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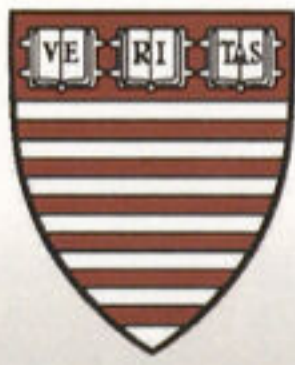
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Jailed For Life

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Stimulus, Sit-Ins, & Systemic Reform



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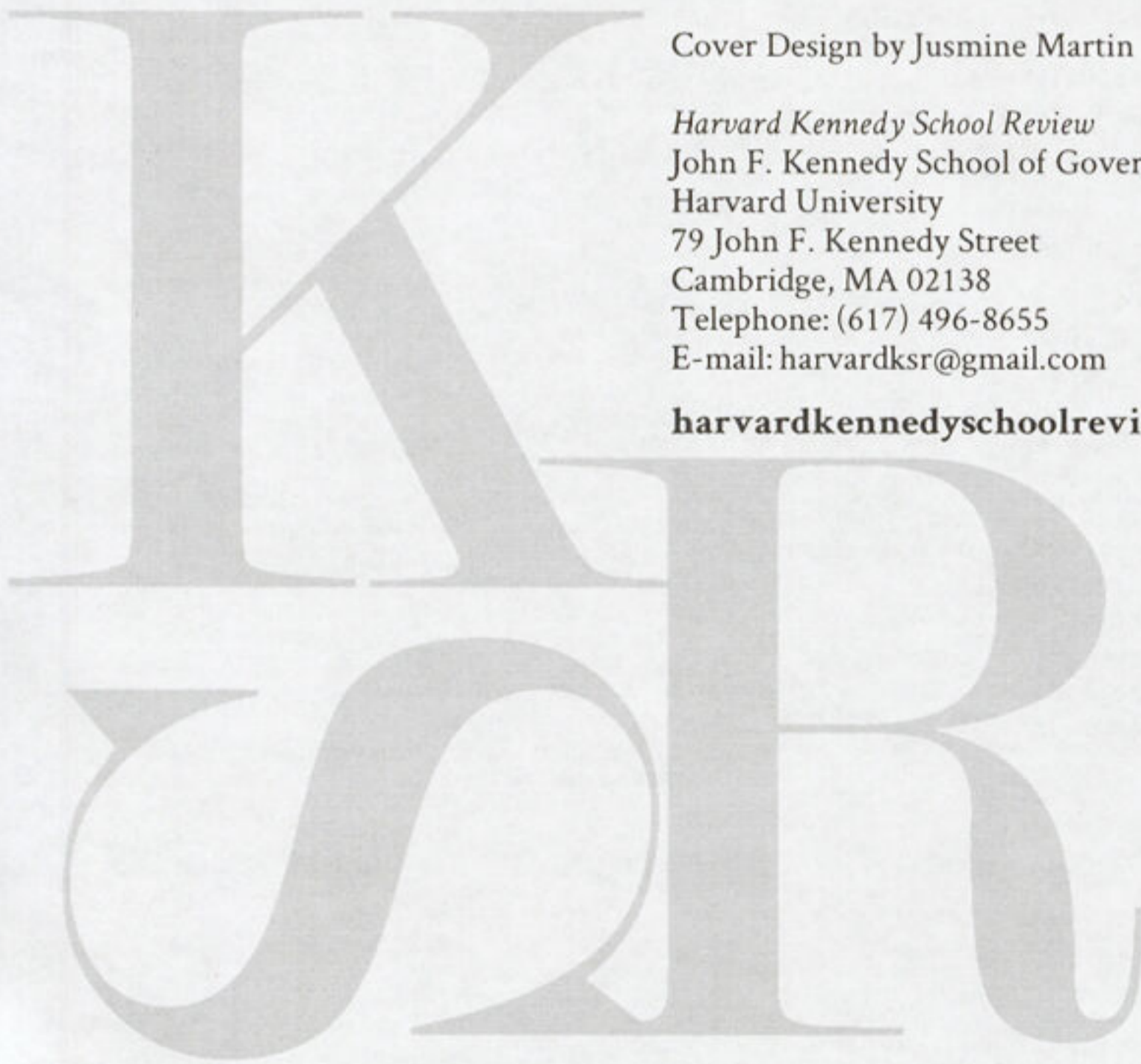
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Forword
by the Editors

At a time when protestors are filling the streets of NYC and Cairo, when entire financial systems are on the verge of collapse, and when our economy seems on the verge of a double-dip recession, the *KSR* provides innovative solutions to these challenges. Join the conversation.

