honestly believing what they then believed, these influential policy shapers of the early Cold War felt their responsibility was to protect Americans from this existential threat, even if that meant adopting some of the other side’s tactics and jettisoning some of America’s constitutional scruples. And that is exactly what some of them, in policy papers such as NSC 68 of 1950, said was required. The minority that thought otherwise left, or was driven out, of government during the Truman and Eisenhower years.

That dominant mindset explains the early Cold War Emergency State. And given what we know about bureaucratic inertia it may even go some way to explaining later Cold War versions. But that can only take us up to 1991, after which there was no more Soviet Union and “Red China” had become a strategic ally and economic partner of the United States. If we can understand why the United States did not return to its pre-Cold War constitutional ways after 1991 and why the Truman administration’s visions of anti-Soviet “containment” seemed to glide seamlessly into new theories of “enlargement” that did not even require a super-power enemy to keep the zero sum geopolitical game going, we can better understand why Barack Obama has become America’s 13th consecutive Emergency State president. Bureaucratic inertia may provide some of the answer. Has Obama reshaped the CIA, or has the CIA reshaped Obama? Are long habits of cold war thinking and political discourse drawing the U.S. into a needless zero sum battle with Russia in places like Ukraine, Georgia or Moldova? Are those same habits threatening to turn the promised pivot to the Pacific into a new containment dynamic with China?

The perennial potency of fear as a force in American domestic policy, and its corollary, politicians’ perennial fear of being accused of weakness on national security, something my SAIS colleague Professor John Harper has described as an “iron law” of American politics, may also be operative here. (Such reflexive political pressures seemed to push
Obama out of his original resolve to steer clear of Syria’s messy civil war). Another factor may be the longstanding article of faith among U.S. policymakers that a globalized Open Door to American trade and investment is essential to America’s prosperity and even survival. That deeply rooted view preceded Woodrow Wilson’s liberal internationalism, the Cold War and the war on terror and continues to motivate constitutional short-cuts like fast-track today.

**Obama’s Promise of Change**

The prospects for change looked different right after Barack Obama was first elected president in 2008. Many of his supporters hoped that he might move the U.S. away from the Emergency State paradigm and back toward the Constitution. There were ample reasons for those hopes. The Emergency State failed to protect the country from the 9/11 attacks and failed to make Americans feel safer during the years that followed. And there was that repeated Obama campaign line that “there should be no contradiction between keeping America safe and secure and respecting our Constitution.”

There should be no such contradiction. The right to habeas corpus should “not be suspended” (Article I, Section 9) “Freedom of speech, or of the press” should not be abridged nor “the right to peaceably assemble” be interfered with (First Amendment). Telephone and Internet data and other personal “effects’ should not be subject to “unreasonable” or unwarranted searches (Fourth Amendment). Persons (not just U.S. citizens) should not be “deprived of life, liberty or property without due process of law” (Fifth Amendment). “Cruel and unusual punishments” should not be inflicted.

These Constitutional guarantees had been ignored, sidestepped or defied by the George W. Bush administration, as candidate Barack Obama rightly complained. And they continued to be ignored, sidestepped or defied by the Obama administration, even during its first two years when it could call on strong Democratic majorities in both houses of Congress.

The contradiction remains to this day between the Obama administration’s policies for “keeping America safe and secure” and the commonly understood requirements of the U.S. Constitution. This contradiction undermines not just the civil and political rights of Americans and foreign nationals under U.S. custody or jurisdiction. It also undermines the Constitution’s careful and delicate balancing of the respective war powers of the executive and legislative branches. This imbalance has been the norm since the Truman Administration, and it is still the norm under the Obama administration.

Only after the 2010 election can Republican congressional resistance be invoked to explain why Obama did not do more to deliver transformational changes. Before that, we have to look at Obama’s own choices – his ruling out in advance any punishment of those responsible for possible criminal offenses
like those detailed in the torture report, his decision not to rein in NSA spying on the phone calls and Internet messages of ordinary Americans, his expansion of the assassination by drone program from known targets believed directly connected to terrorism to signature strikes (aimed at those who fit a statistical profile, or are in the wrong place at the wrong time). A president who believed that “there should be no contradiction between keeping America safe and secure and respecting our Constitution” would not have behaved that way.

After the 2010 mid-term elections, Obama’s defenders can point to unyielding Republican opposition and legislative gridlock. But the Constitution was not written to apply only when the president and the Congress agree on basic policy issues. In that case there would be little need for checks and balances or separation of powers. It is political difference that puts our constitutional system to the test, and unfortunately, it has been increasingly failing that test since the end of World War II.

It is not that nothing changed after January 2009. On his first day in office, Obama issued an executive order to close within a year the detention facility at Guantanamo Bay, Cuba, where “unlawful enemy combatants” are held beyond the normal reach of federal courts. Guantanamo is still open, even though most of the prisoners there have been determined safe to release and the administration has the legal power to send them to countries willing to receive them. But Obama has failed to use his full executive authority to release even all of those prisoners found to be no longer, or never, dangerous. Obama also issued an executive order at the start of his first term revoking the Bush administration order that permitted CIA torture. But an executive order, unlike congressional legislation, leaves the door partly open to future abuses. And some critics argue that loopholes remain for detainees in the custody of the military’s secretive Special Operations command. Obama reformed procedural rules for military commissions, but continued to prosecute cases in these commissions, rather than return to the Constitutional framework of Article III Courts supplemented, where appropriate, by courts martial under the procedural safeguards of the Uniform Code of Military Justice. After Edward Snowden’s revelations of widespread NSA spying on U.S. civilians, Obama announced new, more restrictive guidelines for NSA surveillance, but continued that surveillance outside normal Fourth Amendment and privacy guarantees.8

Opportunity Lost

Obama’s mandate for change was lost not only, or even primarily, on the national security front during his first two years. Even more important were domestic disappointments like stunting on job creating investments in infrastructure and education, choosing a maddeningly complex and bureaucratic approach to health insurance that sacrificed affordability, universality and
user friendliness for the sake of getting industry lobbyists on board and that subordinated overall health care cost reductions to arcane beltway games like CBO budget scoring. That meant pursuing real reductions in private sector costs counted for nothing and being able to estimate (optimistically) out-year neutral impact on the federal budget counted for all. Though these issues had little directly to do with the para-constitutional Emergency State I wrote about, they had much to do with Obama's failure to sustain the kind of broad popular support that would have been needed to challenge the political and economic power of a military-industrial complex that has been fortifying itself at public expenses at least since the days of Dwight Eisenhower.

Maybe that was more than any president could do. Maybe it was more than the American public wanted or would have supported during those first two years of the Obama administration. We may never really know. But that is what it would have taken to start meaningfully rolling back the Emergency State.

Despite the widespread public disenchantment with the reigning national security paradigm (Iraq and Afghanistan) and reigning economic paradigm (an under-regulated Wall Street and trade agreements written behind closed doors) that drove the 2008 presidential election, Obama has spent much of the past six years building back those paradigms, to the point where repeat performances in Iraq and on Wall Street, under the next administration, or even under this one, are easy to imagine. Six years into the Obama administration, America's longest war continues in Afghanistan. America's combat mission was supposed to end on December 31, 2014, but given recent military and political developments in that country (and in Washington) it is hard to imagine that the “residual” training force of more than 10,000 U.S. troops will not engage in combat. Look what happened in Iraq. The last U.S. combat troops left at the end of 2011. But for the past few months, after Iraq's American-trained army crumbled in the face of ISIS, U.S. air strikes and training forces have been reintroduced. ISIS's rapid capture of strategically sensitive territory required a U.S. response. But the one Obama has now chosen looks like a pale shadow of the one that did not work under his predecessor, with U.S. firepower put at the service of a sectarian Shiite government in Baghdad against a Sunni minority population disenfranchised and embittered by the last round of U.S. intervention and its political sequels.

In neither case has Obama sought or obtained explicit congressional endorsement for reintroducing U.S. military forces into “hostilities,” as explicitly required by the War Powers Resolution. Obama did invite congressional authorization when he considered air strikes against Syria's chemical weapons sites in 2013, before a diplomatic solution made that issue moot. Before that happened, Obama was derided across the political spectrum.
and in the media as dangerously weak for his brief flirtation with constitutional war making. It was not an encouraging precedent. The Emergency State is not simply a product of presidential overreach. It is a codependent system that many political actors regularly participate in.

Nobody who paid close attention to Obama’s 2008 presidential campaign expected him to turn away from the exercise of American military power. His argument then was that the war he considered necessary in Afghanistan had been dangerously under-resourced to pursue an unnecessary war of choice in Iraq. Obama also pledged to pursue Osama bin Laden, if necessary by military actions in Pakistan, without the permission of the Pakistani government. But what many did expect, given the thrust of Obama’s 2008 campaign was a return to waging foreign wars (and domestic national security prosecutions) under the actual constitutional rules, not the bizarrely reinterpreted, rewritten and sometimes unrecognizable versions of the George W. Bush administration.

That did not happen. Instead of returning to constitutional norms, Obama’s Justice Department has spun out new legal doctrines through memos that argue (so far as we can tell since many are still classified and others heavily redacted) that presidential Commander-in Chief powers or long ago Congressional authorizations to use military force authorize this president to kill American citizens without due process, to monitor private personal communications of ordinary Americans in secret, and to withhold vital information about public policies from Congress and the public. These policies, on top of six previous decades of Emergency State shortcuts, hobble the constitution’s system of checks and balances and erode basic constitutional rights.

And while the Obama administration has been unwilling to prosecute those responsible for torture, a crime under U.S. and international law, it has zealously prosecuted more Americans than any previous administration for various forms of national security whistleblowing, including going to the press when all internal challenges of questioning were blocked. The well-known cases of Chelsea Manning and then Edward Snowden are among the most spectacular. But before that came, the legal harassment of NSA whistleblowers Thomas Drake, William Binney, J. Kirk Wiebe and Edward Loomis, who challenged billions of dollars wasted on a flawed surveillance system and John Kiriakou, a former C.I.A. employee serving a federal prison sentence for disclosing the name of a fellow intelligence agent involved in torture. My point is not that this kind of risky whistleblowing should always be immune from punishment. It is that the Obama administration sends an unmistakable message to present and future members of the intelligence community by giving blanket immunity to torturers while throwing the book at whistleblowers. And while outgoing Attorney General Eric Holder has
recently expressed reluctance to jail reporters for doing their jobs, a New York Times national security reporter, James Risen, still faces exactly that prospect.

It is of course too early to reach any final judgments on Obama. There are still two years to go in his presidency, and although Obama has shown a recent appetite predilection for pushing the limits of his executive powers, he will still have to deal with likely pushback from a new Republican Senate majority that prominently includes Senator Rand Paul of Kentucky, a constitutional-minded libertarian who may mount a serious presidential campaign. Even when it comes to the past six years, we do not yet know how hard and for how long Obama may have tried to move away from the hyper Emergency State style of his immediate predecessor. We have not yet seen most of the classified internal papers that might let us see what policy options were presented to the president and what he pushed his officials to do. But while there is a lot we do not yet know about process there is much we do know about outcomes, and these suggest that the Emergency State not only remains intact, but has in significant ways been expanded during the past six years.

A Preliminary Judgment

Did President Obama try to end the Emergency State? In my judgment he did not. Could he have succeeded if he tried? Again, in my judgment, probably not. Like most presidents, Obama, has fought tenaciously to hold on and even increase every Emergency State increment to executive power successfully asserted by any of his predecessors, whether or not there is any constitutional mandate for that increment. His successors will most likely do the same unless the voters and/or the Congress insist otherwise. That kind of public pushback occurred, briefly, in the post-Watergate, post-Vietnam years of the 1970s. But it did not last long or produce much lasting change. The Foreign Intelligence Surveillance Act (FISA) was one result of those reforms until George W. Bush's lawyers invented ways to bypass it and a Democratic controlled congress obliging amended it in 2008.

In his final two years, Obama now seems determined to do bold things by executive order, like liberalizing immigration enforcement and normalizing diplomatic relations with Cuba. It is psychologically understandable that Obama wants to do big things before he leaves office. But he is doing them not on the basis of his two solid presidential electoral mandates but in the wake of his biggest electoral repudiation. While this can produce good policy, it weakens rather than strengthens our constitutional system. The bold government by executive order that thrills the left today could be succeeded by equally bold executive orders that thrill the right tomorrow. This is not the way American democracy is supposed to be governed. America is still a constitutional democracy – though no longer a robust or healthy one. And for
most of the past six years, as for most of
the preceding six decades, the Emergency
State has been busily entrenching itself.

David C. Unger (born March 5, 1947,
Brooklyn, NY, USA) is a former foreign
affairs editorial writer for The New
York Times (1977 - 2013) and author
of the book The Emergency State. He
is currently an Adjunct Professor at
Johns Hopkins University, School
of Advanced International Studies
Europe, at Bologna.

Notes

1. Senate Select Committee on Intelligence,
Study of Central Intelligence Agency’s De-
tention and Interrogation Program, 2014
2. United States Constitution, Fifth and Eighth
Amendment; http://www.state.gov/docu-
ments/organization/100296.pdf, ; http://
www.law.cornell.edu/uscode/text/18/2441;
http://www.loc.gov/rr/frd/Military_Law/
3. http://www.nytimes.com/ref/internation-
al/24MEMO-GUIDE.html; http://www.
intlawgrrls.com/2009/10/military-commis-
sion-act-of-2009-new-and.html
4. Washington Post-ABC News Poll, Decem-
ber, 11-14, 2014
5. The Emergency State, David C. Unger, Pen-
guin NY, 2012
campaign meeting in Farmington
Hills, Michigan https://www.youtube.com/
watch?v=KqE3j10keLc
constitution_transcript.html
8. http://www.whitehouse.gov/the_press_of-
office/Closure_Of_Guantanamo_Detention_
Facilities; http://www.whitehouse.gov/the_
press_office/EnsuringLawfulInterrogations;
http://www.nytimes.com/ref/internation-
eff.org/deeplinks/2014/01/rating-obamas-
nsa-reform-plan-eff-scorecard-explained
asia/1000-extra-us-soldiers-will-remain-in-
afghanistan-.html?emc=eta1
middleeast/allies-to-bolster-us-troops-advis-
ing-iraquis.html
11. http://avalon.law.yale.edu/20th_century/
warpower.asp
middleeast/syria.html?pagewanted=all&
module=Search&mabReward=relbias%3As
%2C%7B%221%22%22%3A%22RI%3A10%22
%7D
middleeast/obamas-uncertain-path-amid-
syria-bloodshed.html?pagewanted=all

Title Page Photo Credit

Barack Obama at White House Gun Vio-
ence Meeting by Pete Souza - https://www.
flickr.com/photos/whitehouse/8476839488
The Over-Promised and Over-Threatened Impacts of Eurozone Membership

Gabor Debreczeni

There is no definitive answer as to the impact on a country’s macroeconomic indicators of joining the Eurozone. There is little impact on a country’s trade dependence. Peripheral countries suffered in terms of unemployment, but weakly gained in terms of incomes. However, no doomsday image emerges. While this appears to limit the short-term economic upside of the currency union project, it brings into the forefront the Eurozone’s aforementioned political considerations: eliminating competitive devaluations, having a common European monetary voice and tightening economic and political bonds within Europe. If this appeals to a prospective Eurozone member, they should not hold back for economic fears.

“Then came actual euro notes – and they all lived happily ever after, for values of ‘ever after’ < 11 years.” – Paul Krugman

Introduction

Ever since the founding of the eurozone in 1999, the economic distinctions between being a member of the currency union and remaining outside of it have
been dramatized by politicians, the media, and economists. The hype has extended in both directions, fueling guilds of doomsayers on both sides to predict economic disaster if a country should either enter, or refrain from entering the currency union. This paper looks for evidence of such extreme divergences between the fates of the countries that joined the eurozone versus those that did not. This is done first by considering how distortionary the euro is as a currency for its weakest and strongest members, and second by comparing the economic fates of comparable countries that made different decisions regarding their entry into the eurozone. To tease a bit of the conclusion: there are few dramatic differences using either approach.

The Optimum Currency Area

Academics and politicians have debated the economic advantages of a common currency for decades. To quote Paul Krugman, they are “reduced transaction costs, elimination of currency risk, greater transparency and possibly greater competition because prices are easier to compare.” Of course, while the economic considerations were equally trumpeted, the EU’s primary consideration in the establishment of the eurozone was always politics, and even geopolitics – the EU sought primarily to tie the region together both economically and politically to ensure peace, and also hoped to prevent economic warfare via competitive devaluations.

There are, of course, arguments for keeping currency areas small. The obvious gain is the ability to cater monetary policy to local economic conditions, but Krugman argues that an even more important function of a small currency is to give the region the ability to adjust its wages via depreciation in the currency. Because of human psychology and the nature of contracts, it is extremely difficult to adjust wages downward without such currency depreciation. Krugman gives Spain as an example of when this might be desirable – for it is a place where wages were driven high by an unsustainable property bubble and the resulting full employment, and are now inefficiently stuck there with few options for downward adjustment.

Of course, this type of thinking does broach dangerously close to the type of competitive devaluing the EU tried to avoid with the institution of the eurozone. Nationalists continue to rue the loss of the option to devalue. It is logically clear that there is a limit to the arguments for small currency areas, as Snider has argued, among others, because otherwise the result would be the reduction ad absurdum argument that every person should have their own currency. So, some aggregation into a common currency area is clearly warranted, and the outstanding questions are: how to balance the costs and the gains, and how big is best?

Much ink has been spilled on discussing whether the eurozone is an optimum currency area, with the main criteria for this determination being that it be “composed of regions affected symmetrically by disturbances and between which labor and other factors of productivity flow freely.” This paper seeks to deal with marginal cases – what countries have gained and lost
in a comparative context by joining or refusing to join the eurozone, and what countries could expect should they do so going forward.

**The Misalignment Problem**

One issue present in currency unions of any size is the problem of misalignment – that the value of the currency is not representative of, or optimal for, all of the diverse economic conditions of the union’s sub-regions. Although this problem is very much not unique to the eurozone, it is frequently brought up in the context of the eurozone because those examples are so intuitive, and resonate with the overarching European economic narrative. It’s told as follows. If they had separate currencies, Germany’s currency would be stronger than the euro, and peripheral countries’ currencies would be weaker than the euro. The status quo helps German exporters, and by extension the German economy. The status quo also hurts peripheral exporters, and by extension the peripheral economies. End of story.

While the issue of misalignments is obviously more complicated than that, the data does show the existence of misalignments. It must be said that given that the calculation of equilibrium exchange rates for non-existing currencies is a theoretical economic exercise, precise answers are difficult to pin down. Coudert, Couharde, and Mignon find a shocking amount of volatility in the measurement of misalignments. They consider the equilibrium value of the currency to be a function of a country’s productivity and its net foreign asset position, which is itself mostly a function of the country’s external deficits. They calculate that the euro has been too strong for peripheral countries as a collective since the common currency’s inception. If it is assumed that the euro is fairly valued for the eurozone as a whole, Coudert et al. calculate that in 2010 the currency was approximately 12% too strong for Greece, 6% too strong for Portugal, and about fair for Spain, Ireland, and Italy. On the flip side, they calculate that the euro is too weak by 15% for Finland, and by about 8% for Germany and France. These numbers are non-negligible, though not particularly dramatic. By reference, in 2002, near the height of American hand-wringing about China’s undervalued currency, economists estimated that the renminbi was about 30-35% undervalued.

Some studies have found substantially higher misalignments than Coudert et al., but have done so under the assumptions of a traumatic breakup of the monetary union, resulting in headlines as extreme as predictions of an 80% drop in the value of the Greek currency, and a 30% drop in the value of currencies on average across Europe. In that scenario, only Germany’s currency emerged stronger than the current euro, by 4%. While this data isn’t very useful for the misalignment conversation, it is a useful illustration of the direness of the warnings out there about a eurozone breakup.

What is causing the misalignment?
While lower productivity in peripheral countries is certainly a culprit, Coudert et al. actually find that the main mechanism for misalignment in the periphery is differential inflation. They find that inflation in the periphery was higher than in the core of the eurozone, driven by the overheating pre-crisis economy, especially via capital flows from the core into peripheral real estate. This mechanism worsens the periphery’s terms of trade, lowering competitiveness, and directly increasing the currency misalignment. As mentioned earlier, Krugman also focuses on the role of inflation as a culprit, going so far as to suggest that the clearest solution to the eurozone’s struggles would be a higher inflation target that would allow peripheral regions to lower real wages, as well as to lag the core countries’ inflation in order to lower the degree of currency misalignment.

Whither the U.K. and Sweden?

Given the prevalence of the rhetoric that Germany and the rest of the eurozone core profits from a euro artificially weakened by the periphery, it is surprising that the currency-weakening argument hasn’t been raised as a reason for the U.K. and Sweden to join the eurozone. While today’s political considerations would clearly prohibit either country from making a serious attempt, the lack of even light debate on the issue is surprising.

While papers have been written arguing for the U.K. to join the eurozone, they have focused on traditional arguments. Willem Buiter focused on the recent convergence of the U.K. economy toward sufficient satisfaction of the optimal currency area conditions referred to earlier, as well as on an argument that the U.K. is more vulnerable to financial crisis without eurozone membership because it is a country that has “a large internationally exposed banking sector, a currency that is not a global reserve currency, and limited fiscal capacity relative to the possible size of the banking sector solvency gap.” Patrick Minford similarly argues for the U.K. to join the eurozone for reasons enumerated earlier: lowered transaction costs, lowered exchange rate risk, and increased transparency in price comparison. Similar conversations have occurred in Sweden. James Reade and Ulrich Volz focused on similar arguments for Sweden to join the Eurozone, highlighting that the country already lacks much monetary independence from the European Central Bank, and that it is worrying that Sweden is a “small open economy with an internationally exposed financial sector.”

Recalling the above-mentioned theory that the two major theoretical determinants of an exchange rate are productivity and external deficits, it is possible to arrive at a guess of how misaligned the euro would be as a currency for Sweden and the U.K. Firstly, note that as of 2013 Sweden and the U.K. had productivity levels marginally above and marginally below the eurozone average respectively. This placed them about 10% below the eurozone core, and
below Ireland, but substantially above the eurozone periphery. The two countries diverge significantly with regard to external deficits. The U.K., like the peripheral countries other than Ireland, is below the EU average, with an average deficit of 3% from 2010 to 2013. Sweden, on the other hand, has averaged a surplus of 6%, among the highest in the region, and comparable to the Netherlands and Germany.

This exercise goes some ways toward justifying silence on the boost the economies of the U.K. and Sweden would receive from joining the eurozone via artificial weakening of their currencies. While currencies are capricious beasts, and as such firm predictions are foolish endeavors, this data suggests that the U.K. would not gain a substantially weaker currency by joining the eurozone, and might even receive a marginally stronger one. Sweden would probably weaken its currency somewhat by joining the eurozone, maybe by roughly 3-5%, placing it among the less misaligned of the core eurozone economies.

It seems then that joining the eurozone would have only small impacts on the values of the currencies of the U.K. and Sweden. The economic impacts of misalignment on current eurozone members are difficult to measure because there is no conclusive economic research on the impact of artificially weakened or strengthened currencies on economic activity. It is well-understood that a weak currency results in higher exports, but it is unclear how that is balanced out by barriers created for imports, by induced distortions in the domestic market, and by imported inflation. It is clear that misalignments in the eurozone are small compared to other recent cases of currency misalignment, including China over the last decade.

Pairwise Case Studies

The many EU member states that are not eurozone members provide us with convenient controls for analyzing the economic experiences of eurozone members since the introduction of the common currency. In this section, four sets of countries are analyzed. Each set was chosen because of their shared economic trajectories before a subset of the countries joined the eurozone. Their similarity was analyzed by comparing unemployment data, income data, economic size, and trade dependence for pairs of countries. In the following sections, the numbers in parentheses denote difference scores, which range from the low teens for countries that had extremely similar economic experiences in the recent past to the low 1000s for countries that had very different economic experiences.

Cyprus, Slovenia and Malta, in Comparison with Hungary and the Czech Republic

Cyprus adopted the euro in 2008. During the preceding five years, by our similarity metric, its trajectory was least different to Slovenia (85), Malta (241), the Czech Republic (247), and Hungary (275),
while it was most different to Germany (1055) and Poland (1002). Given that Cyprus and Malta entered the eurozone at the same time, and Slovenia had entered only the previous year, and given their low difference scores, it makes sense to consider the experiences of these five countries in unison. While Cyprus was clearly affected in an outsized way by Greece’s role in
the last decade’s economic crises, the unemployment chart below still tells a cautionary tale about the experiences of the countries discussed in this section, as two of the three countries that joined the eurozone (Slovenia and Cyprus) saw spikes in unemployment that were not seen in their non-eurozone counterparts. By 2013, the new arrivals into the eurozone had lost an average of five places in the rank of EU countries by unemployment, while the two control countries had gained an average of four places.

Incomes, however, tell the opposite story, as Hungary has fallen away from what had been a relatively tight pack and Cyprus, Malta, and Slovenia have inched toward the median for per capita incomes for EU member states. There was no discernible trend as to whether entry into the eurozone increased or decreased trade prevalence for this set of countries.

**The Core Experience: Sweden, Denmark and the UK in Comparison with Core Eurozone Countries**

The core countries exhibit more similarity with each other than the set of enlargement countries discussed above, and as such, it requires a little more subjectivity to select a set of comparables. Given that most core countries joined the eurozone in 1999, the period under discussion in this section for the sake of finding comparables is 1994-1998. During this time, Sweden was least different from Denmark (102), the UK (123), Finland (130), Belgium (131) and Germany (141).19 While at first glance, it might make sense to group the three core holdouts from the eurozone into one comparison, their comparables turn out to be strikingly different. At the time, the UK was least different from Germany.
(78), Italy (118), Sweden (123), France (145), and Denmark (162). In turn, Denmark was least different from Austria (37), Sweden (102), the Netherlands (146), the UK (162), and Germany (211). Some of the differences seen are clearly manifestations to different degrees of a small-country/big-country dichotomy. For the sake of clarity, then, the data is presented separately for the three holdouts. Interestingly, the results here are inverted
from those gathered from the enlargement countries considered above. In the case of Sweden, the unemployment data flatters the eurozone, as both Germany and Finland have seen meaningful falls in their comparative unemployment since joining the eurozone, while on average incomes Sweden has picked up ground in terms of its comparables, as it is now ranked second in the EU. Again, the picture on trade dependence is mixed, with Germany gaining substantially, but with Finland and Belgium losing ground. The charts comparing Denmark to its
comparables – Austria, the Netherlands, and Germany – are not included here because the results are largely inconclusive, and are similar to a muted version of Sweden’s case discussed above (with Denmark seeming to do marginally worse than the eurozone countries by unemployment, and seeming to do marginally better by income). The muted results shouldn’t be surprising since Denmark’s currency has been effectively pegged to the euro since the currency’s introduction in 1999.

The comparison of the UK to the large core eurozone countries, Germany, Italy and France, yields similarly muted conclusions, though this example is more favorable to eurozone membership, as the UK seems to perform marginally worse than its eurozone comparators in both unemployment and income. The countries’ record on trade reliance is also inconclusive, with both the UK and Italy increasing their trade reliance, and with Germany’s increase continuing to look dramatic.

The Peripheral Experience: Portugal and Greece, in Comparison with the Czech Republic and Romania

Another interesting comparison made available by this data is between the eurozone countries that are today called peripheral (Greece, Spain, Portugal, and Ireland), and non-eurozone Eastern European countries in the late 1990s. Unfortunately, each of the peripheral countries has different Eastern European countries as their comparators, but the comparison is illuminating. At the time, among non-eurozone countries, Greece was least different from Poland (139) and Croatia (183), Spain was least different from Poland (188), Portugal was least different from the Czech Republic (87), Romania (146), Slovenia (187), and
Croatia (196), while Ireland was least different from Slovakia (161), Hungary (225), and Slovenia (233), though it must be noted that with the exception of Portugal, all of the peripheral countries had better comparators among countries that joined the eurozone in 1999.
Looking at the experience of Spain, Greece, Poland, and Croatia, a similar story is seen as with the enlargement countries – the peripheral countries that have joined the eurozone have done poorly with regard to unemployment, but have done marginally better than the non-eurozone countries with regard to incomes. All four countries have increased their trade dependence in the recent past, but Poland’s increase is especially noteworthy.

While Portugal’s and Ireland’s comparables are quite different, the trends are similar enough to not be obscured when considered together. Similar to the case considered above, there is a pattern of worsening unemployment in the eurozone-joining peripheral economies that was not seen in the comparable non-eurozone economies. The picture of incomes is inconclusive, while the trend of trade dependence suggests light evidence that the non-eurozone countries gained some ground in trade.

**Recent Eastern European Additions: Slovakia and Estonia**

At the time of its addition to the eurozone in 2009, Slovakia was least different (in the entire EU) to Hungary (183), Croatia (272), the Czech Republic (283), and Bulgaria (287). Meanwhile, in 2011, Estonia was least different to Lithuania (33), Latvia (119), and Hungary (195). So, both are seemingly natural cases for study.

Interestingly, for Slovakia, the data does not lend further support to the earlier findings that less developed additions to the eurozone tend to struggle with
unemployment, as the relationship between joining the eurozone and unemployment is inconclusive here. Furthermore, Slovakia seems to have done marginally better than its comparators by income, and its comparators have weakly increased their trade dependence relative to Slovakia. For the latter case, Estonia has tracked its comparators closely in both unemployment and incomes since joining the eurozone, providing little directional evidence.

Summary

While many weak conclusions were reached in the above sections, by far the clearest conclusion reached is that there is no definitive answer as to the impact on a country’s macroeconomic indicators of joining the eurozone, and that any impact is likely to be quite muted. This result is in direct contradiction to both the expectations of the promoters of the eurozone upon its inception (who foresaw rising prosperity within the eurozone) and to the dire predictions of prevalent doomsayers in the media, as well as politicians who engage in nationalist anti-euro and anti-EU debates. The most shocking non-effect found in this paper is that joining the eurozone seemed to have close to no impact on a country’s trade dependence, a metric that had been expected to be markedly impacted by decreasing transaction and risk-related costs to international corporations once a country joined the eurozone.

The most robust conclusion to be gleaned from the cases above has to do with the experience of peripheral countries when joining the eurozone. It seems clear that they suffered in terms of unemployment, but weakly gained it terms of incomes, when contrasted with comparable countries. This conclusion is particularly robust because it was previously theoretically justified – weakly rising incomes and falling employment is fully consistent with Krugman’s admonition that the peripheral eurozone countries’ problems are due to a combination of insufficient eurozone inflation and the resultant inability to adjust wages downward, which is a particularly worrying issue in the aftermath of an asset or economic bubble.

But, in the end, it is clear that no doomsday image emerges around entry into the eurozone. Denmark, the UK, and the enlargement countries should have no major economic qualms about entry. This makes it clear that the current state of extreme public negativity in most prospective eurozone entrants is a marketing issue. While this result and viewpoint might be disappointing as it seems to limit the short-term economic upside of the currency union project, it brings back into the forefront the aforementioned political considerations for the common currency project: the elimination of competitive devaluations, having Europe be able to speak as a common monetary voice and the tightening of economic and political bonds within Europe. If this appeals to a prospective eurozone member, they should not hold back for economic fears. Of course, it is necessary to be cautious.
about these results. In 1999, shortly after Sweden decided not to join the eurozone, Lars Heikensten, the First Deputy Governor of the Sveriges Riksbank, Sweden’s central bank, warned that analysts and politicians should be cautious that they remember that many of the economic advantages of being in the eurozone are likely to manifest themselves over the long term. At the time, he was particularly worried about access to capital markets and the locational choices of large multinational companies – the latter process can, of course, take decades to shake out. As such, while we’ve yet to see consistent and meaningful impacts from the decisions made on whether or not to join the eurozone (with a few exceptions mentioned above), it cannot be ruled out that dramatic trends will emerge in the decades to come.

Gabor Debreczeni is a first-year MA student in International Development. He was born in Hungary shortly before the fall of the Iron Curtain into an internationally-minded family, and as such has been fascinated by the European integration project ever since. He studied Economics at Yale University in the United States, worked in finance on three continents, and is now most interested in infrastructure development in developing countries, but continues to dabble in the areas of urban planning and international economic integration as well.

Notes

5. One might remember Youram Bauman’s quip that “the three most terrifying words in the English language are ‘macroeconomists agree that.’”
7. The authors do not assume this, and calculate that the euro is too strong for the eurozone by 8%. As such, they calculate all of the above-referenced numbers to be 8% higher than I am quoting.

14. Estonia brings up the rear; its productivity is about half of the eurozone average.


17. The unemployment, income, economic size, and trade dependence data is from the World Bank and can be found at data.worldbank.org. GDP per capita is used as a proxy for income, GDP is used as a proxy for economic size, and exports/GDP is used as a proxy for trade dependence. Unemployment in this paper always refers to unemployment rate rather than the number of unemployed. The difference scores were calculated as follows. For each year from 1994 onwards, the current 28 members of the EU were ranked from 1 to 28 for each of the four metrics discussed above. For each pair of countries, the difference score for each year is the sum of the squares of the differences between their rankings in each of the four metrics. Squared differentials were used to emphasize extreme differences in any of the metrics. To arrive at the final difference score, the difference scores for each of the previous five years were averaged.

18. As a sanity check, Malta in 2008 was least different from Estonia (102), Slovenia (105), Hungary (158), the Czech Republic (203), Lithuania (214), and Cyprus (241). In 2007, Slovenia was least different from Hungary (54), the Czech Republic (63), Cyprus (78), Malta (100), and Estonia (146).

19. Just for the sake of curiosity, Sweden was most different from Bulgaria (936), Latvia (902), and Lithuania (870) at the time.

On Feminism, Gender Roles, and Sex: An Interview with Lynne Segal

Editorial Staff

Lynne Segal is an Australian-born, British-based socialist feminist academic, author, and activist. She has taught in higher education in London, England since 1970, at Middlesex Polytechnic from 1973. In 1999 she was appointed Anniversary Professor of Psychology and Gender Studies at Birkbeck, University of London, where she now works in the School of Psychosocial Studies.

1. Your 1994 book, Straight Sex: Rethinking the Politics of Pleasure is being republished this year. What prompted you to republish the book after 21 years? What makes it relevant to today’s generation of young women?

Times have certainly changed, although people disagree about how to interpret those changes. This, in itself, makes re-thinking our old feminist debates (about the straight sex and the politics of pleasure) as relevant as ever. Are women more autonomous and in control of their own lives and bodies in this new century? Or are women, when we’re young, more objectified and sexualized than ever – indeed, perhaps, at even younger ages? Start talking about sex today and, just like yesterday, we quickly run into trouble unless we stick to jokes, or gender cliché. Consensus on this subject is hard
to achieve with anyone, not just with feminists! So returning to Straight Sex and a frank conversation can do no harm. Trying to face up to the strange unruliness of desire is what led me to write Straight Sex. As one example, it’s not only sex workers who know that what men want, as often as not, is to be sexually passive. Of course, what men do not want is for women – and even more so, other men – to know this: therein lies the ‘politics’ of pleasure. These are the thoughts that emerge most strongly in Straight Sex.

2. What do you think are some of the most important issues women face in 2015?

Obviously the continuing endemic nature of violence against women is one of the most important issues to combat globally. Everywhere, it is heightened in situations of war, conflict, and other situations of precarity and stress (so widespread today), which always impact most inescapably upon those with the least resources to protect themselves. The austerity policies that have been implemented since the recent collapse – a collapse due to the fiscal gambling of the wealthy – have also harmed the most vulnerable, the furthest-removed from any responsibility for the crisis: as ever, it has not harmed those whose careless risk-taking created it. Women in particular, in their caring jobs (whether in waged work, or in the home) have been hardest hit by austerity. These are among the most important issues.

However, four decades of social volatility concerning gender relations have created a world where the symbolic grip of sexual difference is constantly being repackaged and flaunted back to us commercially, as objects for identification and desire. In the face of continual social upheavals, we see the gritty determination put into maintaining some traditional façade of sexual difference. This is presented as the only secure sanctuary of love, caring and commitment. It bolsters, above all, the myth that traditional family structures will survive to protect us. In the meantime, welfare entitlements are further whittled away, in increasingly insecure societal and economic contexts.

This means most of the old issues drawing us into women’s liberation remain, but they will be more prominent for some women than others. I would argue that it is the divisions between women themselves, more than that between the sexes, which we have seen deepening over these decades.

3. In your book you reject the idea that men are an enemy to feminism. How do you see men’s role in the feminist movement and discourse today? How important is male input in a movement about women’s rights?

There can be no women’s liberation, many feminists once said, without there being changes in men and masculinity. Our aim was to transform society in a more equal and caring world, less exploitative of people and the resources we all rely upon. Women’s lives overall change when the workplace is made more compatible with
the unpaid work of caring and community building, with women and men largely sharing many of the challenges, joys and burdens in these different spheres. That remains as true as ever, and some men have always known this.

That is why a minority of men, across time and place, have supported women’s and feminist struggles. In an increasingly militarized and, in many areas, still impoverished world, we do need women and men to work together for progressive change, however autonomously we may choose to organize. Men’s input remains important. Yes, men remain advantaged, in so many ways, by the greater respect and freedoms still accorded to men overall, compared to women overall. But men are also disadvantaged in a world where they must always appear the ‘stronger’ sex.

4. What do you think about misogyny on the internet? Is the rise of the misogyny on the internet exacerbating or reflecting existing sexist attitudes? Do you find the level of vitriol displayed online against prominent female activists surprising?

I am sure it can both exacerbate and reflect existing attitudes. But deep levels of misogyny and women-blaming have always existed, taking us right back to the nonsensical narrative of Eve betraying Adam in the Garden of Eden. Sexism has never simply reduced to sex, it can be found in all fields of life. Its origins come, tragically, from the most respectable of sources, just as often as from the demeaning images of mainstream sexist pornography.

No, the level of vitriol towards successful women does not surprise me, however much it distresses me. Women have always been blamed for the social ills of this world, and in fact the idea of projecting wickedness onto women has historically been more vicious and lethal than it is today. For instance, it took centuries to root out the scare of ‘witchcraft’ in Europe, which primarily targeted older, vulnerable women.

5. How well do you feel our Western culture responds to aging and older people, particularly older women?

As you know, I have just written a book about this – Out of Time: The Pleasures & Perils of Ageing – so I’ve been doing a lot of thinking about age in our society. We are always ageing, and there are generalities and particulars at every juncture. However cultures of ageing, it should be obvious, have always been gendered – whatever the time and place. I am hardly the first to notice this. From New York, over 40 years ago, Susan Sontag was pointing out the double standard of ageing, indicating that women are aged by culture far faster than men.

Women are also discarded sooner, both in the public world and, increasingly, in the private world as well. It is ‘femininity’ and ‘womanliness’, in particular, which have always been so firmly grounded in the youthful and fertile body, which means that generally, women are silently stamped as undesirable, frightening or
pitiful decades earlier than men. Old women in particular are still far more likely to end up alone, unprotected and (for some) impoverished. The most terrifying images of old age have always had a female face: the witch, old hag, medusa, harridan – whether in myth, folk-tale or contemporary horror movies. This creates a residue of fear, including in women ourselves, which we need to try to combat. Fortunately, many older women today in public life are trying to do just this.

6. Do you believe gender roles have changed significantly in your lifetime? Are structural gender understandings still an obstacle to equality? We still see the world in the sense of a binary gender model. Can our Western culture allow for another paradigm?

I think that, while there has been a shift to a degree and women do enter spaces they were excluded from in the past, the old gender binaries have ways of consolidating themselves. Their precise detail may change, but certain hierarchical codings remain. Often these are attached to the ways in which mothering and other caring responsibilities can continue to marginalize women in the turbo-charged, neoliberal workplace. I don’t think things will change dramatically unless and until this changes. Modern corporate capital is not compatible with a world in which the intimate worlds of care, commitment and community attachments are truly valued.

7. Do you think our culture encourages female pleasure and expression of female sexuality? Can there be such thing as “female-friendly pornography”?

Well, our world tends to commodify female pleasure and expressions of female sexuality, along with everything else. Right now, as my American friend Leonore Tiefer has written much about, the pharmaceutical companies are promising to release a female Viagra, hoping to make as much money from it as they did with the male version. I doubt they will be anything like as successful, since women tend to be a little more sophisticated about the world of sex and desire. We hardly reduce this to the erectile state of any single organ...

More seriously though, I do think more women, especially young women, have a slightly fuller language to discuss their bodies and desires. At least, I hope so. However, this can vary greatly depending on how open and communicative their parents, friends and mentors have been able to be in discussing intimate matters. In many parts of the world - above all, incredibly, in the US - huge battles have been fought to keep young women as ignorant and vulnerable as possible. It is, as the American feminist Judith Levine has written, actually harmful to minors to deny them any good sex education.