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Foreword

BY RON SUSKIND

Change is life, change is history, and it blows from every conceivable direction. Competing eras are often distinguishable by the primary source of change: is it driven more from the top down or bottom up?

The twentieth century might easily be called a top-down period, with competing ideologies defining systems of government that learned to enforce their will to power, control, and expansion using the tools of technological advance. Along with rising living standards for roughly half the world, it was a century of storied destruction and oppression. But, from the fall of the Berlin Wall to the Arab spring, from a host of frustrating U.S. military engagements to 2008's collapse of the global financial system, top-down, command-and-control has had a rough couple of decades.

Technological advances have finally filtered down to the base of the human pyramid. And, boy, people are getting busy. Margaret Mead, who famously quipped about never doubting how "a small group of thoughtful committed citizens can change the world," could scarcely have imagined that such a small group of individuals might now get their hands on destructive weapons once reserved for nations, text across increasingly meaningless borders, draw a small army of protesters to a public square, or stage their own production of a global-access reality show.

Seeing, always, is a first step to being, and in this era we can all see each other, from every corner of the globe, with often unsettling, visceral clarity.

This creates impatience: a viral restlessness about everything from the legitimacy of those in power and the way power—and its rewards—are distributed to questions that are deeply personal, moving across heartfelt, digital migrations of the like-minded. When do I get suffrage? Must I be the object of discrimination? Why are my children hungry? Must I live in fear?

The talent assembled at august institutions of higher learning have tended, decade by decade, to fuss, fret, noddle, and network to grab slots in the top-down world or carve a ready pathway upward. That's where the status, and its rewards, resides. From there, they'll harness, ride, and guide change—aggregate, assess, direct, even weaponize it—and still make it home in time for dinner. When the existing order is intact, that works just fine.

But not now. So, these days, with change bubbling up from the base at a dizzying rate, this issue of the Harvard Kennedy School Review turns its analytical gaze elsewhere, casting it broadly across the roiling global landscape.

Here's a sampling:

Abigail Bellows in "Mind the Gap: Connecting the Movement to the Moderates in India and the United States" teases out comparisons between two very similar, almost simultaneous, uprisings: a massive anticorruption movement in India led by Anna Hazare in the spring and summer of 2011 and the U.S. Occupy Wall Street movement in the fall of 2011. Both were driven by widespread outrage but, in

As many of these articles attest, we may be at a hinge of history, with old orders steadily dissolving and their replacements not yet fully taking shape.



Bellows's estimation, produced modest results due to common features of strategic shortsightedness.

In "The Revolution Will Not Be Available on iTunes," Sean Kates highlights how social networks carry rivers of information but lack a key ingredient of successful movements: protest music. The emotional resonance carried in songs of the 1960s and '70s—anthems that drove shared purpose and protest—is conspicuously absent today. It's a deficit, Kates asserts, that might be filled to great effect in this connected era. Calling Lady Gaga.

In terms of the gap between storied principles and shocking practice, Casey Schutte in "Behind Bars, Forever" identifies a loophole in U.S. law that allows for minors, even those as young as thirteen-years-old, to be sentenced to life in prison. While this feature of U.S. law prompts shock from other developed nations, two Supreme Court cases set for early 2012 may well alter this statutory structure.

Meanwhile, Nishant Lalwani's "Beginning the End of Slums: How Micro-Mortgages Serve the Poor" shows that size doesn't matter when it comes to the need for capital and that availability of capital is fast taking shape as a global right and mandate. He takes readers through towns in India where even the tiniest of loans are providing shelter for recipients, creating a stable foundation for development and, not incidentally, producing strong repayment histories.