8. What are your thoughts on the latest threats to women’s bodily autonomy in the US? Is this a threat to the feminist movement, and what are the options for the feminist movement in combating it?
It is true that there are many threats to women's bodily autonomy in the US (and elsewhere). The denial of a woman's right to choose a termination, if she finds herself pregnant without wanting to be, is a particularly huge threat to women's bodily autonomy. And of course, this impacts differently across class and ethnic lines. Some women will have no problems accessing treatment, whereas for others - in fact, for the most vulnerable - things will be quite the opposite. Again as I said above, austerity regimes have hit women hardest in the US and the EU alike. They've had significant consequences for the increase in violence against women, as well as other threats to women's independence and our ability to lead fulfilling lives.

9. Are there biological limits to equality?

Although people think it is not, this is a very strange question. Of course there are no biological limits to equality unless we want there to be. It all depends upon how we interpret and deploy what biological differences exist.

We could say, for instance, that since nature made the average man marginally taller and physically stronger than the average woman, and since men cannot do the utterly essential work of reproducing themselves, men should occupy the lesser, hardest working position in society. Women therefore, like Queen Bees, should be the more valued, and understood as born to rule over men… As I said, of course there are no biological limits to equality.

10. Is there a place for radical feminism in 2015?

There is a place for any belief in 2015, whether or not I share it. In the UK, Finn Mackay has recently written a book reclaiming the political stance of radical feminism, which she feels has been undervalued, especially in contemporary feminist scholarship. This led her to found the London Feminist Network, and to revive the Reclaim the Night Marches (RTN) of the late 1970s. Given the continuing prevalence of violence against women, this serves a useful purpose. Interestingly, Mackay herself insists that she, like all the feminist activists she knows well, is politically on the left, anti-capitalist and in favour of a peaceful, egalitarian world. So to that extent, I have no quarrel with her politics. Yet, for me they will always be incomplete. In my view, you need more strategies than radical feminism has ever been able to offer to build coalitions that might have some chance of impacting upon mainstream politics. Without this I cannot see how you get closer to creating any sort of socialist or peaceful future.

11. The revolutionary attitudes of the 1960s have been described as a ‘pop culture blip’. In the light of the recent upsurge of different movements in the UK (Occupy, Focus E15 Mothers, various socialist + feminist activism), do we need broader social radicalisation (as accompanied the women’s liberation movement of the 1970s) to achieve
further gains for women?

Of course we do. In my view feminism is always strongest when it is able to unite with other progressive groups, men and women alike, fighting for change. Given the wretched state of things at present for so many people, especially the young, and many of the elderly, we need this more than ever.

Just to take the situation of housing in London. Every possible effort needs to go into organizing to stop the take-over of all our public spaces and housing resources by the global rich, who have been laundering their ill-gained money buying up London property. There is so much that is rotten and dangerous in the current world order. Most people know it, but have little idea how to change things. It is always more resources for hope that needed, and the combination of Left and feminist activism is surely the best way of finding those resources.

12. The principle of multiculturalism in Europe is currently facing a huge challenge. How should we integrate different understandings of women's rights?

Given the explosion of ethnic violence and conflict we have seen over the last few decades, few things are more important than to be fighting racism, and everything that breeds it. We are encouraged in harsh times, in which we have been living of late, to find scapegoats on whom to project rage and sense of failure. Find an immigrant to blame! Find a woman to degrade! It all fits together, in one noxious spew, where cultures of blame are encouraged by regressive forces to divert attention from criticism of the powerful, onto contempt for the powerless. Think of the Tea-Party (formed by the corporate billionaires) the Koch brothers in the US, or the success of UKIP here. Thatcher was iconic for playing this game, but she was a mere puppet in the hands the corporate interests she served.

The way to begin to build any fairer and better world, and protect environmental resources, is to recognize how potentially vulnerable we all are. But the few are safeguarded in every way from recognizing this. The many, in precarious times, are directed towards blaming all those more vulnerable than themselves, as if they were the cause of the difficulty. On the contrary, it is only by turning such thinking on its head, and aligning ourselves with the most dispossessed, that we can think though any genuine way forward, together. Syriza has tried to do this in Greece, building upon the sorts of grass-roots resistance that we can see all around us, once we care to look.

13. What lessons do you hope women take away from this book and your other academic publications?

That’s a big question. Gaining some understanding of the complexity of all human affairs, I guess. My framework is that of a Left feminist. I look at the multifaceted nature of gender, class, ethnicities and all the intersections of power relations, as they shift and
refashion themselves across time and place. It’s important to note that sexuality and desire has always been entwined with these hierarchies of power; not only in the gender regime, but in the disowned desires historically projected onto those ‘others’ we dominate and exploit. Feminists have been at the heart of trying to understand all this.

And yet we have always faced our own problems, trying to tie the protean complexity of personal intimacy or desire, to any consistent feminist sexual politics. Certainly, the personal is a part of the political, and vice versa... but this does not mean that the power dynamics we eroticise and explore in our individual worlds are the same thing as a collective effort to end social dynamics of domination and exploitation. Not at all. This is what the so-called feminist ‘sex wars’ were all about – refusing to distinguish the psychic and the social. This was never just a mother-daughter affair, though it was often presented as that. We challenged and fought with each other, from the beginning – as straight, lesbian, Black, working-class women, and more.

It was drawing upon both psychoanalysis and critical theory that I dared, in Straight Sex, to return again to all those questions we had raised in the first passionate days of women’s liberation. How might it still be possible to develop loving, pleasurable and responsible sexual politics around heterosexuality, despite all we now know about the solid phallocentrism of the symbolic order; the androcentrism of discourse; the problematic ways of men determined to shore up their entitlements with the flaky mantle of masculinity? Well, the first way to do this, I argued in Straight Sex, was by questioning, not affirming, all the traditional assumptions around gender. In particular, I rejected that absurd active/passive divide, constructing what Judith Butler called the ‘heterosexual matrix’: the belief that the terms “male” and “female” and “masculine” and “feminine” are only existent within the heterosexual matrix, and are just common terms that keeps the matrix concealed, to protect it from radical critique.

It is not hard to notice that what actually happens in consensual sexual encounters often bears little relationship to those binary divisions, that so oppressively insert themselves into our thought and language. However secure or fragile our hold on power in most areas of our lives, desire can render any one of us helpless – whatever our gender or sexual orientation. In passionate sexual relationships, in love, we are all vulnerable. As Judith Butler says in Undoing Gender, addressing the perils of desire: “Let’s face it. We’re undone by each other. And if we’re not, we’re missing something. If this seems so clearly in the case with grief, it is only because it was already the case with desire.”

*Interview Conducted by Eloise Waldon-Day*

*Title Page Photo Credit*

FeministFist by Eva the Weaver - https://www.flickr.com/photos/evaekelbad/2230497789
(Un)Productivity in the Digital Age

Mitko Grigorov

This paper examines why productivity has not increased significantly during the current Digital Revolution, despite rapid and intense technological progress. This paper presents statistical data on productivity and gross domestic product (GDP) growth across a number of economies for the past 40 years. It then reviews several economic and history of science and technology theories about the current lower than expected productivity, including from Industrial and Technological Revolutions. It then presents several explanations for the delay in productivity growth that are specific to the Digital Revolution.

Productivity Statistics

For once, our own intuition aligns with economic models in telling us that new technologies should translate into increases in productivity, faster-than-normal GDP growth, and ultimately higher standards of living. The digital revolution has heralded an age of improved communications, flexible work arrangement, increased automation, and more efficient distribution of labor (or substitution of labor with technology in some cases). And yet, the numbers – the crux of the digital age – tell an entirely different story. Despite the enormous growth in computer power and a myriad of technological inventions, productivity
has largely stalled.\(^1\)

Understanding the factors affecting productivity growth is crucial as it is the most accurate measure of how fast the standards of living improve.\(^2\) The economic theory states that the more the average worker produces, the more the average worker should take home. This relationship holds true even in an era, as Thomas Piketty (2014) has argued recently, in which a disproportionate amount of total income goes to the owners of assets and capital, rather than to the providers of labor.\(^3\)

We can divide the period between 1970 and the present day into two parts (dotted line on Figure 1) of relatively equal length, with the second covering the time when the Internet and advancement in communications technology became an important part of the economy. For this analysis, we use data for G7 countries (the United States, Japan, Germany, France, the United Kingdom, Italy, and Canada) for two main reasons: 1) these data are reliable; 2) in the two periods, the G7 countries accounted for a significant share (between 60 and 70 percent) of the global economy. Productivity grew by 2.6 percent on average between 1970 and 1990.\(^4\) With that pace, productivity — and by proxy the standards of living — should double every 27 years. The difference between this and the more recent period, covering 1991 to 2013, is staggering. In the last 23 years productivity grew by only 1.7 percent on average, which translates into doubling of the standards of living every 41 years.\(^5\) To put it another way, the data during the former period suggest productivity would have increased eight times during one’s lifetime, while only four times for the data in the latter period.\(^6\) While it is true that the second period encompasses the Dot-Com Bust of 2001 and the Global Financial Crisis

![Figure 1: Productivity and GDP Growth in G7 Countries (annual percentage change)](image)
that started in 2008, the first period includes financial troubles of no less calamity: two oil crises in the 1970s and the notorious market crash of 1986. In fact, when we look at the productivity and GDP growth in Figure 1, we see that with the exception of the downturn during the Global Financial Crisis, the second period actually seems less volatile. We observe a similar trend for real GDP, which grew by 3.3 percent between 1970 and 1990 (or doubling every 21.5 years) and 1.9 percent between 1991 and today – doubling every 36.5 years. To quote Nobel Laureate and economics heavyweight Robert Solow, one still sees the computer age everywhere else but not in productivity statistics.

**Literature Review**

Some economists and historians of economics, looking at the United States, argue that productivity and GDP growth were already slow even in the first period (1970-1990), compared to the decades between the end of the World War II and 1970. However, productivity in the United States between 1946 and 1970 was actually comparable to the average G7 productivity growth in the 1970-1990 period. In the same post-war era, productivity grew even faster for other G7 economies (in France, for example, this productivity growth was close to 5 percent), but this should also be interpreted with caution as those

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1.43</td>
<td>1.77</td>
<td>0.34</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.18</td>
<td>1.17</td>
<td>-2.01</td>
</tr>
<tr>
<td>Canada</td>
<td>1.41</td>
<td>1.24</td>
<td>-0.16</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.98</td>
<td>1.29</td>
<td>-1.68</td>
</tr>
<tr>
<td>Finland</td>
<td>3.58</td>
<td>1.94</td>
<td>-1.64</td>
</tr>
<tr>
<td>France</td>
<td>3.47</td>
<td>1.36</td>
<td>-2.11</td>
</tr>
<tr>
<td>Germany</td>
<td>3.06</td>
<td>1.54</td>
<td>-1.52</td>
</tr>
<tr>
<td>Ireland</td>
<td>4.23</td>
<td>3.11</td>
<td>-1.13</td>
</tr>
<tr>
<td>Japan</td>
<td>4.21</td>
<td>1.63</td>
<td>-2.59</td>
</tr>
<tr>
<td>Korea</td>
<td>6.45</td>
<td>4.53</td>
<td>-1.92</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.81</td>
<td>1.03</td>
<td>-1.78</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1.47</td>
<td>1.20</td>
<td>-0.27</td>
</tr>
<tr>
<td>Norway</td>
<td>3.47</td>
<td>1.53</td>
<td>-1.94</td>
</tr>
<tr>
<td>Portugal</td>
<td>2.74</td>
<td>1.85</td>
<td>-0.90</td>
</tr>
<tr>
<td>Spain</td>
<td>3.82</td>
<td>1.19</td>
<td>-2.63</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.51</td>
<td>2.74</td>
<td>-0.77</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.40</td>
<td>1.94</td>
<td>-0.46</td>
</tr>
<tr>
<td>United States</td>
<td>1.54</td>
<td>1.79</td>
<td>0.25</td>
</tr>
<tr>
<td>G7 Average</td>
<td>2.60</td>
<td>1.70</td>
<td>-0.90</td>
</tr>
</tbody>
</table>

Source: OECD, 2014
countries were recovering from destroyed infrastructure after the war; and given the low starting point and the influx of financial resources through the Marshall Plan, it is natural that growth rates will be higher.

Gordon also observed that productivity in the United States actually increased slightly in the most recent period (1.79 percent between 1990 and 2013, Table 1), especially between 1995 and 2004 (average of 2.29 per year). However, the United States is in this regard an outlier and should not be considered in isolation. As Table 1 shows the United States was one of only two countries for which the productivity growth was lower for 1970-90, compared to 1990-2013. For most countries for which reliable productivity data are available, the decrease in productivity in the last two decades compared to the two preceding decades is astounding. Nor is the downturn only confined to countries that started at a very low level of economic development and were largely played catch-up between 1970 and 1990, such as South Korea. The differences for countries that were in a similar technological development as the United States in 1990, including France and Japan, are just as pronounced.

So why has the advent of personal computers, the Internet, cell phones, emails, smart phones, efficient word processors and data analysis tools, cheap videoconferencing, and a myriad of other inventions failed to translate into higher productivity and income growth? Gordon argues that that technology in general is subject to diminishing returns in its ability to increase economic growth. He also notes that it is highly unlikely that the next couple of decades will match the inventions of the previous ones. If this view holds, productivity growth will remain low in the near future at around 1.3 percent per year. The issue of trying to explain this delay in productivity growth by diminishing returns to technology is that in such explanation we rely on purely economic theories. However, such delay is paradoxical from the point of view of current economic theories as they view technology as disembodied and hence any change in technology should translate instantaneously in changes in productivity. By using the standard economic model to describe this delay, we end up in the contradictory situation of using a theory that does not agree with what we observe to describe the reasons for what we observe.

Gordon, however, notes that the years from 1906 to 1928 – at the height of the Second Industrial, or Technological, Revolution – also saw slow growth despite important inventions, such as electricity, cars, paved roads, plumbing and running water. If delayed economic progress is a natural subsequence of intense technological progress, perhaps the curse of diminishing returns to technology is not inevitable. Such a view is reinforced when we consider the two preceding industrial revolutions. Crafts and Harley and Antras and Voth explore the British Industrial Revolution of 1770-1860. Their models show that productivity growth during the Industrial Revolution
was relatively slow, especially in its initial stages. Antras and Vorth’s model shows a moderate acceleration after 1800.

Several historians of technology, such as David and Rosenberg, have hypothesized that this delay could be the result of a slow diffusion of the new technologies and the time it took to learn how best to take advantage of the new technologies even after they have been incorporated.\textsuperscript{16,17} They focus on the Second Industrial Revolution and the diffusion of electrically powered engines in industrial America. Such technologies diffused only with great delay and even then it took time until managers and workers learned how to best take advantage of this newer and superior technology. Building on these ideas and using a quantitative model of technological diffusion, Atkeson \& Kehoe show that several decades could pass before a sustained increase in the pace of technical change leads to corresponding increases in productivity.\textsuperscript{18}

Thus a delay in productivity growth occurred both during the First and the Second Industrial Revolutions. But while we can explain the first with the enormous social change it brought as people moved from the villages and agriculture to the towns and industry, and we can argue that the protracted diffusion of a completely new technology slowed productivity in the second, we are still at pains to explain what is causing the delay during the current Digital Revolution.

**Checks to Productivity in the Digital Age**

Given the limitations of the literature on the issue, this section offers several explanations for the delay in productivity growth. To begin with, there is all that “noise.” We just don’t have all the information we need; we are inundated with data most of which are of little relevance to our work. The more of it there is, the lower our ability to find what we really need. Or to put it in other words, we are looking for the same old needle in an ever-growing haystack. This is not just poor knowledge management; it’s a natural outcome of a system that has grown infinitely more complex. We call the Digital Age, “the age of information,” but with the same validity we might as well call it, “the age of disinformation.” This abundance of information (whether relevant or not) forces us in very narrow specializations, making us less capable of keeping track of the big picture. The second issue is that along with improved access to resources (human, data, capital), the computer age offers an innumerable ways for time wasting, in which we happily engage. From news and social networks to games, videos, dating sites, and online shopping, the Internet seems built to distract us from the task at hand.

As noted, several respectable studies have disproven the claim that productivity grew with astronomical rates during the previous two industrial revolutions, so calling the digital age the “Third Industrial Revolution” might be more accurate than most people would think, but for the wrong reasons.\textsuperscript{19,20} Much like the enormous social change of the Industrial Revolution in the late
eighteenth and early nineteenth century, there is a comparable economic change at hand as labor is reallocated from manufacturing to services. However, the services sector has a slightly different production function than manufacturing. While efficiency in manufacturing depends only on the producer, efficiency in the service sector depends both on the producer and the consumer. If a worker is performing an operation on an assembly line that produces running shoes (let’s say he is gluing the tongue to the rest of the shoe), whoever ends up wearing the shoes has no effect on how quickly (or slowly) and with what quality the worker attaches the tongue. The two exist in two separate places in time and space. This is not the case with many services.

Unlike in manufacturing, the producers and consumers of services interact in the same temporal, and often spatial, environment. You are sharing the time and space with your service provider when getting a haircut for example. Let’s look at the restaurant business. If our argument holds, we should expect that the levels of productivity be very different for the services and manufacturing sectors. This is indeed the case. In fact, according the Bureau of Labor Statistics, productivity in the restaurant industry has not increased at all in the past ten years, a rather worrying development. Productivity in some other service sectors, such as retail, has increased somewhat (around 20 percent in the past ten years), but this increase is nowhere near the gains seen by the manufacturing sector, which has soared by 50 percent (Figure 2). This is indeed an important development as, per David and Rosenberg, we would expect a larger lag in manufacturing productivity growth compared to the services as it takes longer for the new technologies to get incorporated. Thus, the diffusion of new technologies alone cannot explain the lag in productivity growth.

So why is productivity so sluggish in the services and the restaurant sector in particular? In the average restaurant, patrons spend time on their phones before ordering, which, apart from increasing the time until ordering, also creates inefficiencies by making the server return to the table several times. Then the customers take pictures of themselves, the food, the restaurant, often making staff members take group photos (and retaking them), further wasting time. Then, they spend more time on their phones before asking for the check and even more after paying their bill. In the end, the serving time per table might almost double because of inefficiencies. This betrays one of the major aspects of today’s changing market. While new technologies might increase the productivity of the producers of services, they also generate a countervailing movement that decreases “productivity” on the consumer’s side of the process. Producers hence invest more input for the same level of output because the nature of demand in the digital age has changed. At the end, many of the new technologies that we expect to increase productivity end up decreasing it.

A fourth issue is the information-packaging problem. Information used to
be packaged for cumulative consumption. One would read article one and then proceed to article two, and so on and so forth, moving up one’s personal learning curve. In the digital age information is packaged into singular how-to articles, which deal with discrete, concrete tasks. The learning curve is not one of knowledge, but of knowledge management. To put it another way, before the digital revolution, it used to be about what one knew; now it is how quickly one can Google it. But our brains continue to work the way they have for centuries: to internalize something, we need to put it on top of something we already know. This is difficult when every unit on the Internet (and by extension the way we deal with knowledge management) is self-contained and somewhat detached from the rest of reality. We end up in a situation, in which many organizations are struggling to find effective ways to manage knowledge without much success as there is a widening gap between how our strategies assume knowledge is packaged and the actual new digital reality. Marshall McLuhan would have been proud: in the Digital Age, the medium truly is the message.

Fifth, we will look at the re-adjustment problem. This is simply the time spent adjusting to new versions of the same technology or to the latest fad. This happens when a company updates to Windows 7 from Vista, just to change to Windows 8 in a couple of years, or to a new graphics editor or email/messaging client, or when one learns a new programming language because of marginal improvements. With so many updates and new versions, there is a learning curve even if the new version is more intuitive and user friendly. This notion is consistent with Atkeson and Kehoe, whose models shows that the large stock of built-up knowledge in the old economy prior to the Technological Revolution was the reason the transition was slow.
This is true to an even larger degree when we consider management practices in the Digital Age. We will call this last issue the “Great War” management problem. World War I saw an unprecedented advancement of military technology. The machine gun became the main defense weapon, tanks started rolling across the fields of Europe with menace, and the aircraft was introduced, first for reconnaissance and dropping the occasional bomb, but later as fighters and for air-to-ground operations. Despite all these advances in technology, military strategy remained relatively unchanged since the war of 1870. This led to a virtual stalemate, a prolonged war of attrition, and countless casualties. What does this have to do with management in the digital age? Technology has again grown so fast that it has surpassed our strategies. While we function at the edge of the future, management is still rooted deep in the past. The sheer amount of work hours spent in unproductive meetings, preparing unnecessary reports, and completing outdated administrative tasks is staggering. All of these allocate labor to unproductive activities or break the flow of productive labor. This problem is akin to what described as the “displacement of goals” in a bureaucracy. The rules and procedures that initially served to prevent administrative and financial chaos became goals of their own. The bureaucrat works toward rules and regulations as an immediate goal the way many of today’s managers work toward maintaining structures that are dated and found wanting in the Digital Age.