Throughout the twenty-six articles and interviews in this annual review there is a focus on the great need for and often growing efforts at redress. The question is, how are we doing? In the realm of how we mark forward motion, "Counting What Counts," by Ben Beachy and Justin Zorn, wades into the controversies over the use of gross domestic product (GDP) as a measurement of economic progress. This debate, which has simmered since Simon Kuznets's creation of this modern metric in the 1930s and has spilled into public consciousness as income inequality has continued to grow, has, of late, been widely recognized. The authors cite yardsticks—like Bhutan's Gross National Happiness index, the United Nation's Human Development Index, and the Genuine Progress Indicator, which imputes prices from indices like the worth of household labor or the environmental costs of coal extraction—that aim to craft an alternative to GDP. Yardsticks matter. There is clearly a need for one that reflects life as it is known to those who live it.

As many of these articles attest, we may be at a hinge of history, with old orders steadily dissolving and their replacements not yet fully taking shape. But almost certainly, some suggestions of what's ahead—and what, some years hence, will harden into defining structures for human endeavor—are tucked, maybe inconspicuously, in these pages. This is a signature of change, at least, for now, from the bottom, bubbling up.

Enjoy. ■

Ron Suskind is the A.M. Rosenthal Writer-in-Residence at the John F. Kennedy School of Government at Harvard University. One of the country's most celebrated nonfiction writers, Suskind was the Wall Street Journal's senior national affairs writer from 1993 to 2000 and won the 1995 Pulitzer Prize for Feature Writing. He is the author of A Hope in the Unseen, a critically acclaimed 1998 best seller that followed inner-city honor students in their struggles to learn and survive. He is equally known for his series of prominent, best selling books on the inner workings of power in American politics, including his most recent book Confidence Men, which is about the internal struggles of the Obama White House in responding to the nation's economic collapse.

It's Not Just the Arab Spring, It's the Economy (Stupid)

BY JOSH MARTIN

It's the Economy Election and foreign policy has suffered predictable silence, receiving only intermittent murmurs from the mainstream media. Bloody battles still sweep the streets of the Middle East from Tripoli, Libya, to Tripoli, Lebanon, yet—besides the tired drumbeating about bombing Iran—the Republican U.S. presidential candidates act as if they have no dog in the fight. Well they do, and its tail could soon wag the U.S. economy.

What does the so-called Arab Spring have to do with American jobs? A lot more than you may think. And for once it's not just about oil prices. American companies today are heavily invested in the economic success of countries like Tunisia, Egypt, and—of course—the Gulf states. Burgeoning consumer markets and the promise of democracy-led economic openness make tomorrow's Middle East more than a blip on the American economic radar. As politicians flog promises of job growth in stump speeches from Arizona to Virginia, they would do well not to dismiss events outside our borders as mere "foreign" policy and instead to integrate foreign policy discussions into America's economic development strategy.

Russia recently learned the economic cost of ignoring what happens in the Middle East. When the UN Security Council was debating the intervention in Libya, Russian Prime Minister Dmitry Medvedev was spending time on issues that seemed to hold greater economic priority, like the country's gas transit price crisis with Ukraine. But in choosing to stay out of the Libyan operation, Russia lost the chance to win local favor. As a result, Libyan rebels wasted no time in ejecting Russian companies as they overthrew the Gaddafi regime. Now, as if to make up for its losses in Libya, Russia is taking a firmer stand.

According to Syrian insiders, Medvedev is holding anti-Assad UN Security Council resolutions hostage to Russia's veto threat until someone—be it the Syrian opposition or the international community—promises lucrative contracts for Russian companies in the new Syria.

Russia's policy is hurting Syrians with every passing day, and in any case, the United States is committed to a more values-based foreign policy. Nevertheless, our policy makers—and presidential candidates—should pay attention to how the economics of our engagement in the Middle East are changing with local politics.

In Tunisia, American companies are looking past a foggy business environment to a bright investment future. In December 2011, twelve months of postrevolutionary hubbub finally led to the election of a shaky Islamist coalition government in Tunisia; but that didn't stop American giants Fidelity Investments and IBM from opening up new regional headquarters in the capital city, just feet from ransacked palaces belonging to deposed Tunisian President Zine el-Abidine Ben Ali.