Conclusion

This paper explored why productivity has not increased significantly during the current Digital Revolution, despite rapid and intense technological progress. It presented statistical data on productivity and GDP growth for several economies for the past 40 years. It also reviewed several economic and history of science and technology theories. Acknowledging the gap in the existing literature, it offered essay style explanations for delayed productivity growth.

The digital world is expanding at an ever-increasing rate. It has taken on a life of its own, causing the gears of supply and demand to be just a bit out of sync. It is likely that technology will continue to grow in the future without a corresponding growth in productivity, a rather unsettling thought for many an economist. But while we are busy updating our economic theories, we should also learn to build our great ant colonies on the shifting quicksand of global information. For what we know is that, although Industrial Revolutions bring enormous positive change and benefits to society by expanding the production function, they do so only with a lag, which can be as long as four decades. Productivity did not pick up until after 1800, although the Industrial Revolution started as early as 1760. The same was true for the Technological Revolution that started around 1900, but productivity only increased significantly after World War II. The initial stage of the current Digital Age started in the
late 1970s, although its effects were not felt until the early 1990s. Thus we might currently be near the turning point when productivity will again pick up and, as was the case with the previous two Industrial Revolutions, finally lead to a more equitable distribution of wealth.

Mitko (BC’10, DC’11) is an analyst at the Research Department of the International Monetary Fund. He previously worked as a World Bank consultant and Fox News writer and editor. His research interests include the effects of industrial revolutions on productivity and growth, as well as the development of digital and crypto currencies. Mitko fondly remembers his time at SAIS Bologna, where he served as an editor of this journal and played the bass in SAIS’s own “Justin and the Junk Bonds.”

Notes

3. Piketty, T. (2014). Capital in the Twenty-first Century: Harvard University Press. Although outside of the scope of this brief paper, the relationship between technological progress and equality is an important one. In the current Digital Revolution, much like during the Industrial Revolution and the Technological Revolution, the distribution of the fruits of production has been – at least initially – skewed toward the owners of capital.
4. Organization for Economic Development and Cooperation. (2014). Productivity growth. Retrieved Nov. 12, 2014, from OECD Statistics. For the purpose of this paper productivity is measured using the classical method first described by Robert Solow in his seminal paper in 1957. Some other methods such as potential total factor productivity, shifts in the world technological frontier, and Malmquist indices (Growiec, 2010) are bound to produce slightly different results, but the main message about the differences between the periods should be consistent regardless of the measurement.
5. Ibid., 2014.
6. It should also be mentioned that during both periods the fruits from productivity growth were distributed unequally with the top end of the income distribution benefiting the most. At the same time, real wages (how much stuff the average worker can buy with what he or she takes home) have largely stagnated.
12. Ibid.
21. According to the National Restaurant Association, this is a 700 million dollar industry with 14 million employees and close to a million locations in the United States alone.
25. Ibid.
26. We should note that if we bring utility into the equation, things could look a bit different. Perhaps customers are getting more utility from restaurants by taking pictures with the food or making the experience part of their daily online routine. And perhaps we get more satisfaction from a presentation that is to our liking no matter the information being transferred. So at the end, while the producer’s surplus (what the producers benefit from “selling” their product) is being diminished, the consumer’s surplus might be increased to counter those losses.
According to the UNHCR, 75,000 people attempted to cross the Mediterranean in the first six months of 2014 with 800 dying before reaching land. Yet people still insist on making the journey. On the other side of the Mediterranean is the European Union, which persecutes some who have survived the journey while providing sanctuary to others. It is high time for European Union member states to work together to find a durable and sustainable solution to the situation in the Mediterranean. This paper briefly discusses the main reasons migrants embark on such a perilous journey and suggests elements of a strategy to address this issue.

On October 3, 2013 a small fishing vessel carrying almost 500 passengers capsized a few hundred meters off the coast of Sicily. Among the dead were two pregnant women and three children while 200 were lost at sea. A year has passed since then, and yet the number of migrants making the treacherous journey across the Mediterranean has not abated. According to the UNHCR, 75,000 people attempted to cross the Mediterranean in the first six months...
of 2014 with 800 dying before reaching land. Between July 1 and September 30, the number swelled to 90,000 with 2,200 deaths. This means that in a two-month span, the risk of dying during a sea crossing doubled compared to the entire first half of 2014, and yet people still insist on making the crossing. These statistics are alarming, and the people behind those numbers are calling for help. The Mediterranean is at its deadliest, becoming a modern-day Charybdis swallowing desperate migrants on an odyssey to perceived safety. However, on the other side of the Mediterranean is the European Union: A Scylla that persecutes some who have survived the journey while providing sanctuary to others. This paper briefly discusses the main reasons migrants embark on such a perilous journey across the Mediterranean and suggests elements of a strategy for a sustainable solution to the crisis which primarily relies on increased European involvement. The European Union is teetering on a delicate balance between humanitarianism and security, with the latter unfortunately taking precedence in political agendas. European Union member states need to work together to find a common migration policy that puts humanitarian aid to the fore, or else thousands of innocent lives will continue to be lost to the sea.

The Mediterranean, a Migrant’s Charybdis

Since the Lampedusa tragedy of 2013, Italy has been the only state to actively take action in assisting migrants at sea. Mare Nostrum — its search and rescue operation — has saved over 100,000 lives in its one year of operation. According to the Italian navy, it is a “military and humanitarian operation” whose goal is primarily to save lives while combating human trafficking. However, despite its valiant efforts, Mare Nostrum falls short of its goals given the vastness of the Mediterranean and the number of people crossing in small boats. In 2013, 60,000 people made the crossing to Europe. By the beginning of October 2014, 165,000 people crossed the Mediterranean. With these numbers, Italy cannot effectively carry out its rescue mandate. Together with other coastal states like Greece and Malta, it struggles to save as many lives as possible while maintaining secure borders and economic stability.

A primary cause for the swell in migrants crossing the Mediterranean is the continued internal strife and conflict in Northern Africa and the Middle East. From Egypt’s political unrest to Eritrea’s authoritarian crackdown and Syria’s bloody civil war, people are leaving by the thousands. The situation in the Mediterranean is a mixed migration phenomenon. People are compelled to leave for various reasons, from persecution to lack of economic and social opportunities. Moreover, sealed land borders and other physical restraints to movement have driven people to the sea. Even migrants who attempt to obtain appropriate documents to migrate are turned away and are left with no safe alternatives. The UNHCR estimates that half of the crossers come
from Syria and Eritrea. This shows that the impossible circumstances of war and conflict drive people to desperate measures to survive. Libya, which was a thriving metropolis for migrants all over the region, has since disintegrated into a failed state. After the overthrow of Muammar Gaddafi, economic prospects in Libya have all but disappeared, and traffickers are reaping the benefits of the country’s chaos. Without proper law enforcement, emboldened traffickers subject passengers to the most inhumane conditions including rape and torture. Frontex — the European Union’s border patrol agency — estimates that one boat earns up to 1 million euros for its owner regardless of whether its passengers reach EU soil. Moreover, with Mare Nostrum in place, traffickers are now purposely sinking boats to be rescued, adding to the death toll and human suffering. Indeed, traffickers have turned the Mediterranean into Charybdis, and their despicable actions continue to feed it.

Another reason for continued crossing through the Mediterranean is Europe’s proximity and stark contrast of stability compared to that of the sending countries. With instruments such as the EU Charter of Fundamental Rights, the Convention of Human Rights and the European Court for Human Rights, the EU sends a clear message that respect for dignity of life is embedded in its laws. This is a dream for migrants whose home countries not only lack the rule of law, but also even basic institutions that can protect them. Human rights may be universal and inalienable, but without a government to ensure those rights, people will increasingly find themselves boarding unseaworthy vessels to find a government that will. It is tragic that people are compelled to risk their lives for the mere chance of obtaining their innate right.

The EU: Six Heads Are Not Better than One

The European Union can no longer afford to ignore the situation in the Mediterranean, and it is high time for member states to work together in finding a durable and sustainable solution. By far the most pressing and immediate response needed is a policy of burden-sharing within the Union. There must be political will to see that the coastal states’ migrant problem is just as much a problem for the inner states. As Italian Foreign Minister Federica Mogherini said, “Refugees are in the EU as soon as they arrive in Italy.” There must be more equity within the EU in dealing with the migration crisis. At best, it is economically imperative for the EU to heed the call of the front-line states. Although migrants enter through Italy and other coastal states, they do not remain and instead move north towards Germany and Sweden. At the very least, it is a moral imperative that the EU stops turning a blind eye.

Burden-sharing can start financially, with the EU appropriating funds for the coastal governments to be able to maintain a humane and organized system for accepting refugees. Reception centers in Italy, Malta, Cyprus and Greece are
becoming overcrowded, and the increase in arrivals brings a decline in quality of services and treatment available to migrants. Reception centers need to be just that – a place that is receptive of migrants, and not one that serves as a prison or limbo for those who barely survived their last difficult journey. A quota system could also be put in place, whereby EU states accept migrants equitably. Family reunification should be the primary consideration for resettlement, followed by job matching and other economic and social considerations that best fit both the receiving state and migrant.

Given Mare Nostrum's success in saving lives, the EU should also consider having a well-funded EU-wide Mare Nostrum operation that has a clear mission to first ensure the safety of all human lives at sea and then maintain the security of EU borders. In August, the European Commission announced Triton, a Frontex-led operation meant to complement Mare Nostrum. While Triton gets its feet wet (literally), the search and rescue systems in place must be strengthened. Italy and Malta have the two largest search and rescue operations in the Mediterranean. Yet, they are often at odds in their definitions of distress calls and disembarkation procedures. Finger-pointing and frustration can be eliminated with support from the rest of the EU. If search and rescue zone responsibilities are clearly marked and adequate funding is in place, cooperation can be more efficient, and more lives can be saved. The cost to pay attention to the refugees may be high, but by now the EU must realize that ignoring them will cost much more.

Institutionally, the EU must introduce reforms to its Dublin Regulation. Signed in 2003, the Regulation states that Asylum applications can only be processed where refugees first step foot on EU soil. This puts undue pressure on EU coastal and periphery states, which become discouraged from processing migrants and continuing their rescue operations because of the strain on their coffers and resources. Unfortunately, the convention seems to primarily protect the territorial integrity of member states based on unfounded fears of migrant inundation. Instead, the convention should have been based on each state's obligations under the Geneva conventions of 1951. After all, the discussion is about people who need protection and have skills to offer, not parasites. With the Dublin Regulation, the EU created a fortress against a perceived enemy army of migrants, and has unfairly made states like Italy, Greece, Spain and Malta its first line of defense, but without providing much needed reinforcement.

Migrants only choose the perilous crossing on the Mediterranean because they have no other options. With land borders sealed tight, sea crossing is the only available route, and this has been capitalized on by traffickers. The establishment of a safe route for migration would allow the suffering and inhumane treatment of migrants to be mitigated. Moreover, the safe route can make it easier for the EU to filter
migrants and properly process their status without any risk to their lives or dignity. A legal safe alternative that maximizes opportunities brought by migrants while minimizing costs to receiving countries is paramount to finding a sustainable solution. Joint border security protocols should be established between EU periphery states and non-EU states on the border. There are ways for border security to be maintained without sacrificing human dignity. Further, safe routes should not just be established for access to the European Union but also to move within it. Though free movement for EU citizens is guaranteed, the Dublin Convention restricts refugees and asylum seekers’ ability to move around EU states for fear of being “Dublined”. Migrants are forcibly returned to their first country of arrival, which in many cases leads to being imprisoned for moving irregularly. This situation is in and of itself a violation of the human right to movement. The EU needs to address this issue and ensure that the same rights and privileges are available to migrants wherever they are in the Union.17

Finally, the EU must work with sending countries like Libya, Egypt, Syria and Eritrea to stabilize them and create better living conditions so that would-be migrants would no longer feel compelled to leave. No one can prevent an individual from moving. Pure chance put them in their country of birth, and the choice to move to another country is their inalienable human right. Therefore, the EU must work with sending countries to create conditions where this right to move need not be exercised. Migration is a choice – the fact that conditions exist in this world that compel people to choose to endanger themselves and allow themselves to be treated inhumanely is a dark stain on the world’s moral conscience. Indeed, migrants are constantly placed between Scylla and Charybdis; they face an option of two evils – to stay and risk their lives, or to leave and still risk their lives. No one should have to choose to go through sub-human obstacles just for the smallest chance of living humanely. The EU must act, or else it will find its conscience at the bottom of the Mediterranean together with the lives of those it failed to protect.

Valerie Tan is a first-year International Development concentrator at the Johns Hopkins School of Advanced International Studies in Bologna. She studied International Relations with a focus on the History of War in Boston University for her undergraduate degree. After college, Valerie worked in the US, the Netherlands and the Philippines doing NGO work, anti-terrorism and anti-corruption respectively. She was born and raised in the Philippines.

Notes
3. Amnesty International, Lives Adrift:
Refugees and migrants in peril in the central Mediterranean


4. Ibid. p. 23
5. UNHCR, “Mediterranean crossings more deadly a year after Lampedusa tragedy”
12. Ibid., p.30
13. Ibid., “Lives Adrift”, p. 57
14. Ibid., p. 27-33
17. Ibid., p. 59

Title Page Photo Credit

Holding Trees Hostage: Ecuador’s Attempt to Share the Costs of Preserving the Amazon

Jayant Gandhi

Ecuador thought they would shock the world into action with their call for international funding to prevent the exploitation of oil reserves under their Yasuní-ITT National Park. The response was silence and inaction. Why? This paper examines Ecuador’s Yasuní-ITT Initiative that sought to share the costs of preserving the Amazon Rainforest and its apparent failure through the lenses of collective action theory and cost-value analyses. While the initiative was unsuccessful this time around, with some adjustments it could prove a useful model for future conservation efforts.

Introduction

In 2012, Ecuador made an ultimatum to the world: pay us $3.6 billion or we will cut down 1200 sq. km of rainforest. This was not so much a threat, but rather the culmination of the Yasuní-ITT Initiative started five years earlier by the Ecuadorian government in order to offset the cost of not drilling for oil in a protected region of the Amazon rainforest (the Yasuní-ITT National Park). The international
response was underwhelming—only about $8 million of the target was raised (with another $100 million pledged, but not delivered) and Ecuador decided to move forward with the drilling project, hoping to produce oil in the area as early as 2016. While it may seem that Ecuador’s actions were practically extortionary (and indeed many governments felt that way) they raise an interesting question of who should have to bear the costs of preserving and maintaining the Amazon. Brazil has also struggled with this question and has succeeded in combating some deforestation internally; still, their impact was far from the levels they could be if costs were more evenly spread among actors.

The benefits gained from a well-preserved Amazon (the increase in biodiversity, the natural carbon-sink it provides, etc.) are ones that are difficult, if not impossible, to preserve through privatization, yet are shared by the entire global community. Ecuador’s request presents an interesting alternative to the traditional approach to preservation. But why exactly did their attempt fail if it is truly in the global community’s best interest to preserve the Amazon? Was their price was too high for the international community? Or was the very nature of the request problematic? One side is an issue of valuation and the other a collective action problem. Both probably played a role in the failure of the Ecuadorian proposal, but neither are insurmountable obstacles.
The Initiative

The Yasuní-ITT initiative was launched in 2007 by Ecuadorian President Rafael Correa in order to prevent further deforestation of the large national park as a direct or indirect result of oil drilling. While deforestation of the Yasuní Park has already occurred through concessions to oil companies, the Ishpingo-Tambococha-Tiputini (the ITT in the last part of the name), which represents about 12% of the total area of the national park, has yet to be disturbed. The oilfields in the ITT region are estimated to hold around 900 million barrels of oil, which would amount to 20% of Ecuador's total reserves. For a relatively poor country like Ecuador that is dependent on its oil exports, this is a huge opportunity to forgo. Yet Correa designed an initiative to prevent drilling in the region for about half of the estimated economic value of the oil (at the time the total value was estimated to be more than $7 billion, taking the price of oil to be $61 per barrel).\(^1\)

Why would Ecuador be willing to even consider forgoing extraction in exchange for only half their potential profits? According to Correa, Ecuador was in a position to switch from “an extractive type of economy to a service economy.” He did not mean that Ecuadorians would be joining service sectors of the economy, but rather that the rainforest itself could be construed as a global service to be sold on the world market.\(^2\) To Correa it made perfect sense that the heavily industrialized and polluting countries of the wealthy world should have to pay for the environmental benefits provided by rainforest-rich countries like Ecuador.

The program, however, was not as successful as Correa would have hoped. Only achieving a total pledged amount of $116 million since it began to collect funds in 2010, it is clear that the initiative has not been able to bring about the redistribution of costs that were hoped for.\(^3\) In fact, as of 2013, the initiative has been officially abandoned by Correa's government and the initial groundwork to begin drilling the three oil fields has already begun. The initiative is not completely dead however, as calls to reinstate it through a referendum have begun to gain momentum in the country.\(^4\)

This idea itself seems reasonable at first glance. Just as firms are expected to internalize their externalities, why shouldn't nations? Many nations claimed that they did not want to participate out of a fear that Ecuador would not uphold their end of their bargain and either drill anyways or put the funds into even more destructive projects. While this lack of trust is not entirely invalid, it was something the Ecuadorian government was aware of. In fact, they were actively trying to ameliorate this problem through the establishment of a UN-administered trust fund that would ensure the funds go towards reforestation, conservation, and social development projects.\(^5\) Ultimately, trust in the Ecuadorian government was probably not the deciding factor. While ideally the cost for maintaining such an important global good should be shared.
(perhaps with greater responsibility given to those who produce more negative externalities than others), there is little incentive for any one nation to act, making it all the more difficult for Ecuador to find support from the global community.

**Along for the Ride**

The collective action problem has long been a central theme when talking about international cooperation on matters of the environment. At its heart, it is a question of who can effectively manage and produce a public good or common pool resource within a large group. The environment itself definitely fits the criteria of a public good (non-excludable and non-rivalrous), but certain environmental aspects are better described as a common pool or fall into different property schemes. The problem of who should bear the costs for such a good becomes the focus of the collective action problem. Ideally, it would be shared equally among beneficiaries, but the very nature of the collective action problem posits that this cannot occur spontaneously.

In his 1965 work, *The Logic of Collective Action*, Mancur Olson describes the necessity of “providing some sanction, or some attraction distinct from the public good itself, that will lead individuals to help bear the burdens of maintaining the organization.” This lack of incentive for active participation would not only make cooperation amongst large groups (like the global community) less likely, but it increases the chance that any one individual in the group will free-ride. In fact, Olson points out that the burden of providing a public good or common resource in this system will disproportionately fall upon the larger actors, while the smaller actors benefit without paying.\(^6\)

Olson’s description of the collective action problem has become a key part in our understanding of why groups do not necessarily achieve the most optimal ends. This view of group behavior leads to the conclusion that concentrated interests come to dominate any group that lacks the ability to enforce incentives towards a more general (and diffuse) goal. However, this is not the only shape collective action can take, as pointed out in Todd Sandler’s *Global Collective Action*.

<table>
<thead>
<tr>
<th>does not contribute</th>
<th>contribute</th>
<th>does not contribute</th>
<th>contribute</th>
</tr>
</thead>
<tbody>
<tr>
<td>0,0</td>
<td>(b_l - 0.5c_i, b_l - 0.5c_i)</td>
<td>1,1</td>
<td>3,3</td>
</tr>
</tbody>
</table>

\[ \text{contribute} \]

<table>
<thead>
<tr>
<th>b_i - 0.5c_i, b_l - 0.5c_i</th>
<th>2b_i - c_i, 2b_i - c_i</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,3</td>
<td>4,4</td>
</tr>
</tbody>
</table>

Using Olson as a starting point, Sandler explored how different resource and group structures would lead to different outcomes, refuting Olson’s idea that noncooperation is inevitable. Sandler posited that loosening the assumptions of some of the games used to predict collective behavior (e.g. Prisoner’s Dilemma or Chicken) revealed a much more complex view of public goods. For example, by assuming costs are systematically shared, a normal game of Prisoner’s Dilemma results in a Pareto optimal Nash equilibrium.\(^7\)

In order to reach such Pareto optimal results for transnational public goods (TPG), international agreements become a necessity. The often cited success of the global effort to reduce the emission of harmful chlorofluorocarbons, responsible for the depletion of the Earth’s ozone layer, was achieved through such an agreement. Left to its own devices, a country prefers a situation where every other country bans the use of CFCs while they maintain their freedom to use them – a classic Prisoner’s Dilemma that could be overcome through an international treaty. The key success of the treaty was the establishment of trade restrictions on countries that did not participate. This meant that countries now had a disincentive to free-ride and would therefore seek to lower their emissions.\(^8\)

So where do the rainforests of Ecuador stand in all this? Rainforests themselves present an interesting case, because their benefit for existing (a healthier environment) is a public good, yet the country in which they exist also receives secondary benefits (such as erosion control and eco-tourism). These joint products that the host country receives (and can exclude from others) change the dynamic of the good from a pure public good. If the ratio of excludable benefits to total benefits is high then it is more likely that there will be an efficient allocation of resources, since the good behaves more akin to a private good. Conversely there is also a rivalrous aspect the public benefit of a healthier environment. Damage to the environment does prevent others from using it as efficiently. In essence, by polluting more, a country is using up more “units” of environment at the expense of everyone else. This latter point served as part of the logic behind Correa’s plan.

The main problem with collective action with regards to the rainforests of Ecuador is more fundamental: there are just too many players. The global benefits for maintaining the Ecuadorian forests are too diffuse to incentivize anyone but Ecuador itself to pay for its preservation. Viewing the cost of preserving the rainforests as a payment to reduce the externalities of polluting nations leaves us in a standstill. The large number of agents means that bargaining (as prescribed by Coase theorem) becomes prohibitively costly. Within a state this could be remedied through command and control tools or a Pigouvian tax on the polluters, but in an international system with no supra-national force to enforce such rules, nothing will happen. And indeed that was the result of the Yasuní-ITT initiative.\(^9\) Ultimately, cost sharing would result
in the optimal allocation of rainforest reserves. As Sandler pointed out, cost sharing leads to a modified version of the Prisoner’s Dilemma where the Nash equilibrium lines up with the Pareto optimal result. The question is how to incentivize countries to share this cost. Obviously just asking them does not work, otherwise Yasuní-ITT should have seen more success. International organizations can help coordinate and restructure the game so that individual state incentives align better with what is globally optimal.

Currently the UN-REDD’s REDD+ (Reducing Emissions from Deforestation and Forest Degradation) program is seeking to create a financial value for the carbon storage of forests in developing countries, hoping to eventually offer pollution credits to developed countries in exchange for their support in maintaining (and expanding) these forests.\(^\text{10}\) While this is in line with Correa’s intentions, it too suffers from a lack of support internationally, not only because of the collective action problem inherent to it, but because it necessitates the creation of a global carbon market.

Mobilizing the international community to any particular end is always a daunting task. Conflicting interests and disincentives to cooperate tend to inhibit progress, but if an agreement like the Montreal Protocol or an international organization like REDD+ can implement incentives for active participation (or more likely, disincentives for passivity) then an initiative like the Yasuní-ITT could be possible. Treaties like the Kyoto Protocol have floundered because incentives could not be strong enough to counter the marginal cost of abatement of greenhouse gas emissions. This does not have to be the case with deforestation. Economic activity is not as dependent on cutting down huge swaths of trees as it is on burning fossil fuels. So if there is a reasonable incentive to participate in a global cost-sharing system for rainforests, international cooperation can be achieved. Of course, this is heavily dependent on the actual value of the rainforest.

**The Price is Right**

What is the value of a hectare of rainforest? About $18,000 in 1990 USD. Naturally, the value of any given area of rainforest is going to be dependent not only on who you ask, but on the potential resources that exist in the land. Many factors contribute to the value of existing rainforests and different groups value these factors differently. Some, like the economic benefits of eco-tourism or the carbon capture value of a forest, are easier to quantify. Others, like the value of biodiversity, are less so. Additionally, different actors will have different incentives to deforest. Farmers and loggers want to expand their economic activity while conservationists and indigenous populations would seek to preserve their ecosystem. Combining these disparate groups, you can arrive at a global optimum that should be the starting point when figuring out how much a state like Ecuador should really be charging to preserve its forests.
The previous figure of $18,000 comes from Danish researcher Lykke E. Andersen and his cost-benefit analysis of deforestation in Brazil. While primarily focused on comparing the value of intact rainforest to the value of the lands used for agricultural and logging purposes, Andersen takes an in-depth approach to valuing a hectare of rainforest. He concluded that the value to the global community of a standing hectare of rainforest amounted to $18,000 USD-1990, but that Brazil saw higher economic value in farming that land. Accordingly, it would require international intervention to reach the globally optimum amount of deforestation.¹¹

Unlike REDD+ and other organizations that have focused almost exclusively on the carbon storage value of rainforests (admittedly the largest global value source), Andersen’s study incorporated many other externalities of rainforests into the analysis. Of considerable note is his valuation of biodiversity. He focuses on the scientific value of biodiversity (and also the aesthetic value, in a separate section on eco-tourism). He divides this value between direct and indirect values. The direct value is comprised of the increased pool of genetic material that can be used in medicine and genetic engineering as well as the component materials derived from the many species of the Amazon used in modern medicine.

<table>
<thead>
<tr>
<th>Discount rate</th>
<th>Total Economic Value per hectare (1990-1990-US$/hectare)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2%</td>
</tr>
<tr>
<td>Local private benefits</td>
<td></td>
</tr>
<tr>
<td>Sustainable timber supply</td>
<td>5,200</td>
</tr>
<tr>
<td>Non-timber products</td>
<td>500</td>
</tr>
<tr>
<td>Tourism</td>
<td>80</td>
</tr>
<tr>
<td>Local public benefits</td>
<td></td>
</tr>
<tr>
<td>Water recycling</td>
<td>3,000</td>
</tr>
<tr>
<td>Nutrient recycling</td>
<td>0</td>
</tr>
<tr>
<td>Protection against fire</td>
<td>300</td>
</tr>
<tr>
<td>Watershed protection</td>
<td>150</td>
</tr>
<tr>
<td>Global benefits</td>
<td></td>
</tr>
<tr>
<td>Carbon storage</td>
<td>6,750</td>
</tr>
<tr>
<td>Biodiversity protection</td>
<td>1,540</td>
</tr>
<tr>
<td>Recreational value</td>
<td>80</td>
</tr>
<tr>
<td>Existence value</td>
<td>400</td>
</tr>
<tr>
<td>Total Economic Value</td>
<td>18,000</td>
</tr>
</tbody>
</table>

around the world. The indirect value comes from those species which have yet to be discovered and could potentially be incredibly valuable to scientific research (again mainly medicine). A more recent study of the costs of deforestation and the loss to biodiversity, by Jonas Busch, looked at these issues in terms of the proposed REDD+ carbon credits marketplace. Since REDD+ almost exclusively focuses on carbon storage, priority is given to high carbon forests versus forests with high biodiversity. Busch argues that focusing solely on carbon storage can lead to a less optimal source: Busch, Jonah. “Supplementing REDD+ With Biodiversity Payments: The Paradox Of Paying For Multiple Ecosystem Services.” Land Economics 89.4 (2013): 658.
climate outcome than if biodiversity was taken into account. The major difference in pricing schemes is that the one based solely on carbon is a service payment: the supplier is providing the service of carbon storage. The integrated price is an opportunity cost scheme which would bring in even more suppliers, as shown in the graphs below.\(^{13}\)

Looking at Ecuador, it is possible to apply similar prices systems to its rainforests. The first study gave us a good point of comparison, but there are still two major differences that set the Ecuadorian case apart: an incredibly high level of biodiversity and oil.\(^{14}\)

**Black vs. Green Gold**

Cost benefit analyses of rainforests with no subsoil assets have proven hard to internalize within a nation as large as Brazil. Ecuador’s rainforests face an even steeper challenge. With about half the GDP per capita of Brazil and vast potential for oil wealth, it is impossible to expect Ecuador to carry the full cost of preserving its rainforest.

Ecuador has a long history of allowing oil extraction in its national parks. Even though the area around Yasuní was declared a UNESCO Biosphere Reserve in 1989, it was only in 2007, after much pressure from Ecuador’s large indigenous population, that a large portion of the park became an “intangible zone” (meaning no resources could be extracted from the area).\(^{15}\) This did not affect concessions already made to oil companies and left the option open to the president to resume resource extraction at any time. Correa’s moratorium on further drilling followed a year later in 2008.

As a member of OPEC, Ecuador’s interest in producing or not producing oil tend to follow the decisions of the cartel. The current increase in OPEC production means that Ecuador’s budget will be even tighter as oil prices fall. In fact, with a negative current account (as of 2014), Correa’s government has been forced to begin preparations for oil extraction in the Yasuní-ITT region.\(^{16}\)

Another problem facing Ecuador’s desire to preserve its ecological heritage is the way in which it has valued the cost of preserving the Yasuní-ITT region. The $3.6 billion requirement is based on the carbon-price of the petroleum underneath the soil, not the market price once extracted. While it does make sense to value the oil accordingly (since these prices are less volatile), it does raise the question of whether it would be enough to stop Ecuador from extracting should prices increase. The valuation also does not take into account the positive economic benefits of leaving the forest intact. Using Anderson's price estimations of $18,000 per hectare, the Yasuní-ITT region can be valued at more than $2 billion.\(^{17}\) This number is not accurate for modern use, but it is clear that the economic value of maintaining the region’s rainforests is immense. It should also be noted that more than half of that economic value is locally based (about 52%).\(^{18}\)
asking for half of the potential gains by extracting the oil, so any gains they would have received from the preservation of the forests could have likely been offset by this omission. The presence of oil itself is problematic not only in determining a current valuation, but in ensuring preservation in the future. If deforestation is to be treated as a market, as is the intention of the Yasuní-ITT initiative, then perhaps the unwillingness to pay has more to do with the cost of abatement being far above the marginal harm caused by losing this section of the Amazon. In a sense, the oil underneath the region makes it ‘premium’ forest in terms of preservation.

It’s All About the Money

So was the failure of the Yasuní-ITT initiative due to an insurmountable collective action problem, or because the cost of abatement was too high? Either one could sufficiently explain what happened, but a combination of the two is the most holistic interpretation. It was a collective action problem because the incentive for other states to intervene and contribute was too low. The high price made it nearly impossible to create that incentive even after the Yasuní trust fund and carbon credits were established.

Correa’s government tried a new approach to combating deforestation, one that is now being emulated by REDD+ (to only slightly more success…), and the benefits of trying definitely outweigh those of not trying at all. Figuring out a way to implement a cost-sharing regime is probably the only solution to the Prisoner’s Dilemma of deforestation. But without any means to enforce it on the international stage, cooperation is unlikely. Maybe an international agreement can be reached that punishes those who do not pay their fair share in order to preserve the Earth’s rainforests in a similar manner to how the Montreal Protocol punished countries who continued producing CFCs. Unfortunately, it will probably take a much more dire climate situation for such an agreement to be created. In the meantime, however, there is a clear need for accurate valuations of rainforest lands that take into account their carbon content, but also the many other benefits they provide.

Jay Gandhi is a current MA candidate at Johns Hopkins SAIS Bologna Center and a graduate of Georgetown University’s School of Foreign Service with study abroad experience in Ecuador and Egypt. His focus has been on the interplay of science, technology, and international affairs. He has a background in web development and has worked at several different tech startups in multiple capacities.

Notes

2. Davidsen, et. al. p. 4
5. United Nations Conference on Sustainable Development
9. Grether
12. Andersen pp. 23-24
14. Even for the Amazon the Yasuní national park is considered one of the most biologically diverse places on Earth with thousands of unique species per hectare. In particular the Tiputini Biodiversity Station boasts an amazing amount of plant and animal species unique to the region (it also happens to lie near one of the three untapped oil reserves).
15. Davidsen, et. al. p. 10
17. Which because it took place in 1997 will most likely under represent the true modern value of standing rainforest. Even using his more generous discount rate (2%) the valuations he arrived at have probably increased due to continued deforestation driving up the value of the remaining rainforests.
18. Refer to figure 3 for Andersen’s breakdown. His estimates have probably increased due to continued deforestation driving up the value of the remaining rainforests.

Title Page Photo Credit
A Kichwa Woman by CIFOR - https://www.flickr.com/photos/cifor/8640062260/
On the BRICS, the Security Council, and New Global Order: An Interview with Professor Andrew Hurrell

Editorial Staff

Andrew Hurrell is Montague Burton Professor of International Relations and a Fellow of Balliol College at the University of Oxford. His research interests include theories of international relations focusing on international law and institutions, global governance, history of international relations thought and history of international law. His book “On Global Order: Power, Values, and the Constitution of International Society” won the International Studies Association for Best Book in the field of International Relations in 2009.

Your book, “On Global Order” tackles the changing landscape of world governance, and the role of emerging countries therein. Could you give an overview of how this new world paradigm will differ from our current system?

What I was trying to do in On Global Order was to say that there are at least two different ways of thinking about global governance and international institutions. One was very much the dominant one through the 1990s and into the 2000s. We can call it the global governance way of thinking or the global
governance frame. It sets international relations within a world where the dominant concerns are to do with the management of globalization, tackling global problems, and so on.

The world of global governance, the world of international institutions, and the world of different forms of governance beyond the state was very much the orthodoxy of the 1990s and early 2000s. And what I wanted to do in *On Global Order* was to say, “Yes, it’s all very well to talk about going beyond Westphalia, but there are important parts of international politics where older, more state-based, more power-based ways of thinking have never gone away.” They didn’t go away in the 1990s and the early 2000s. Instead, we took power for granted. Because of the dominance of the United States, we could park a lot of the “power” analysis on the side. So what I was doing between 2005, 2006, 2007, was to say; “Look, even at the height of thinking about global governance, older patterns of international society remain important.”

And as then we move forward and as we talk more and more about emerging powers, this older way of thinking has come back into firmer view. Not to replace, or not to push out the importance of governance and institutions, but really to sit alongside it, indeed often in tension with it. So one sort of view would say, “Well as we hit harder times, we return to a world of states and power,” or as Robert Kagan put it, the “return of history and the end of dreams.” This the realist view: Oh well, all this nice institution stuff gets pushed aside and emerging powers, the rise of China proves that realism was right all along.

My view is actually that we live in a kind of hybrid system where the two things sit alongside each other. There is clearly a lot of governance, and a great deal of deep globalization. But we also see the return of important aspects of a more Westphalian geopolitical world. And this includes, hopefully, a potential return of the ‘power managing’ role of big powers. And it’s that sort of duality that I think is really critical for understanding what emerging powers are doing, why there are tensions and problems caused by them, but also how they can be brought into a more effective system of global governance.

And so there’s something interesting when we talk about those five BRICS countries. Russia has recently demonstrated a bent for expansionism, while India remains non-interventionist. China builds its military pressures in the South China sea while Brazil is still weakly armed. It’s easy to get fooled by the acronym BRICS into thinking that the countries share values and attitudes, but they are actually very unique nations with disparate tendencies. What, if anything, really cements the BRICS together?

It is quite easy to point to lots of things, as you say, that separate them: why there are tensions and conflicts between them, either actual or potential, as, for example, with China and India. It’s very easy to
find lots of issues where they have very different views of the problem in question. Think of nuclear proliferation: China as an established nuclear power; India as a nuclear power that sits outside, rather uncomfortably, of the core regime; Brazil, that maintains a southern third world position on nuclear issues. So you can certainly find things that separate them. But in many ways the remarkable thing is that they come together at all. After all the BRICS was an idea that came from Goldman Sachs and had to do with business and emerging markets. It really had nothing at all to do with international politics. And yet it has achieved a certain life, a certain institutionalization through BRICS summits and so on.

So then we have to think more precisely about what it is. Well, it’s not an alliance; it’s not a kind of clear strong coalition that is kind of deployed strategically, directly, to counter, say, the power of the West. It is perhaps better seen as a caucus where a group of countries that see themselves as either on the margin or in in quite a few cases in opposition to dominant western countries can come together: trying to develop common positions or common ways at looking at the world; and then very gradually, embryonically, thinking of whether there are perhaps more concrete things that the BRICS might do together, such as trying to build institutions that represent, to a certain extent, an alternative to current arrangements or a kind of exit option. In this regard there has obviously been a lot of attention focused on the BRICS development bank as an attempt to build an institution in the development world that represent, if not a challenge, a kind of alternative to the dominant Bretton Woods institutions.

We have seen that the BRICS status gives a certain amount of influence on the floor of the global stage, but on the regional level these countries still have balances to strike with their neighbors. How do you think this BRICS status affects neighboring countries? For example, India competing with China while considering Pakistan. How do they handle their regional relationship?

There is a very common way of thinking about being a big power, which is to say, if you want to be a big power you have to be a regional power as well. For many people, when you ask why Brazil and India should be part of the core of the system, the answer is obvious: because they’re big regional powers. Hence people talk about emerging and regional powers as a way of capturing what these countries are about. And clearly also within the countries themselves -- although by no means universally -- you find claims to regional predominance; and a sense that they have a natural right to be the dominant power in the region. Just look at a map, just look at the size, just look at how big they are. Russia in its near abroad is a very clear example, or the very powerful tradition within India sees itself as having a natural position of regional dominance.

And yet if you then actually ask: Do these countries really dominate their regions? Are they able to manage their
regions? Are they able to provide regional public goods? The answer is often far more ambivalent. If you take the case of Brazil, the relationship is a complex one. Historically, Brazil didn’t actually have all that much to do with South America. It was historically and linguistically separate; and in terms of both culture and economic flows, its élites looked overwhelmingly to Europe and then to the United States for their external relations.

The turn to the region is something that we can date quite precisely at the end of the 1970s and into the early 1980s, when regional ties gradually become far stronger. This is most apparent with regional integration within Mercosur and the southern cone, but the expansion of economic ties takes place elsewhere as well. So Brazil increasingly becomes part of the region, more embedded in the region and gradually — particularly in the early 2000s — there emerges both outside and inside Brazil an idea that Brazil should play a more proactive role... I don’t want to say a hegemonic one, but certainly a leading role in the way the region develops.

But in reality acting on this idea turns out to be far more difficult. Other countries within a region (secondary states, as people call them, or follower states) often turn out not to be very keen on following. Brazil wants to have a permanent seat on the UN Security Council. But second-tier states within the region are not at all obviously supportive of that. Equally, being engaged ever more in a region, especially within a region that has lots of problems, raises difficulties and imposes costs as well as benefits. So the overall picture — whether you’re looking at Brazil in South America, at India in South Asia or at South Africa in southern Africa — is often one where being drawn into a region raises issues and difficulties, rather than naturally providing a platform for regional influence; let alone for translating that regional influence into global influence. And in this way, I think, that we might want to contest the theory that if you want to be a great power, you have to be a regional power first.

Historically two of the most successful Great Powers were either not real regional powers or else were able to set the limits of their regional engagement. Britain was a great world power precisely because it was a semi-detached European power. It was able to limit what was often called its continental commitment; and as it became ever more deeply involved — and couldn’t avoid becoming involved — in European affairs, this coincided with its decline. For the United States, you look at a map and say “well, obviously the United States is the dominant power in its Western Hemisphere”; but arguably the critical thing about the United States and Latin or South America is not that it can dominate the region, but rather that it can ignore the region. It can simply say: “at this moment the region is unimportant to us. We will not become very involved. We will not become enmeshed and embedded.” For example, at the moment, Mexico is falling in deep crisis. But the United States is able to pretty much ignore this. Contrast that with the Soviet Union and Eastern Europe. The Soviet
Union was a dominant regional power, created a kind of *de facto* empire and yet the complications and costs of trying to manage that empire were central to its decline.

So you might say that actually being able to limit — to have discretion — over the terms of how you become involved in a region is more important than being able to say “I’m the regionally dominant power, I manage the region, this is why I’m therefore a great power”. I think that relation between regional and great power is far more complicated than it appears at first sight. And it is not at all obvious that if you want to be a big emerging power you have to be a regional power first.

You had mentioned how Brazil is a regional power that has aspirations to be a globally dominant power. During your lecture last night you said that Brazil would like to be the first major power to reach this status through soft power means. As long as the traditional hard powers still exist and there are still large militaries everywhere, is it actually possible for Brazil to achieve this through soft power? Or is it that, as long as everyone else is carrying big sticks, speaking softly and carrying no stick won’t exactly work?

I don’t think it’s fair to say that Brazil wants to be a globally *dominant* power. The primary line of argument and policy has been that Brazil wants to be a global player, plus, as I mentioned, that that there have been times and places where the idea that Brazil should also play a leading role in the region has come up. Overwhelmingly the claim of successive governments has been that Brazil should be more than simply a regional power: it should be a global player and increase its influence and its connections globally; it should push the idea that the world is multipolar; that it’s more open; that it’s more diversified; and that the cooperation amongst the countries of the Global South should be a central part of the way in which this more plural, open world is constructed. That’s the dominant line of what Brazil has sought to do, rather than power-seeking in any very direct sense. Indeed one of the puzzles about Brazil has been historically that it doesn’t fit very well into the power seeking mode. It has sought less power than a straight realist analysis suggests ought to have happened.