Executives of both companies cited Tunisia's untapped market of human skills as the chief motivation for the move, as many Tunisians speak French, English, and Arabic fluently, and well-groomed university graduates go for cents on the American dollar in salary terms.

Egypt, the next Arab Spring country, presents an example of a different kind. With 5 percent annual growth at the time of the revolution, 81 million citizens, and a well-earned spot on Goldman Sachs's "Next 11" roster of emerging investment destinations, there are signs that Egypt's economic clout is beginning to allow its rulers to score political points in ways no past Egyptian government could have

What does the so-called Arab Spring have to do with American jobs? A lot more than you may think. And for once it's not just about oil prices.

imagined. Some of these points have come at the expense of the United States, with nineteen American pro-democracy campaigners arrested in early 2012. That Egypt's interim military rulers, who get billions of our tax dollars in annual aid, believe they can afford to ruffle America's feathers speaks volumes about the economic self-confidence of this rising power.

The United States doesn't have to feel threatened. Instead, it should celebrate countries like Egypt coming online to the world economy and the opportunities that come along with them. One out of every three Egyptian youths had a credit card in 2011, and a million Egyptians get mobile phone subscriptions each month. This should be music to the ears of American consumer retailers, apps programmers, and job-promising presidential candidates alike.

Here are two planks the presidential candidates could nail into their campaign platforms today to win economic votes.

First, they could promise to reward postrevolutionary economies in the Middle East with free trade agreements (FTAs) similar to those we have with Morocco, Jordan, and Bahrain. By providing easier movement for goods, services, and human resources between the United States and the region, FTAs open up opportunities for productive investment that ultimately creates jobs in both countries.

Second, candidates could promise to pursue more robust ties with factions that support robust foreign investment. More often than not—and contrary to popular belief—these pro-liberalization groups are well-represented within Islamist parties that are likely to emerge with power from the postrevolutionary turmoil. Rather than shy away from Egypt's Muslim Brotherhood or Tunisia's Ennahda, we should work with them if we want to secure a long-term future for U.S. economic engagement in these transitional economies.

Following through on these efforts means recognizing that opportunity comes with responsibility. American companies operating in the Middle East should no longer expect preferential treatment by friendly tyrants. Fair competition and ethical business practices pay for themselves with willing consumers who enjoy the value our firms provide. The Middle East is changing and, with change, comes new realities for the business environment.

Foreign policy in the Middle East is increasingly inseparable from economic policy. If we are to succeed in either area, our politicians would do well to notice. ■



Josh Martin is a 2012 Master in Public Policy candidate and a devotee of Balti, the popular Tunisian rapper.

Lessons from the “Unorganizable” *Domestic Workers Organizing*

BY LAINE MIDDAGH

Wilma spent years working as a housekeeper and child care provider for a family in Manhattan. Her job started at 5:45 a.m., seven days a week. Wilma, who was born in the Philippines, often worked more than one-hundred hours a week, but she never received overtime pay.

The New York legislature recently passed a Domestic Workers’ Bill of Rights, which, for the first time, grants some basic rights and protections to workers like Wilma. The legislation is long overdue and will meaningfully improve the working conditions for domestic workers in New York state. But the new law still does not adequately protect some of the country’s most vulnerable workers and, as the first law of its kind in the United States, indicates the current dearth of domestic worker protections and the urgent need to enact and enforce similar legislation in other states.

Domestic workers have never really been considered “workers” by the U.S. government. Generations of women and men have spent their working lives in the homes of others, cleaning their houses, cooking their meals, and caring for their children and their elderly. The domestic workforce is remarkably stable, and it is not uncommon to meet nannies or elder caregivers with more than ten years of experience in the field.

Still, the federal government sees their work as casual and, from a legal standpoint, no different than a teenager mowing his or her neighbor’s lawn for some extra cash. Domestic workers are excluded from almost every major labor law, including many that most working Americans take for granted. Unless a domestic worker lives in a state like New York with additional protections, he or she has no right to overtime pay, has no protection from

basic antidiscrimination laws, and possesses no right to form a union. New York city homes are workplaces for thousands of full-time, professional caregivers and housekeepers. Nearly two-thirds of these domestic workers are the primary breadwinners in their families, but to Uncle Sam and most states, they aren’t really “workers” at all.

These explicit exemptions from fundamental labor protections are the product of New Deal era laws that excluded agriculture and domestic workers, who were primarily African American and Latino, in order to appease segregationist Southern senators whose votes were viewed as necessary to get labor rights legislation passed. They are also reflective of the pervasive and sexist viewpoint that “women’s work,” particularly child and elderly care work, doesn’t really count as “work.” The legacy of this history is that countless domestic workers continue to be stranded with few resources as they navigate an industry that takes the isolation of its employees as given.

It’s no surprise, then, that many labor unions have steered clear of trying to organize such an amorphous and dispersed group of workers. Before a union launches a single organizing campaign, it would have to change important, established labor laws. And then who would a worker like Wilma bargain with? Would she negotiate with her employer on her own, in her employer’s home, where she does not have the benefit of coworker solidarity? Most employers of domestic workers don’t even think of themselves as “employers,” despite signing their names on a paycheck each week.

But even in this difficult climate, the domestic workers movement is growing from the grass roots. Domestic Workers United (DWU), a New York-based orga-

Domestic workers have never really been considered “workers” by the U.S. government.

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nization of Caribbean, Latina, and African nannies, housekeepers, and caregivers, was the driving force behind the 2010 passage of the state’s Domestic Workers’ Bill of Rights. This legislation is the first of its kind in the United States, and a similar bill is currently being considered by the California legislature. Domestic workers in New York are now entitled to overtime pay, protection from discrimination, and three personal days of paid leave after one year of employment. But they still do not have the right to form a union.

Technically, it wouldn’t have been difficult to cut the domestic worker exemption in the law guaranteeing New York’s workers the right to bargain collectively. But the discriminatory exemption remained, even as domestic workers’ rights were expanded in other domains. I imagine that New York legislators wrestled with some of the same questions the labor unions did: what would a union of privately paid domestic workers look like anyway?

DWU hasn’t waited for the legislators or existing unions to answer that question. When DWU members aren’t getting landmark legislation passed, they’re busy organizing in parks and apartment buildings to make sure the bill is enforced and to lay the groundwork for bigger battles ahead. They’re training ambassadors to break down the isolation that many domestic workers experience from day to day. They’re holding workshops to develop their negotiation skills and sharing resources about health insurance and immigration.

Someday domestic workers may win the right to sit down at a bargaining table and negotiate the terms of their labor with their employers, but in the meantime, they’ll be building a community of cowork-

ers, passing laws to protect themselves, and working together to enforce them in their workplaces.

One year before members of the Occupy movement set up tents in Manhattan’s Zuccotti Park, long-time labor strategist Steven Lerner argued that though “we can’t predict when an organizing surge will take place, it will only happen if we launch large-scale organizing campaigns built around a moral and visionary message that puts union growth within the mission of a broader movement for social change” (Lerner 2010).

New York domestic workers have accepted Lerner’s challenge, recognizing that justice for workers like Wilma, who work just as hard and long as any other worker, requires much more than a standard union organizing campaign. Justice requires immigration reform, access to affordable health care, and a fundamental shift in how we value different kinds of work. Domestic workers are finding success by organizing around social justice imperatives and imagining new ways of building power for workers. ■

Reference: Lerner, Stephen. 2010. An injury to all: Going beyond collective bargaining as we have known it. *New Labor Forum* 19(2): 44-52.



Laine Middaugh is a 2012 Master in Public Policy candidate at the John F. Kennedy School of Government at Harvard University, where she has focused on negotiation analysis. Before coming to the Harvard Kennedy School, she worked as a labor organizer in the Pacific Northwest.

SPECIAL MEMO FEATURE: RETHINKING THE ECONOMY

Counting What Counts GDP REDEFINED

BY BEN BEACHY AND JUSTIN ZORN

What did the BP oil spill in 2010 mean for the U.S. economy? Progress.