Many think of the origins and explanations of this policy lie inside the country. As with other developing and emerging powers, the principal focus of concern is with domestic, economic and social development. It is not with power projection. The external correlate of this position is that foreign policy should directly serve development policy, rather than going down the great power road. That’s been iterated under many different administrations, even under the Lula government where the idea of getting a bigger, a more visible role seemed very important. Even at this time and amidst the talk of playing a more assertive international role, both the President and many spokespeople laid emphasis on the developmentalist and development side.
of what Brazil was doing.

In so far as it has sought influence, Brazil has overwhelmingly done so through what we might call a soft power route. The current president, Dilma Rouseff, has suggested that Brazil might be the first major power to achieve greater influence in the world without hard traditional military resources. If this did make any sense it was because it seemed to connect closely with a particular international conjuncture where Brazil’s particular resources fitted in very well. If an aspect of soft power is the capacity to act effectively in international institutions or if you have what one commentator called “diplomatic GNP”, then clearly this will depend on there being serious institutions and lots of global governance within which and around which you can play such a role. You can then say, for example: “We are going to play a brokering role in negotiations on climate change, or on trade, or on human rights. We are going to seek to build bridges between the Global North and the Global South. Or we are going to try to address the legitimacy problems of global governance.” So there you have a clear situation where the type of power that a country has fits with how the international system operates.

But, as I suggested, if the we think about global politics as a hybrid mixture of globalization on the one hand and facing up to more geopolitical issues and problems on the other, then this will change the situation. Then the dilemma of what sort of power you have and need becomes much shaper. If it’s true that the geopolitical situation is encouraging major powers to play a more power-based role once more, then that poses a real dilemma for a country like Brazil and must lead us to question the idea that Brazil might be the first power to achieve broader status without having military power. That’s a real question. And it is striking that, even inside Brazil, the question of hard power has become more prominent. Twenty years ago it was very difficult to have a serious discussion in Brazil about direct military power – and at the official level it is still something that Brazil is not interested in. And yet that question is now there in a much more direct form. Of course, how it plays out will really not depend just on Brazil. It will very much depend on the way the world goes and the balance between these different strands of international politics.

You mentioned the idea of the plural, more open world, and how Brazil’s approach measures quite nicely with the international order. Do you think the kind of institutions that we have in place adequately reflect that balance, or structures such the UN need to be overhauled to allow the rise of countries like Brazil, with their softer approach?

Well it’s a double-sided problem for emerging powers. As emerging but still relatively weaker states in the international system, their preference is for a world of institutions that focus less on direct hard power. As such a country you need international institutions to project your own interests but also to protect against the power of more dominant states - to tie big states down within international institutions.
So there’s a dominant concern for sustaining and developing strong institutions. We ask the perennial question: “Are emerging countries challenging global order and wanting to overhaul it?” But the answer reveals that in many ways, rising powers are actually strong defenders of existing institutions. Of course, at the same time, they want those institutions to be revised and reformed, and they obviously want those institutions to give them a greater say.

The problem, of course, is that many existing institutions are not in very good shape. We are going through a period in which, in almost every case and region, institutions are coming under real strain. They’re stymied, as in the case of the World Trade Organization. The BRICS, particularly Brazil and India, have achieved a significantly greater role and status within trade negotiations, but, at the same time, it’s become harder to generate successful negotiations. Then you’re faced, of course, with the question of alternative options.

One of the things that makes you a really Great Power in international relations is the capacity either to ‘go it alone’ or the capacity to choose between institutions: forum shopping as people call it. So if you don’t get what you want in one institution or institutional setting, you create, exploit, or develop an alternative institutional setting. And we see that very clearly with the push on the part of the United States to negotiate deeper trade agreements across the Atlantic and the Pacific.

This example is a very classic instance of a major power using the multiplicity of institutions to maximize its leverage and its power. It’s also a case that, from the side of emerging powers, causes real dilemmas. Even if you are not part of a new institution – say a US-EU economic pact, many of the ground rules of the global economy are going to be set within this new forum and will apply to you as well. I think the issue of institutions for emerging powers is very much this ambivalent one. You have a dominant preference for institutions being there, and at the same time you want them to be reformed, so you want to push back. But you can’t push too hard, you can’t veto and block too much, because then you then risk pushing other states away from those institutions and undermining your own position. Now it’s true that you too may have some exit options. As we have mentioned, the BRICS development bank is in some sense potentially heading in that direction. But this is still quite marginal in the bigger picture of how global governance actually works.

Talking about institutions and shaping institutions to allow for the BRICS, if you were in charge of reforming the UN Security Council, what do you think it should look like? Which powers should be on that council with the veto power?

Well the critical thing is in your last statement about the veto power. There are two questions, whether membership should be expanded and whether permanent membership should be expanded on the back of clear veto power. We’re in a situation where I think almost everyone agrees that we have to
have reform of membership. It is sort of impossible to think of an institution like the Security Council carrying on existence with a membership that grew up in the way that it did.

The question, then, will come down to what is bound to be a really complex, and very difficult set of negotiations, about exactly who should be included, and exactly how. I don’t think there is any kind of clear answer. All sorts of people have tried to play the game of membership by looking at all the countries of the world and trying to rank them and trying to measure them. Saying, “Well countries that meet these precise criteria ought to be permanent members of the UNSC,” -- either because of their power, which tends to be the dominant line of thinking, or because of their regional status. That, again, has several components. One is their capacity to be a regional manager. Another is in their capacity to be a regional representative, because of the idea that the members of the Security Council should in some way represent different regions of the world. A third criterion lies in their capacity to contribute directly to the work and functions of the Security Council. Those are broadly the three criteria that, almost everybody agrees on in theory, ought to sort of drive negotiations. You can look at the world and you can play with those criteria and you can then say, “Well here is the list, these countries ought to be members.” That happens both in practice and it happens, if you like, in more theoretical discussions.

At the same time, we’ve also had a long-running debate around Security Council reform that has to do with the relationship between effectiveness and legitimacy. You need more countries for legitimacy, but you can’t have too many countries because then you create something that is totally ineffective. And, at the end of the day, when the circle closes, effectiveness is itself a part of legitimacy. If you have an institution that does not and cannot work, then it is to be seen as illegitimate. So that then poses a limit on the numbers of countries. Whether that limit is 22, 25, whatever it may be, you have a real problem. In the same way we have had a similar issue with discussions about expanding the G7/8 into the G20. It’s a question of what the form and the size that actually allows effective negotiations and effective agreements. Many negotiation theorists often talk about 12 to 14 being the maximum number where you can maintain close cohesion and potentially reach agreement.

So in the case of the United Nations you have to look at all those things. I personally think that it probably will happen, but not necessarily anytime soon. But when and if it does, it won’t be on the basis of any sort of rational calculation. Who will actually be included will follow from a series of political bargains, with countries supporting other countries and putting together various coalition and likely producing outcomes that will look odd. But then, in a sense, lots of outcomes in institutions often look odd; and I think this won’t be any exception.

As a final question, it seems like even as we are talking about the BRICS there
are even new acronyms being created for the next set of countries. There’s talk of the MINT countries, and of the emerging “Next 11.” What do you think will be the status of these countries in the coming years, and will we have an exactly parallel conversation as these countries emerge even more?

I think that there are two ways of looking at power diffusion. One is about power moving from one group of countries to another group of countries -- and they might be the BRICS or they might be, as you say, the next kind of grouping down, the MINTS or whoever. The other way of looking at power diffusion is in terms of a sort of broader process whereby societies, or groups within societies, maybe even individuals as well, become more mobilized and empowered. Obviously that sort of power diffusion is very much linked with changes in information and technology and in the way that knowledge and ideas flow across the world.

And so we’re seeing both these kinds of power diffusion. They are related to each other, but they often cut across each other. One part of the story we tell now, and we might tell in the future, will be about who are the next group of countries to become more visible, more important — although we have to keep remembering to ask: “important for what?” Jim O’Neill was talking about the BRICS in terms of emerging markets. He was talking about countries that will be important for the way that investors and traders and players in the global economy think about the places that matter. He wasn’t talking in any direct sense about countries that will have more political or geopolitical influence. This is something very different. You can be an important emerging market without this having any necessary implications for your geopolitical or your political status in the world. In terms of the two types of power diffusion, I very much see both of these processes happening. But the broader power diffusion towards society is the more important. The sort of longer term trend is away from the capacity of all centralized points of authority, including especially states, to be able to control their own societies and their own regional environments.

Power is diffusing in this broader sense, and I think that’s the dominant line that we have to come to terms with. And it will certainly mean that the capacity of a small group of Western states and societies to dominate the world is likely to continue to decline. But it will also mean that the idea that there are new centres of power -- regional powers, emerging powers -- that can easily dominate their own region and that can play the traditional power political game will also come under increasing strain. So I think it’s very much the tension between those two models of power diffusion that will become ever more important in how we think about international relations.

Interview Conducted by Eloise Waldon-Day & Colin Wright

Title Page Photo Credit

Andrew Hurrell at SAIS Europe by Grace West, speaking at the Bologna Institute for Policy Research (BIPR), February 2015
The Agenda Setting Power of Media in International Affairs: How Media Coverage on U.S. Surveillance Programs and U.S. Military Operations Prevent Us From Becoming a Distopic World

Gerd Gensbichler

This research sheds light on the U.S. government’s efforts to petition media professionals not to report on U.S. data surveillance and military engagements. After 9/11, warrant court based U.S. surveillance practices morphed into warrantless U.S. surveillance activities, and poor journalistic working standards led to a chilling effect in government-media relations during the Obama administration. This analysis illustrates the influence of media reports on the U.S. government in times of unclear U.S. policies. The findings of this paper underline the fact that journalistic non-compliance with governmental secrecy requests prevents our societies from becoming distopic democracies.
Introduction

Edward J. Snowden’s media accounts on the global data surveillance activities of the U.S. government have reignited a heated debate about government-media relations. Already in the aftermath of 9/11, officials of the U.S. government have asked media professionals several times not to report on the U.S. administration’s surveillance programs and military activities. Such petitions for media secrecy are repeatedly brought forward with the concern that reports on U.S. surveillance and military activities give terrorist organizations an inappropriate warning bell and hence damage U.S. security interests abroad. Journalists who have been confronted with such requests, however, refuse such secrecy petitions on the basis of the right to freedom of speech as it is enshrined in the First Amendment of the U.S. constitution. Following the rationale of this debate we have to ask: Does the public have a right to know about the U.S. government’s surveillance and military engagements? This article aims at giving an answer to this question. I argue that the media has to report on secretive U.S. surveillance practices and opaque military activities in order to prevent Western democracies from becoming dystopic communities, which develop into frightening societies with an authoritarian character. I will illustrate my argument by showcasing how the publication of two U.S. news stories led to a realignment of secretive U.S. surveillance activities with civil liberties rules and to a change within the U.S. military command. I have chosen Eric Lichtball’s and James Risen’s report on the obscure Swift-Bank-Data surveillance program in the New York Times (NYT), and Michael Hastings’s story on General McChrystal in Rolling Stone. The two stories illustrate well the agenda setting power of news reports during the presidencies of George W. Bush and Barack Obama.

On June 23, 2006 Eric Lichtball and James Risen published the article “Bank Data is Sifted by U.S. in Secret to Block Terror” in the New York Times (NYT). The article covered the secretive Swift program that was initiated by the Bush administration only weeks after the 9/11 attacks. By then, the Belgium based Swift data center routed international money transfers that were worth $6 trillion a day and mostly included overseas wire transfers into and out of the United States. With the Swift program, U.S. counterterrorism officials hoped to trace the financing channels of Al Qaeda by acquiring Americans’ financial records on broad administrative subpoenas instead of individual court-approved warrants which were standard in pre-9/11 surveillance practices.¹ By departing from basic transparency and accountability rules the Swift program had the potential to erode democratic processes in the United States. As a whole, this article and the subsequent reports in the NYT addressed the general question as to whether or not the United States had become a night-watchman state during the Bush administration. The fierce debate in the aftermath of Lichtball’s and Risen’s article led to the end of the criticized Swift
program and to the implementation of the Terrorist Finance Tracking Program with improved accountability, privacy and transparency rules. Lichtball’s and Risen’s article demonstrated well the watchdog function of the press when democratic processes in a country start to be impaired.\(^2\) To understand better why Lichtball’s and Risen’s article had such a political impact and eventually led to the shut-down of the original Swift program, let’s look at the political dynamics and government-media relations in the weeks and months before the article’s publication on June 23, 2006.

**Governmental Pre-Publication Censorship and The Free Press Clause**

Previous to the publication of Lichtball’s and Risen’s report in the NYT, the Bush administration had put significant pressure on the NYT editor not to publish the article. This is noteworthy because both authors were not looking to produce merely sensationalistic news.\(^3\) As a consequence of the government pressure the NYT editors decided to delay the publication for a year. After additional journalistic investigation, the editors of the NYT finally decided to publish the report. The authors of the article relied on The Free Press Clause protecting them against pre-publication censorship based on the First Amendment of the U.S. Constitution, while at the same time demonstrated responsibility by omitting elements of the article that might have endangered the lives of people or the effectiveness of the program.\(^4\) The NYT insisted on publishing the article because it showed a pattern during the presidency of Bush to grow a powerful executive branch void of checks and balances that normally characterize democratic processes. But the Bush administration was not the first one that tried to overstretch its executive powers. Already at the beginning of the 1970s, Vietnam War protestors and civil rights activists in the United States learned that, under the presidency of Nixon, government officials had relentlessly eavesdropped on them. The reporting on the widespread eavesdropping abuses led to the introduction of the Foreign Intelligence Surveillance Act (FISA) in 1977. Under FISA, U.S. intelligence surveillance activities had to be authorized by individual warrants through a FISA court.\(^5\) Within the United States, FISA raised greater awareness of privacy concerns among its citizens.

**The Swift Program - Unlimited Surveillance in The National Interest?**

When 9/11 happened, millions of Americans watched on live TV as airplanes slammed into the towers of the World Trade Center (WTC), producing smoke columns, and the twin towers in downtown Manhattan collapsed. Immediately after the attacks the Bush administration raised concerns that US intelligence and law enforcement agencies were handcuffed by legal and bureaucratic restrictions and therefore could not react appropriately to the terrorist threat.\(^6\) A well staged speech prepared the public for Bush’s declaration of a state of emergency on September 14, 2001,
followed by the secret implementation of the financial data and communications surveillance programs via Swift (2001) and the National Security Agency (NSA – 2002). Both of these programs worked under the assumption of a general surveillance warrant, a significant change compared to the FISA standards established before 9/11. How can we interpret this significant change in surveillance patterns of U.S. intelligence since the WTC attacks?

Given the disastrous attacks of 9/11, it is understandable that the extraordinary security situation in the aftermath of the 9/11 terrorist attacks required extraordinary measures by the U.S. government. However, it is remarkable that after five years the emergency practices of the Swift program still had not been realigned with the FISA rules. Another remarkable aspect lies in the fact that the Swift data project was led under the auspices of the CIA together with the U.S. Department of Treasury, although the competencies for intelligence in cyberspace lie with the NSA. This sheds a light on the long lasting rivalries between the different intelligent services that seem to be based on a struggle of power between different pockets outside of the U.S. government, and which are detrimental to the national security of the U.S. According to the report of the National Commission on Terrorist Attacks (NCTA) of 2004, these rivalries are also in part responsible for not preventing the 9/11 attacks.

Igniting a Public Debate – NYT Report Stops Uninhibited Snooping on Confidential Data

Tightly connected to the question of the sometimes narcissistic competition between the various U.S.intelligence units is that of the massive scope of the Swift surveillance program, which approached the search for terrorists like a needle in a seemingly endless row of haystacks without court authorized individual warrants. The Swift surveillance practices relied on an enduring state of emergency that had lasted several years. Without democratic control mechanisms, at least at the Congressional level, such a state is potentially a step away from George Orwell’s dystopia. At the time of the publication of the above-mentioned article, the intelligence community on the Swift program had only briefed a limited number of Congressional leaders. Those that had been briefed still did not know what they did not know. Without congressional checks and balances, the Swift program had become a permanent and a dubious short cut for the executive branch of the government to bypass the U.S. legislature.

The publication of Lichtball’s and Risen’s article in the NYT ignited a public debate on the principles of accountability, transparency, and the role of U.S. intelligence services in the United States. The NYT report from June 23, 2006 and the subsequent articles enabled the public to enter a vivid debate on governmental surveillance programs and raised awareness for the citizens’ right against
undue searches by the government.\textsuperscript{13} The Swift program also raised international legal concerns because Swift, the Belgium based finance data platform, has international stakeholders from various countries. Under European law, personal data cannot be transferred to other countries unless that country’s privacy protections are perceived as adequate.\textsuperscript{15} The Austrian and German governments, for example, favor stringent privacy protections because their citizens still remember the practices of the Nazis and Stasi, who used personal information to destroy people’s lives. The Europeans mistrusted the American intrusion into European citizens’ affairs. In 2010 the European Parliament stopped the Swift program.\textsuperscript{16}

The Runaway General - Uncovering a U.S. Military Policy Divide

On June 22, 2010 Michael Hastings published “The Runaway General” in Rolling Stone. In his article Hastings bluntly reported on the U.S. troops’ attitude that embraced a “disdain for authority,” and came to Afghanistan “halfway around the world to fight,” to “… drop a f…… bomb on this place.”\textsuperscript{17} The publication of the article shamed\textsuperscript{19} the attitude of American troops and put pressure on the U.S. military command for the betterment of actions and the mindset of U.S. troops that had already severely damaged the reputation of American forces in the Arab world since Abu Ghraib in Iraq in 2004.\textsuperscript{20} The publication of The Runaway General also led to the demission of the military commander of the U.S. troops in Afghanistan General McChrystal and engendered a public debate on the policy divide on Afghanistan between the U.S. military command and civil-commander in chief, and within the U.S. government itself.\textsuperscript{21} The military commander of the U.S. troops in Afghanistan, General McChrystal, had proposed a fully fledged counterinsurgency (CoIn) strategy with the rise of U.S. forces in Afghanistan by 40,000 troops.\textsuperscript{22} President Obama limited the rise of military forces to 30,000 troops and wanted this to be published as an transition effort to get out of Afghanistan with the strategy language “target, train and transfer.”\textsuperscript{23} Vice-President Biden’s idea consisted of a more moderate rise of troops than Obama proposed, and the deployment of police forces to train Afghan police officers.\textsuperscript{24}

The Threat to Liberty Comes From Within – Misled Petitions for Media Secrecy

Some protagonists of the public debate in the aftermath of the publication of The Runaway General argued, that the article should not have been published because it increased the reputation damage for the U.S. government and the American armed forces in Afghanistan. The U.S. Founding Fathers warned that the greatest threat to liberty comes from within the society, under the advances of misled petitions for secrecy.\textsuperscript{25} In this understanding I argue that to publish Hastings’s article was in the public interest because if it had not been published it would have exacerbated not
only America’s reputation damage, but also the failure of the U.S. securitization efforts in the Middle East. General McChrystal’s CoIn strategy, with the significant rise of troop numbers, did not sustainably curb Taliban terrorism, and put the lives of many at stake. Publishing the article put public pressure on the U.S. military and civil commands to rethink their Afghanistan policy, and to change military personnel and to try to improve troop attitudes in Afghanistan in order to rescue America’s securitization and Soft Power efforts in the Middle East.

In this situation it was a democratic duty of the media to put the finger on the shortcomings of U.S. operations in the Middle East, disseminating important information that aimed at warding off further reputation damages for America and to prevent a U.S. securitization fiasco. Unfortunately, the author of this article achieved these goals by neglecting an important ethical rule in journalism and poor journalistic writing standards.

**Breaking Journalistic Rules – Press-Military Relations and The Chilling Effect**

The article succumbs to the habits of the glamour magazine *Rolling Stone* that is prone to framing hard political facts as entertainment in its few political reports. *Rolling Stone’s* infotainment approach tends to be more in the magazine’s own commercial interest than a service for the reader and sometimes rather peddles news. *Rolling Stone’s* approach to journalism also might attract readers that consider the political jokes of Jay Leno good information and do not search for information in traditional media.

With *The Runaway General*, Hastings seemed to be a chip off the old block: the author strings together myriad politically incorrect quotes, pubescent gestures and the stereotyped lingo of junior military officers to provoke the feelings of the readers of *Rolling Stone*, to make them participate in the story. Hastings emulates the language of the interviewed soldiers in his text bridges between the quotes. By using the prejudgemental and biased language of McChrystal’s aides’ also in his own text passages the author blurs the lines between the position of the reporter and the protagonists of the story. Besides, a good article embeds a personal story in a clear broader picture. Although Hastings’s colorful descriptions of the conversations illustrate well the characters of his interview partners, the author fails to offer a clearer picture of the possible policies for Afghanistan and its populace. Last, but not least, Hastings broke one of the principle journalistic rules, which prohibits reporting on conversations that are declared off the record.

Following the old Roman question “Quis custodiet ipsos custodes? – Who shall guard the guards?”, it would have been the responsibility of Eric Bates, the editor of *The Rolling Stones*, to make Hastings aware of these flaws in his article and to re-edit his story before publication. Hastings’s breach of the off-the-record rule had implications for the press-military relations after *The Runaway General* had been published.
In the aftermath of the publication of the *Rolling Stones* article, relations between the military and the press soured because of a loss of trust in the ways media reported on U.S. armed forces. U.S. secretary of defense Robert Gates, for example, grew concerned about a too lax and flat-out sloppy engagement of military officials with the press. On July 2, 2010, he issued a Pentagon directive outlining how the military should and should not interact with the media. On the other side of the Rubicon, reporters covering the military voiced concern that the new Pentagon guidelines will have a chilling effect on access to military officials and information, which means that the public will end up getting less information than it needs build its own opinion about the operations of US troops. How did the White House react on *The Runaway General*?

**Fatal Media Affinities – A Magazine’s Story That Ends a General’s Career**

President Obama had already had some experience with McChrystal’s affinity to wear his heart on his sleeve. In 2009, for example, McChrystal had publicly lobbied for more troops for Afghanistan at a speech given in London. Then on June 22, 2010, Hastings’s article was published. Obama was confronted with the bitter fact that McChrystal’s continued policy suggestions in the public had found a new climax, hollowing the president’s control of the military and eroding the trust among the members of the president’s war team. One day after the article’s publication, Obama commanded McChrystal to Washington for a personal meeting in which McChrystal resigned from his command of the Afghanistan troops. One day after, on June 23, 2010, President Obama named General Petraeus as the new commander in Afghanistan. Petraeus’s nomination found widespread support on Capitol Hill. The new Afghanistan military commander of the NATO troops established good relations with leaders in Afghanistan and Pakistan. Petraeus had also a better perception of the resonance of what he said and its effects on public opinion and the government, and was widely credited with creating the type of CoIn strategy that Obama said would win the war in Afghanistan. Which effect did the article on the Afghanistan policy have on the U.S. government?

Directly after the change of military command, the White House’s policy on America’s engagement in Afghanistan and Pakistan did not change significantly. In his first reactions in the public after the demise of McChrystal, president Obama emphasized that this “is a change in personnel, but it is not a change in policy.” The lawmakers on Capitol Hill welcomed this statement. Since Obama’s drawdown speech in 2011, however, U.S. troops in Afghanistan have continuously been reduced, with the aim of fulfilling one of President Obama’s election campaign promises to get U.S. troops out of Afghanistan as soon as possible. The last regular American should have left Afghanistan by the end of 2014. But due to concerns that the Afghan government will not be able to
guarantee stability in the country without a residual force in Afghanistan, 10,800 U.S. troops still remain in Afghanistan. The U.S. military forces will stay in the country until a new NATO support mission can guarantee that Afghanistan does not suffer a similar military collapse as Iraq.

First and Second Movers – When Media Puts a Negative Spin on The Government

The months before Hastings’s article appeared were perceivably characterized by a governmental uncertainty on the policy for Afghanistan. As I have already illustrated above, the media coverage before and after Hastings’s article on the controversies between Obama and McChrystal, which McChrystal - deliberately or not - took to the stage of the international media, eventually drove the agenda of the White House. And when press puts a strong negative spin on news, the government has to react promptly and convincingly, or public support erodes, which then allows almost no time for contemplation for journalists and governments, which explains the quick and reaction of the president in his decision to find a new military commander for the U.S. troops in Afghanistan.

The two articles of Lichtball, Rosen, and Hastings brought stories out of the darkness and into the light, held the U.S. government accountable and provided space for public debate on the U.S. surveillance and military engagements, offering the U.S. government the possibility to change its secretive policies and programs. In both cases the influence of journalism on public policy can be described with the agenda setting power of media: When policies of the government are not able to clearly shape the public opinion, media reports are able to shape the (re)actions of the U.S. government. Hastings’s article led to the demotion of General McChrystal and a change of attitude of U.S. troops in Afghanistan, which were a prerequisite to start to restore America’s Soft Power; to rebuild trust toward the United States in the Middle East. Similarly the public debate after Lichtball’s and Risen’s report on the U.S. government’s surveillance activities led to modifications in the Swift program. After a new vote of the European Parliament, the Swift program was restarted as the Terrorist Finance Tracking Program (TFTP). Its scope of data has been reduced, and according to the French counterterrorism judge Jean-Louis Burguière, the TFTP now complies with civil liberties protections rules.

All things considered, it becomes clear that mounting governmental pressure on journalists to refrain from reporting on surveillance and military activities is more harmful to our society and our democratic values than dauntless media coverage.

Gerd Gensbichler is from Salzburg, Austria, and has lived in Austria, Italy, Spain and the U.S., working as a teacher, university lecturer, and in media. Gerd graduated from SAIS in Washington DC in May of 2014.
Notes


18. Ibid., 10.


23. Chapters 18, 22, 25, 26 and 27 of Bob Woodward’s book Obama’s Wars describe further internal differences between the supreme military and civil-command: Obama’s national security advisor Jones demanded a civilian/good governance approach, especially at the border areas of Afghanistan and Pakistan, which were considered as safe havens for Taliban fighters. Mullen, Chairman of the Joint Chiefs of Staff, general Petraeus and general McChrystal were locked into the counterinsurgency policy with 40,000 more troops. According to Obama, the Generals should not use the counterinsurgency language anymore. Pentagon officials wanted to tie up again on what had been agreed with the president: 40,000 instead of 30,000 troops. Colonel Tien of the NSC recommended the President to fire Petraeus presenting the argument that the military command proposes 40,000 troops, but will be gone when Obama faces re-election; and retired General Colin Powell reminded Obama that Obama is the commander in chief. Woodward, Bob. Obama’s Wars. New York: Simon & Schuster, 2010.

24. Bob Woodward’s book Obama’s Wars presents in chapters 19 and 20 a good oversight on the Afghanistan policy competition between the different personalities in Obama’s administration: Richard Holbrooke, then Special Envoy for Afghanistan and Pakistan, described a Freudian giveaway of Secretary of State Hillary Clinton, which, according to Holbrooke, pointed to a still existing rivalry between Secretary Clinton and Obama, and to the fact, that Clinton felt detached from the policy process. General Lute proposed a counterterrorism plus (CT plus) strategy. Ibid.”


27. According to Nye, the power of states underlies a change in our days. In the information age is important to win the hearts of people. The latter is possible through the second face of power, through values, that are admired by other countries. Soft power rests on the ability to shape preferences of others. Nye, Joseph S. Soft Power: The Means to Success in World Politics. New York: Public Affairs, 2004.

28. There is myriad of examples where governmental officials asked media outlets not to publish information for the sake of public security and public interest. Like in spring 2004, when Pentagon officials appealed to
CBS Nightly News not to air its story on the prisoner abuse at Abu Ghraib; or in October 2005, when local authorities asked WNBC TV not to air immediately information on an attack warnings on New York's subway system. Pentagon and New York City municipality officials feared an inflammation of the emotions of Iraqi people and public hysteria in New York City's public life. Keeping Abu Ghraib secret and not to air terrorist threats would have made the press complicit in an abrogation of human rights and would have taken citizen the ability to make its own decisions in order to protect themselves from imminent security threats. Gup, Nation of Secrets, The Threat to Democracy and The American Way of Life, The Growth of Secrecy in America.

30. Ibid.


36. Lippmann, “Public Opinion.”


42. In chapter 32 of his book Obama's Wars Woodward described the messiness and mistrust that had been building up between the White House and the military. According to Woodward this rift was a consequence of the prolonged Afghanistan/Pakistan strategy review by president Obama before McChrystal's speech in London in 2009. Woodward, Obama's Wars.


44. By then, Obama still had in mind his 2008 elections campaign promise to withdraw troops from Afghanistan in July 2011; and
state department officials proposed a swift deal with the Taliban, and to find a better plan to deal with the difficult relation with Afghan president Karzai who undermined American efforts in the region. “Afghanistan, After McChrystal.”


47. “Afghan Shift.”

48. Ibid.

49. Landler and Cooper, “Obama Will Speed Pullout From War in Afghanistan.”


51. Ryan, “Hagel Says U.S. to Leave up to 1,000 Extra Troops in Afghanistan.”


53. Seib, “Politics of the Fourth Estate. The Interplay of Media and Politics in Foreign Policy.”


55. Seib, “Politics of the Fourth Estate. The Interplay of Media and Politics in Foreign Policy.”


58. Lippmann, “Public Opinion.”

59. “Afghan Shift.”


Title Page Photo Credit

Gucci & LVMH: A Hostile Takeover Battle Across the Atlantic

Samine Joudat

More than a decade later, the vicious battle between Gucci and Bernard Arnault’s Louis Vuitton Moët Hennessy remains an important case study in the failure of smart men to make measured choices. Why did such wise men make multiple mistakes causing negotiations to disintegrate? The work of the Harvard Negotiation Project and Robert Axelrod help elucidate the areas in which the characters involved could have acted differently. This case also highlights the new interconnectedness of global financial and corporate markets. Today, this case is cited as one of the most important in the history of fashion.

“As one would expect of a modern corporate conflict, the action in the battle for Gucci has taken place all over the world. If the protagonists have not been closeted with their lawyers in Amsterdam; they have been courting the fund managers who call the shots at Gucci’s institutional investors in London and New York; or making clandestine visits to Mr. Pinault’s opulent Parisian townhouse.”
– Alice Rawsthorn, Financial Times, April 1999
Introduction

The acquisitive world of high luxury often identifies itself through the lure of its mystery, selling an aesthetic that appears elusive and transcendent of the fray. The brutal battle between Louis Vuitton Moët Hennessy (LVMH), Gucci Group, and Pinault-Printemps-Redoute (PPR) in the late 1990s, however, was anything but above the fray. Sprayed out on tabloids across two continents, the battle for control of Gucci became a highly publicized saga between larger than life personalities.

The story plays out as a failure of smart men to make prudent decisions in negotiation. Ostensibly about the protection of the company he and creative director Tom Ford had rescued from the brink of collapse, Domenico De Sole adopted a maximalist position that escalated the negotiations to their bitter extreme. Perhaps lost in the fight were the principal interests of the company itself. Across the aisle, ruthlessly successful French businessman Bernard Arnault, both lauded and feared for his corporate acquisitions which turned LVMH into the world's biggest luxury conglomerate, adopted an equally rigid position that led to his group ultimately losing out on Gucci. And finally, PPR chairman Francois Pinault, a keen businessman and a French powerhouse of his own, allowed the struggle for Gucci to devolve into a visceral power play between himself and Arnault – a play which he ultimately won, but perhaps at too high of a cost.

What led such wise men to fall prey to multiple mistakes and ultimately to the disintegration of negotiations? The answer lies within Robert Axelrod's expansion of the concept behind bounded rationality – the notion that humans are constrained by the finite information and time they possess, and also by their often irrational human emotions. Instances of missed information as well as hubris, greed, and obstinacy were prevalent throughout this case, compelling each side to defect when they should have cooperated, and to punish when they should have displayed contrition. Building on this concept, the Harvard Negotiation Project's work on ideologically rigid positional bargaining and the idea of a best alternative to a negotiated agreement (BATNA) is also effective in helping explain why an initially passive takeover attempt fragmented into a hostile showdown across courtroom benches. The Gucci case was conducted through a sub-optimal strategy, as close connections and power dynamics caused both sides to make irrational choices.

The fascinating spectacle of the case aside, the battle for Gucci also had two vital implications. The first, and perhaps most important, was the larger implication for corporate takeovers amid the backdrop of a newly unified Europe. An Italian company traded on the Amsterdam and New York stock exchange, represented by American firms, run by an American and an American-Italian, and vied for by two powerful Frenchmen, the Gucci case was one of the first to reveal the realities of a takeover attempt in a truly globalized
international context. This case illustrates the emerging confusion, complexity, and also advantages of this new cross-border reality that has spawned numerous case studies in business and law schools around the globe. The second implication is in relation to negotiation theory. An absence of cooperation in this story led both sides to an avoidable escalation. In line with the claims of the Harvard Negotiation Project and the work of Robert Axelrod, the case underlines the importance of interest-based negotiation that separates principles from the problem as well as the idea of a generous and cooperative iteration of game theory known as the Tit-for-Tat strategy (TFT).

This case study seeks to address the failure of the actors involved in the negotiations over Gucci and assess the broader implications on European corporate takeovers and negotiation theory. It is divided into five sections. Following this introduction, the principle actors and timeline that formed the case will be discussed. A section discussing the causal instrument will follow. The implications section will then expand on the broader consequences of the case study. Finally, the conclusion will briefly summarize the story.

The Story: Actors and Timeline

Italian born Domenico De Sole initially made his name upon graduation from Harvard Law School at the Washington D.C. firm of Patton, Boggs, & Blow. In 1984 he became president of Gucci America, lured to the position through his relationship with the Gucci family as his clients. De Sole habitually butted heads with Maurizio Gucci, who had inherited the largest share in the company his grandfather had established. A decade later, De Sole assumed the role of chief operating officer in the wake of Maurizio's inauspicious exit. A year after that, De Sole was tapped to be president and chief executive officer as the company prepared to go public under the Bahraini investment group Investcorp.

De Sole inherited a company mired in poor management, ostentatious overspending, and family feuding that had ultimately driven the company to the verge of bankruptcy in 1993. A luxury brand founded in Tuscany in 1923, Gucci initially burgeoned on the craftsmanship of its supple leather items assembled by artisan hands in Florence. By the mid 1980s, that storied heritage had diffused into mediocrity as Maurizio and the rest of the Gucci family had sought to generate more profit by mass-producing lower quality goods and licensing image rights to low quality manufacturers and retailers. Investcorp, having already acquired half of the company's shares, ultimately wrested full control by buying out Maurizio in 1993. Two years later, a man contracted by his indignant ex-wife, Patrizia, gunned Maurizio down execution style in Milan.
control of the brand. From this vantage point, the Texas native and New York Parsons School of Design graduate in architecture gave new life to the company. Ford immediately reduced licensing rights to Gucci-operated doors and high-end retailers. He reinvented the label, evoking the sexy-chic aesthetic that defined the brand in the 1950s and 60s. Slim and dark silhouettes, risqué marketing, and sleek packaging reinvigorated Gucci and galvanized a once decreasing customer base. De Sole, for his part, retook control of distribution and image rights for the brand. He traveled to meet disaffected Florentine artisans in person to rekindle the special relationship that once produced Gucci’s renowned quality. The ensuing result was a more efficient production line, a more transparent and conscious management team, and a generally more well run Gucci.

By 1995, when Investcorp decided to take the company public, Gucci’s earnings had surged from a net loss of $22 million two years prior to a staggering $1.2 billion valuation. To put the turnaround in an ironic perspective, Bernard Arnault who would eventually launch an almost $9 billion bid for the company in 1999, refused to buy it for $350 million in 1994. By the end of ‘94, the Compagnie Financière Richemont luxury group could not meet Investcorp’s $950 million price tag, which was offered before the group decided to go public. The figure below displays Gucci’s incredible growth in sales in the subsequent years from 1994 (limited to data up to 2005). Gucci’s prosperity in the world of fashion, however, veiled its susceptibility to a takeover. Investcorp’s initial public offering had structured the company to be assumed by a major stakeholder. During the period from the initial floating of its stock to the eventual takeover battle, Gucci operated as the only Italian company ever without a principal shareholder to which it was obliged to answer. In 1996, De Sole, exploring options on how to defend against a potential takeover, concocted an American style poison pill dubbed Project Massimo – which when triggered in the instance of a takeover attempt would flood new company shares into the market and dilute existing shares, making a potential majority takeover more expensive. Shareholders would ultimately strike down the proposal, but the failed effort underscored Gucci’s vulnerability to a takeover. A vibrant and growing company with a bright future, it was a matter of time before bidders came knocking. It is believed that during this period Bernard Arnault first began to acquire Gucci shares.

Arnault was the second richest man in France, having first acquired his wealth by virtue of his family’s real estate empire, and then by slowly building LVMH into a luxury conglomerate. He assumed full control of the group after a separate battle in the late 1980s over Louis Vuitton and Moët champagne. At 35 he bought Boussac, a French textile company that included Christian Dior. He went on to rattle France’s otherwise traditional fashion industry, naming young designers John Galliano at Dior, Alexander
McQueen at Givenchy, Marc Jacobs at Louis Vuitton, and Michael Kors at Céline. At first hated and criticized for his ‘American’ style of aggressive corporate raiding and ruthless decision-making, Arnault eventually won the begrudging respect of the French public for his continued success and LVMH’s continued growth.  

Before Arnault’s eventual move on Gucci, however, it was Prada’s Patrizio Bertelli that struck. In June 1998, Bertelli emerged with a surprising 9.5% purchase of Gucci shares. Unexpected and sudden, this materialized the Gucci team’s worst fears. De Sole met with Bertelli, who contended that the two companies should work together and forge a dynamic partnership. De Sole, surprised and perturbed, responded that he, unlike Bertelli, was the C.E.O of a public company and had shareholders to answer to.  

At this time Morgan Stanley advisor to Gucci Michael Zaoui conveyed his belief to De Sole that they should find a way to turn Bertelli into an ally, instead of simply rejecting his offer. De Sole objected, believing the act of reaching out would portend weakness. De Sole’s nearsighted failure to somehow turn Bertelli into an ally would come back to haunt him. “I wish I had,” De Sole would later say. “In life you make a lot of mistakes.” On 6 January 1999, it publicly emerged that Arnault and LVMH had acquired a 5% stock in Gucci. Arnault was adamant that it was a passive stake
and he had every intention of letting Gucci remain independent. De Sole and Gucci managers, however, knew this was the moment they had dreaded most. As they deliberated on their options, they were stunned again as LVMH gobbled Prada’s shares and put itself at almost 15% ownership. As De Sole began a desperate and futile search for a white-knight investor to save the company from Arnault’s grasp (9 firms denied his proposal), Arnault increased LVMH’s stake to 34.4% by 26 January. Meanwhile LVMH refused to make an outright offer for Gucci, something required by French but not American financial laws upon purchasing this percentage of a company’s shares.

Defenseless and vulnerable, yet fully committed to a war of attrition, De Sole refused to give in to Arnault’s request for seats on Gucci’s board of directors. Running out of options though, he finally agreed to meet Arnault face to face. On the evening of 22 January, they met for the first time in the Paris offices of Morgan Stanley. Arnault maintained that his intentions were friendly and that he wanted Gucci to operate independently under LVMH control. De Sole maintained that Arnault should stop the creeping takeover or make a full tender offer. The 70-minute meeting was cordial, but the two sides seemed as entrenched in their positions as ever.

Five nights later De Sole returned with a proposal. LVMH reduces its stake to 20% and allows Gucci to operate independently, and in return Arnault would be granted two seats on the board. Arnault promised to consider the offer, but on 8 February he rejected it outright. Arnault would not concede, operating under the assumption that he had much more leverage than Gucci; there was seemingly no way they could prevent his creeping control of the company.

De Sole and his team at Morgan Stanley tried one last time to convince Arnault to buy the company outright or come to a standstill agreement on a board member swap deal. The price tag was set at $85 a share – a steep price but still fair given Gucci’s strength and long term outlook under Ford. After vacillating back and forth, Arnault refused the offer and also backed out of any potential standstill agreement, pushing De Sole and Gucci to their emotional limit.

The next day, on 18 February, Gucci employed a creative and perhaps controversial last resort option – an employee stock ownership plan (ESOP) they had kept in their back pocket. The ESOP would cost Gucci no money or effort, as it was a Trust set up for company employees. Under it, employees would receive a zero interest loan from the company to buy newly issued shares. The Trust was granted the right to purchase up to 37 million newly issued shares, of which it instantly bought over 20 million. The Trust diluted every stockholder’s share (but not earnings, as the shares did not pay out dividends). The Trust suddenly owned 25.6% of the company, and LVMH was diluted to 26%.