At least that's the conclusion of the economy's de facto benchmark—gross domestic product (GDP). As the massive oil slick seeped into the Gulf Shore, J.P. Morgan representatives noted that economic activity generated by cleanup efforts would likely outweigh losses to tourism or fishing (Di Leo 2010). And what of the hundreds of miles of property damage and ecosystem deterioration? Not counted. The bankers correctly concluded that our standard barometer of economic welfare would likely register the largest oil spill in history as a net gain.

RESTORING GDP'S PURPOSE

Critics of GDP, who range ideologically from Robert F. Kennedy to Reagan adviser William Bennett, have been exposing such perversities since national income accounts were first federally instituted in 1934. In fact, the first such critic may have been the creator of GDP himself. Simon Kuznets, the young economist tasked by Congress with measuring the output of a Depression-era economy, warned after generating the GDP framework that "the welfare of a nation can scarcely be inferred from a measurement of national income" (U.S. Senate 1934, 7).

The succeeding eight decades have proven Kuznets right. GDP has achieved its narrow original purpose of measuring aggregate economic activity while remaining a woefully inadequate gauge of national welfare. Agnostic to inequality, GDP has portrayed per capita income as rising over the last decade despite falling median earnings (DeNavas-Walt et al. 2011,

8). By ignoring future growth potential, GDP has improved with the depreciation of machinery and the extraction of finite coal deposits while overlooking the extent to which we educate our youth or cultivate entrepreneurship. By omitting nonmarket values, GDP growth has tended to accelerate with crime rates, smog levels, and commuting time while slowing with vacation days and family-cooked dinners.

Such mismeasurement is profoundly problematic insofar as GDP serves as the headline metric for policy-making success. Examples are common. In arguing for passage of the controversial U.S.-Colombia free trade agreement last year, the Obama administration sidestepped the thorny issues of distributional impact and environmental ramifications by reducing the cost-benefit analysis to a single rubric: a projected \$2.5 billion addition to GDP (White House 2011). Continuing to conflate GDP with national progress means subordinating interests of social cohesion and sustainability to the single-minded pursuit of ever-increasing raw output.

PROGRESS TOWARD MEASURING PROGRESS

Growing concerns about GDP's adequacy as a comprehensive benchmarking tool have spurred economists, think tanks, and multilateral institutions—aided by advances in data collection and statistical analysis—to generate a few dozen supplemental indicators. From the 1973 release of the Sustainable Measure of Economic Welfare to last year's proposed Quality of Development Index, the list of alternatives continues to grow. In 2008, French President Nicolas Sarkozy commissioned a team of top economists, led by Nobel laureates Joseph Stiglitz and Amartya Sen, to study the inadequacies of GDP and assess the merits of the proliferating alternatives. The commission concluded, "the time is ripe for our measurement system to shift emphasis from measuring economic pro-

duction to measuring people's well-being" (Stiglitz et al. 2009, 12).

Numerous governments have already started making the shift. Following a European Union–sponsored conference in 2007 entitled "Beyond GDP," the federal statistical agencies of Germany, France, and the United Kingdom each began constructing broader measures of sustainability and welfare. Last year, Bhutan unveiled a second generation of the Gross National Happiness measure that drives its distributional and regulatory policies. Within the United States, Maryland recently became the first state to shift to twenty-first century benchmarks by adopting the Genuine Progress Indicator.

Is there one particular indicator type that merits a position alongside GDP for U.S. federal policy making? And how could political and institutional obstacles be overcome to win federal adoption of such new measures? To answer both questions, we use three overarching objectives that guide our recommendations: accuracy, feasibility, and impact. We seek to propose a set of new indicators and a means of implementation that—considering the technical and political constraints—can offer a comprehensive and rigorous measurement of national progress so as to better inform policy makers and broaden GDP-driven public discourse.

FINDING A NEW FRAMEWORK

In assessing the merits of more than two dozen competing alternative indicators, we presuppose the importance of aggregating multiple variables into a singular benchmark, rather than offering a dashboard of many separate variables. Simplicity is a key prerequisite for any effective counterweight to GDP. If needed, aggregate

indicators can always be disaggregated into component variables to reveal causal linkages for policy intervention.

Singular indicators tend to fall into one of three categories: subjective metrics, composite indexes, and adjusted-GDP measures. Subjective indicators, such as Gross National Happiness, employ the logic that the best judges of a people's welfare are the people themselves. Relying on surveys that ask respondents to rate their quality of life, these measures intend to capture a nation's average well-being. But the aim of such subjective measures differs from our own. While we seek to assess the policy-relevant components of welfare, self-reported welfare can vary with weather, sports outcomes, and other factors outside the realm of policy.

By contrast, composite indexes like the U.N.'s Human Development Index grade countries on policy-relevant dimensions of welfare based on objective performance (e.g., literacy rate for education, carbon emissions for environment) and then take the average grade as overall welfare. But this approach raises other problems, including the question of how to weigh distinct variables in creating a composite number. To avoid making controversial and arbitrary decisions about the relative importance of health versus income versus education, most indexes simply assign equal weights across all variables. However, the choice of equal weights, while more palatable, is no less arbitrary.

Instead of assigning weights, adjusted-GDP measures, such as the Genuine Progress Indicator, impute prices for a wide range of welfare-relevant values that are excluded from GDP, from the annual worth of household labor to the cost of a year's coal extraction. Adding the benefits

and subtracting the costs from GDP yields a more holistic, dollar-denominated expression of sustainable economic progress. Of course, imputing values for nonmarket goods and services raises significant accuracy challenges. Debates over appropriate pricing methodologies, many of which remain unresolved, have fed reams of scholarly journals.

While uncertainty complicates the aggregation of variables in both adjusted and composite indicators, adjusted-GDP measures still hold greater potential for contending with GDP because the unit of measurement remains in dollars. Consider that opponents of drilling for oil in the Arctic National Wildlife Refuge want to contest an assertion that doing so will boost GDP by \$350 million. Which is the better counterargument: "the ensuing loss of natural capital will actually cost a net \$147 million" or "the project will lower our welfare index from a 0.7 to a 0.63"? Given the narrative-swaying potency of the former, we recommend adjusted-GDP as the framework best equipped to parallel GDP.

GDP'S MODERN COMPANIONS

What variables should be included within this framework? That depends on the particular variety of welfare we seek to measure. Do we wish to simply gauge current welfare or to incorporate changes in assets that affect future welfare (e.g., depreciated machinery, extracted coal, increased educational attainment)? Do we wish to measure purely economic well-being or to incorporate social and environmental components of policy-relevant welfare (e.g., public parks, leisure time). The answer depends on the particular policy questions at hand. If the city of Baltimore, for example, wanted to assess this

GDP has achieved its narrow original purpose of measuring aggregate economic activity while remaining a woefully inadequate gauge of national welfare.

year's quality-of-life impact of a sprawl-reducing urban renewal project, the best indicator would include current social and environmental factors (e.g., commuting time, smog) but probably not changes in assets (e.g., debt or depreciation incurred for the project). By contrast, if the city wanted to assess the contribution of the project to sustainable economic growth, the appropriate gauge would subtract asset depletion (e.g., additional debt) and add asset creation (e.g., increased social capital) but not account for noneconomic variables like commuting time.

Given such distinct indicator needs, we recommend the creation of four new national indicators—G2, G3, G4, and G5—to

assess four definitions of progress: current economic welfare (G2), sustainable economic welfare (G3), current general welfare (G4), and sustainable general welfare (G5). Figure 1 details the particular objectives and adjustments of each new indicator. This series of welfare benchmarks would stand alongside GDP, which would become G1, in the same way that the federal government uses U1 through U6 as complementary measures of unemployment.

OVERCOMING THE OBSTACLES

The politics of such statistical reform are treacherous. Previous attempts to enshrine alternative indicators have had to

contend with three formidable obstacles: methodological uncertainty, interest group opposition, and institutional inertia. Methodological concerns, as outlined above, partially explain why the Key National Indicator System (KNIS), a federally funded initiative featuring a 200-indicator dashboard, chose not to report an aggregated headline metric. The second obstacle can occur when commercial or constituent groups fear negative impacts from a change in indicators. In a representative case, when the U.S. Bureau of Economic Analysis decided to compute environmental satellite accounts in 1992, the coal industry's hostile response prompted two West Virginia representatives to kill the

Figure 1 – Four twenty-first century indicators.

	Economic Welfare	General Welfare
Current	<p>G2: Current Prosperity</p> <p><i>Measuring this year's purchasing power satisfaction</i></p> <ul style="list-style-type: none"> • Start with personal consumption expenditures (+) • Discount for income inequality (-) • Discount for debt-financed consumption above a critical threshold (-) • Add the value of unpaid goods/services from household labor and volunteer labor (+) • Add the value of unpaid goods/services from the non-profit sector and the public sector (+) • Add the value of informal sector goods/services (+) • Subtract the loss of stolen goods (-) • Subtract property damage from accidents (-) • Subtract defensive expenditures (e.g. locks) (-) 	<p>G4: Current Well-being</p> <p><i>Measuring this year's satisfaction from purchasing power, societal health, and the environment</i></p> <ul style="list-style-type: none"> • Start with G2 • Add the value of willful leisure time (+) • Add the utility value of community cohesion (+) • Add the spillover gains of preventative health (+) • Subtract the utility loss of environmental degradation (e.g. smog) (-) • Subtract the utility loss of commuting time (-) • Subtract the psychological/physical injury of crime or accidents (-) • Subtract/add the existence value change of biome loss/gain (+/-)
Sustainable	<p>G3: Sustainable Prosperity</p> <p><i>Measuring this year's purchasing power satisfaction, while accounting for future potential satisfaction</i></p> <ul style="list-style-type: none"> • Start with G2 • Add/subtract changes in stocks of physical capital, human capital (health/education), financial capital, intellectual capital (R&D), and social capital (+/-) • Add/subtract changes in stocks of natural capital: land/air/water rendered unusable, biome loss/gain, and net changes in stocks of subsoil minerals (+/-) • Add/subtract changes in entrepreneurship (+/-) • Subtract future damage (net present value) from current-year carbon emissions (-) • Subtract potential business losses from crime (-) • Subtract productive capacity loss from accidents (-) 	<p>G5: Sustainable Well-being</p> <p><i>Measuring this year's satisfaction from purchasing power, societal health, and the environment, while accounting for future potential satisfaction</i></p> <ul style="list-style-type: none"> • Start with G2 + G3 + G4 • Add/subtract the future effect (net present value) of current changes in biome existence value (+/-) • Add/subtract the future utility effect (NPV) of current changes in community cohesion (+/-) • Add/subtract the future spillover effect (NPV) of current changes in preventative health (+/-) • Add/subtract the future psychological/physical damage (NPV) of current changes in crime or accidents (+/-)

initiative in Congress. The third obstacle is the pervasive tendency of bureaucratic organizations to resist change. Despite bipartisan consensus on the need to update the antiquated federal poverty measure with the more comprehensive Supplemental Poverty Measure, it took the Census Bureau more than fifteen years to release the new indicator.

In spite of such obstacles, there are viable pathways toward adoption of new comprehensive indicators. To circumvent interest group opposition, the first step is to build a winning coalition in Congress. Social conservatives (seeking to formally account for work in the home), market-oriented moderates (seeking to better capture the benefits of entrepreneurship), economic progressives (seeking to adjust income for inequality), and environmentalists (seeking to internalize the cost of carbon emissions) could form the backbone of a surprising alliance for the development of new, twenty-first century indicators.

To overcome the genuine methodological challenges, the work of formulating new indicators could be delegated away from Congress to a bipartisan commission of experts, along the lines of the KNIS Commission, which was appointed by leaders of both parties in 2010. The commission could decide which variables enjoy sufficient methodological certainty to be initially included while advancing research on more ambiguous variables for their eventual incorporation.

Acting on such a commission's recommendations, Congress could distribute the work of computing, aggregating, and reporting the new indicators to multiple qualified agencies and provide a clear mandate and necessary funding so as to minimize risk of bureaucratic inertia. The nation's more than twenty designated statistical agencies could be tasked with collecting and computing data, while the Bureau of