Shocked, incensed, and scrambling, LVMH immediately cried foul and filed
a lawsuit to halt the maneuver they saw as a declaration of war.\textsuperscript{31} What Pierre Godé, Arnault’s confidant and lawyer, and the rest of LVMH’s team had missed was a huge loophole. They believed that in accordance with New York Stock Exchange rules, no company could issue new shares that amounted to more than 20 percent of its capital. However, they overlooked the absence of such a law in Amsterdam, where Gucci was listed and whose laws they were playing by in this situation.\textsuperscript{32} In the ensuing court hearings, Gucci’s employees, represented by the infamous CGIL labor union, showed up in support of De Sole and Gucci.\textsuperscript{33} The Dutch court decided to freeze the ESOP, but it also froze LVMH’s voting rights, granting Gucci invaluable time and a marginal moral victory.

The stroke of improvised genius by Gucci’s Dutch and American lawyers and the glaring miss by LVMH granted Gucci precious momentum. Their valiant fight caught the eye of France’s richest man, PPR chairman Francois Pinault. Pinault’s group was formalizing a strategy to break into the luxury industry, and they believed Gucci could be their opportunity. After multiple, secret meetings between Pinault and De Sole and Tom Ford, as well as between C.F.O Robert Singer and top figures at Pinault’s holding company Artemis, a tentative deal was struck. PPR would buy 40% of Gucci and simultaneously buy Sanofi Beauté (ironically Arnault had passed up on buying them months earlier), a group within which Yves Saint Laurent operated. Pinault’s condition was that Ford and De Sole stay on and not only run Gucci, but head a new multiband conglomerate to rival LVMH.\textsuperscript{34} The development was nothing short of stunning. Gucci seemed to go from losing control of the company to becoming part of a powerful group run by De Sole and Ford in a matter of weeks.

Predictably LVMH refused to go down without a fight. They sued to stop the takeover. Meanwhile Arnault, whose control was reduced to a mere 20.7%, simultaneously launched an audacious $8.7 billion ($85/share) bid to buy the company outright. Gucci refused and asked for $88 per share, at which LVMH balked.\textsuperscript{35} After a tiresome and publicized few weeks in court during which neither side hid its disdain for the other, the Amsterdam court upheld Pinault and PPR’s purchase of Gucci’s shares (See chart below).\textsuperscript{36} Although a clear victory for PPR and Gucci, LVMH still owned a fifth of the company and promised to be a nuisance as a minority stakeholder. After another two years of bitter disagreements and an arduous back and forth, the three parties came to a termination agreement on 10 September 2001. It entailed PPR would buying out all of LVMH’s shares over three years. An initial $812 million would acquire 8.6 million shares at $94 per share. PPR would buy the remaining minority shares, including LVMH’s last 12%, in March of 2004 at a set price of $101.50.\textsuperscript{37} Gucci agreed to pay a premium dividend to all shareholders except for PPR. In turn LVMH, which actually made a hefty profit from its shares, agreed to drop all legal charges.
against PPR and Gucci.  

Causal Mechanism: Entrenched Emotions and Constrained Information

The dragged out legal battle between Gucci and LVMH, which became known as the ‘Battle of the Handbags’ in the media, never should have escalated to such a bitter conclusion. Understanding the emotional attachment of each character to his position, however, makes it easier to understand why maximalist attitudes prevailed. Domenico De Sole and Tom Ford’s understandable connection to the company they rescued implicated that they were never going to consider letting it go without a struggle.

Bernard Arnault and his team at LVMH acted in hubris, dictating terms because of their perceived leverage. Their goals and intentions were always ambiguous and a sense of trust was never established. Finally, Francois Pinault and PPR’s interjection that ostensibly saved Gucci and pitted him against Arnault makes more sense considering that the two were the richest men in France and already competitors across multiple sectors. These factors, irrational and facile as they were, created an unbridgeable gap between the parties that made cooperation impossible. The gap was only exacerbated by the complexity of the globalized financial context in which the story played out – with both sides suffering from a lack of complete knowledge regarding the rules by which they were playing.

The Harvard Negotiation Project’s (HNP) work on negotiation theory is helpful for understanding why things deteriorated so rapidly. In “Getting to Yes,” Harvard professors William Ury and Roger Fisher outline the ideological rigidity that often leads to failed negotiations. Their idea of positional bargaining entails that when negotiators lock into a struggle over set positions, they often tend to become so committed to that specific outcome that it becomes a part of their identity, leading to a zealous desire to achieve it no matter the consequences. It becomes more of a contest of ego and will than of compromise.

Exhibit 4  Gucci’s Share Ownership After the Strategic Investment of PPR

<table>
<thead>
<tr>
<th></th>
<th>Without ESOP Shares</th>
<th></th>
<th>With ESOP Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares</td>
<td>Percent</td>
<td>Shares</td>
</tr>
<tr>
<td>LVMH’s</td>
<td>20,144,985</td>
<td>20.7%</td>
<td>20,144,985</td>
</tr>
<tr>
<td>Employee trust*</td>
<td>----</td>
<td>----</td>
<td>20,154,985</td>
</tr>
<tr>
<td>PPR's strategic investment</td>
<td>39,007,133</td>
<td>40.0%</td>
<td>39,007,133</td>
</tr>
<tr>
<td>Free floating shares</td>
<td>38,365,715</td>
<td>39.3%</td>
<td>38,365,715</td>
</tr>
<tr>
<td>Total shares in Gucci</td>
<td>97,517,833</td>
<td>100.0%</td>
<td>117,672,818</td>
</tr>
</tbody>
</table>

* The ESOP shares were typically not included in most discussions of Gucci’s new share ownership (“without ESOP shares”) structure after the investment by PPR.

and efficiency. The authors state, “The more you clarify your position...the more committed you become to it. The more you try to convince the other side of the impossibility of changing your opening position, the more difficult it becomes to do so. Your ego becomes identified with your position.”

Judging by De Sole’s actions from the time he tried to concoct a poison pill until the day he announced the partnership with PPR, his position was firm and entrenched.

For Arnault, beyond the egoism involved in his battle for Gucci and eventually against Pinault, it was his perceived leverage that probably led him to overestimate his strength. Ury, Fisher, and the rest of the team at HNP define leverage as the best alternative to a negotiated agreement (BATNA). In other words, if an actor is to defect from negotiations or if they collapse, what is their outcome? Leverage or “the relative negotiating power of two parties, depends primarily upon how attractive to each is the option of not reaching agreement.” Amid negotiations with De Sole, Arnault knew that his alternative to a standstill agreement was to continue buying shares of Gucci and increase his power without any particular impediment. His confidence based in this reality led him to push Gucci around and renege on meetings and proposals multiple times. He once even asked Gucci in almost taunting fashion what salient reason they had for him to consider their proposal. Until Pinault and PPR came along later, Gucci had no such luxury.

One of the many things Arnault missed, however, was that De Sole and Tom Ford's commitment to their company meant that their calculations were not necessarily logical or rational. This is understandable through the idea of perceived fairness. The HNP team explains research that suggests an actor’s emotional perception of the fairness of a deal will often dictate their willingness to accept it, even if they have no leverage or alternative solution. This was true for Gucci, who chose to defect and risk greater losses instead of entering into any sort of agreement with LVMH, who they viewed as a rival pushing them around.

Beyond the emotional attachments that made negotiation so difficult in this case, Robert Axelrod's work on cooperation and bounded rationality is equally useful in understanding the mistakes made by either side. Axelrod’s development of the Tit-for-Tat theory in the Prisoner’s Dilemma in the 1980s revealed a hugely effective wrinkle: initial cooperation followed by mirroring the other player's moves repeatedly (reciprocity) builds trust over time and reaps better results for both sides. In his seminal “The Evolution of Cooperation,” Axelrod explains:

Don't be envious, don't be the first to defect, reciprocate both cooperation and defection, and don't be too clever... We are used to thinking about competitions in which there is only one winner... But the world is rarely like that. In a vast range of situations, mutual cooperation can be better for both sides than mutual defection. The key to doing well lies not in
overcoming others, but in eliciting their cooperation.\textsuperscript{44}

It is not clear who defected first in the Gucci case, but regardless both sides continuously acted without cooperating, leading to increasing hostility and deteriorating trust. Lack of transparency was a key issue as well. Gucci always believed that Arnault simply wanted enough ownership of the company to control and hinder its growth, as Gucci had emerged as Louis Vuitton’s main competitor.\textsuperscript{45} Even financial analysts were somewhat confused by Arnault’s rabid ambition to buy a company with whom his main jewel competed with in the same market.\textsuperscript{46} For its part, Gucci never seriously heard Arnault out, immediately searching for defensive delay tactics until it could catch a break and find an escape route.

The lack of trust was made even starker by the complexity of the financial laws of the case. Axelrod argues that actors in interaction are only rational up to the limited information and time available to them.\textsuperscript{47} Bounded by the constraint of the information they had, both sides overlooked loopholes exploited by the other. Arnault was able to exploit the lack of a French law in the U.S. that requires a shareholder to make a tender offer on a company once it exceeded 34% control.\textsuperscript{48} This allowed him to sit back and continue a creeping takeover. The more blatant miss came from LVMH’s team, whose lawyers overlooked the fact that Gucci was designated as a foreign company and was subject to Dutch rules – rules that allowed the arguably tide-turning ESOP to take place. The emotional biases and information constraints that led to both sides defecting and negotiations breaking down in this case had huge implications for finance and negotiation theory.

\textbf{Implications}

The most important implication in the failure of Gucci and LVMH to cooperate was that it highlighted the new complexity of a mongrelized corporate financial world. A Wall Street Journal article covering the case at the time reflected, “The brewing battle for Gucci is emblematic of the New Europe that is taking shape with the launch of the common currency and the globalization of industry: two Frenchmen squaring off for control of a Dutch-based Italian company run by a U.S.-educated lawyer and an American designer, and advised by London-based American investment bankers.”\textsuperscript{49}

This case set the precedent for a host of mergers in the European Union and materialized a new globalized reality for finance: receding barriers, international investors, and cross-border rules. In the same year Banque National de Paris (BNP) bid $38 billion for Société Générale and Paribas and Olivetti bid $60 billion for Telecom Italia.\textsuperscript{50} Vodafone AirTouch, Mannesmann, Iberpistas, Acesa, FAG, Fiat, and Montedison all were involved in similar hostile takeover attempts in the same time frame.\textsuperscript{51} Fordham Journal of Corporate and Financial Law reflected on the new reality in a 2003 entry,
“Barriers between domestic economies are being reduced… These changes represent a movement toward a market-oriented model. Specifically, European corporate finance is beginning to rely less on concentrated stockownership; investors are…becoming more diverse.”

As courts across Europe struggled to litigate emerging cases and manage nationalistic tendencies, the European Union sought to put a regulatory framework in place. Amid the maze of confusion, shareholders often took the worst hits. Donald Meltzer, head of European mergers and acquisitions at Credit Suisse First Boston contemplated in 1999, “If Gucci had conducted the situation as a full and fair auction for the stake and the accompanying governance rights, or made the transaction with Pinault conditional on shareholder approval, Gucci shareholders would have ended up with a higher value.” As it stood at the time, Dutch law required neither measure.

In 2003 the European Parliament finally passed the EU Takeover Directive, a framework designed to protect shareholders and provide a semblance of cross-border uniformity in dealing with mergers and acquisitions. Private interests and nationalistic jostling for influence meant that the Directive was diluted and left many issues unresolved, yet it was a monumental first step in better regulating cases like Gucci vs. LVMH.

The second implication of this case beyond the world of finance is in regards to negotiation theory, and the importance of building trust and seeking mutual gain. The failure of Gucci, LVMH, and PPR to find a friendly way to resolve the ordeal had adverse impacts on all three parties. LVMH, of course, lost out on gaining the control it sought. Already debt-laden PPR eventually had to pay a steep price to finance its purchase of the entire company – which became more costly due to the provision in the final termination agreement that mandated it to buy all remaining minority shares at a set price of $101.50. This price was agreed upon a day before the 9/11 attacks on the Twin Towers sent the luxury goods industry into a multi-year free-fall as demand shriveled.

Tom Ford, Domenico De Sole, and Robert Singer succeeded in saving their company from Arnault, but their relationship with Pinault was not exactly a success. Ford and De Sole would eventually leave in 2004, citing differences over creative autonomy with Pinault. Meanwhile, the lack of cooperation and the prevailing mistrust hung over the parties when again, in September 1999, they engaged in another bidding war over Fendi (LVMH won this round).

The implications of this case created huge ripples across the fashion, finance, and law industries. Its importance still echoes today as it is readily studied in business and law schools for its financial, legal, and negotiation nuances.
Conclusion

More than a decade on from the vicious battle between Gucci and Bernard Arnault’s Louis Vuitton Moët Hennessy, this case remains an important case study in the failure of smart men to make measured choices. The work of the Harvard Negotiation Project and Robert Axelrod help elucidate the areas in which the characters involved could have acted differently to build trust and elicit mutual cooperation. The consequences of the case, meanwhile, highlighted the new interconnectedness of global financial and corporate markets. Today, luxury goods conglomerates, which proliferated after the PPR-Gucci merger, cite this case as one of the most important in the history of fashion. Tom Ford today runs his own namesake label, headed by Mr. De Sole. LVMH and PPR (since renamed Kering) remain competitors to this day, continuing to write chapters in the book that began with a spectacular bang in 1999.

Samine Joudat, a first year M.A. candidate at SAIS, was born in Iran and raised in California. He is a Middle East Studies concentrator focusing on emerging markets. A 2013 graduate of UC Berkeley with a degree in political science and international relations, his research interests include the influence of Western post-Enlightenment thought on Iranian politics and renewable energy.

Notes

1. ‘Passive’ depended on whom you asked. Bernard Arnault maintained till the end that his intentions were not aggressive. De Sole and Gucci, however, perceived it as hostile from the start. Nevertheless, the initial engagement was in no way as hostile and antagonistic as the way the case progressed and ultimately settled.
4. Cohen, J. and Borobia, B.
6. Ibid., p. 225.
7. Cohen, J. and Borobia, B.
9. Ibid.
16. Ibid.
19. Ibid.
20. Ibid.
21. Ibid.
23. In a game of cat and mouse, Arnault watched Gucci closely, buying more stock every time they reached out to a potential white knight.
24. Gucci would have most likely entertained a tender offer, it would have given shareholders
a premium for the change in ownership, and it would have signaled Arnault’s real interest in owning the company. De Sole, Ford, and Singer might have entertained actually working with Arnault in that scenario. But Arnault had no interest in an outright bid.

27. Ibid.
28. Ibid.
30. Ibid.
32. Ibid.
34. Ibid.
36. Ibid.
37. Ibid.
38. Ibid.
40. Ibid., Pg. 8.
41. Ibid., Pg. 51.
51. Ibid.
52. Ibid.

Title Page Photo Credit

GUCCI by Simon A - https://www.flickr.com/photos/46214148@N00/4152261021
George Fogarasi has worked in all levels of education, from kindergarten to universities. His writing ranges from an academic parsing of Hello Kitty to interviews with second tier Hollywood celebrities. When not teaching a course on “Food Booze and Culture” at Fleming College in Peterborough, Canada, he is happiest losing himself in distant forests or foreign labyrinths of street food stalls.

Automation and the relentless pushing down of wages create a shrinking market: profits in the long run tend to go down. Marx called this the tendency of The Rate of Profit to Fall (TRPF). It’s why Henry Ford doubled workers’ wages so they could buy his cars, and why a century of falling profit later the World Bank concedes that unionization creates a better functioning economy.

Marx’s prescient examination of the TRPF is at the heart of David J. Blacker’s “The Falling Rate of Learning and the Neoliberal Endgame.” His unflinching analysis grimly insists that nothing can be done to stop the TRPF and the inevitable social and ecological eliminationism that comes in its wake.

Blacker explains how economic shocks caused by the TRPF—the Great Depression, the Seventies oil crises, Thatcher and Reagan’s austerity, the bailout of Wall Street—have lurchèd capitalism forward into its present form in which individuals are expendable and ready to be eliminated.¹

The youth of Ferguson and the banlieues
know there are no high tech / high wage jobs they can be educated into. With luck, Blacker notes, they can “revert to their traditional status as a kind of non-wage and economically precarious peasantry and/or imperial military fodder.” And therein lies business opportunity, the “searching under the couch cushions for loose change” phase of late capitalism” where schools, jails, medicine, the military and infrastructure are privatized to siphon ever scarcer profits upward. “To think,” muses Blacker, “it was once thought that the ‘long march through the institutions’ was being accomplished by the left.”

He has a keen eye for such absurdity: “Of late, the neoliberal form of capitalism, even amidst its self-referential hysteria, has in reality become an inversion of what the right wing dreams it is.” Faced with the TRPF, “arch-individualist titans have somehow banded together with a solidarity that would be the envy of the most fervent syndicalist in order to rig the financial game for themselves.” Negative interest rates, quantitative easing and Syriza’s victory are at this moment responses to the TRPF. Blacker dismisses the concept of “casino capitalism” because one can lose in a casino. He suggests a better analogy in which the elite go to a casino, lose catastrophically, and are then given the house’s money in order to keep playing. His vigorous macro examination of the TRPF is illuminating, but it lacks a granular analysis of the neoliberal attack on education that the book’s title promises. A “surfeit of workers” is conflated with a “surfeit of students... part of the surfeit of humanity logically slated for elimination.” Education is lumped together with other sectors, but the terrain offers so much to examine: Pearson publishing applying to have degree granting status; the increased reliance on adjunct faculty; the budget-driven canard of MOOCs and e-learning. Blacker quite possibly ignores such details because he insists there is nothing that can be done within schools to stop the inevitable changes that come in the wake of the TRPF.

He does, however, allow that there is political work to be done outside of education. His clever analogy is that even the best prison guards with the best reforms can only change what’s inside a prison. It’s what is outside of prisons (and schools) that ultimately frames and defines what goes on in those institutions, and that is where change must occur, according to Blacker, for it to be meaningful.

Perhaps, as an educator, I delude myself into believing education can foster a more just world. Blacker, though, is convincing in his argument that what we teach and learn can do nothing to influence the inevitable trajectories of the TRPF. Hope, for Blacker, shrinks down into a wholly atomized, personal affair. He recedes into Stoic philosophy—drink well from the cup of life while you can—because our economic trajectory is set and we cannot come together to resist it. Blacker notes that there is something liberating about accepting fate, yet despite himself, he underscores human agency by noting that people have an “adaptive...
capacity to learn” and can discover the “lies contained in the stories of which we have become collectively enamored.”

Do we control the TRPF, or does it control us?

The book is at its apocalyptic best when it looks at the big picture. After the searing analysis of economic and ecological collapse, the chapter on student loans in the United States feels like an appendix. Ditto the chapter about students and free speech. Even though Blacker’s academic chops are at their most powerful here—and it is amusing to learn about the “Bong Hits 4 Jesus” Supreme Court case—it’s a parochial tangent for non-American readers on the heels of the ambitious first chapters.

It would be heartening to believe that Blacker’s thesis merely projects an Anglo-American template onto the world. In South America and Nepal, for example, Marx and Marxism inform significant reforms that might change the terrain of economic possibility. But this is still informed by capitalist macro-economic forces, by economic growth, capital and wage labour: to flip Stein’s glib take on Oakland, there’s a global economic force there, and built into its resilient heart is a poison pill, the pesky TRPF. Oddly, after making a relentless and clear case for global collapse, Blacker pulls back to note that cyclical economic crises are central to the capitalist system and allow it to mutate into “successor systems that may be unrecognizable from the point of view of their progenitors.” The system dusts itself off and carries on, bruising many, enriching a few. When is the endgame; is there one? Despite the title of his book, the endgame is merely hinted at.

The poetry of Marx’s “All that is solid melts into air, all that is holy is profaned” is grounded by the blow that follows: “and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind.” Blacker is stone sober in a world punch-drunk with derivatives, magically financialized credit and ever more people in the street wanting to tear it all down. Blacker doggedly follows the TRPF to trace our “real [now hyper-real] conditions of life” to demystify our economic relations with each other. In short, where Piketty points to why the system is skewed and unfair, Blacker notes that it can only implode.

Notes

1. Blacker’s prose pulls no punches as he delineates the “shit rolls downhill” nature of austerity that requires teachers and schoolchildren to pay for the solvency of sinecured bankers and their political enablers,” the too big to fail “state-corporate hybrids that exist as government-secured monopolies even while they spout neoliberal rhetoric about ‘freedom,’ ‘competition’ and the like.” His fiery prose is grounded in meticulous scholarship, giving Blacker discursive leeway to pull off what might otherwise be dismissed as apocalyptic pamphleteering.

Title Page Photo Credit
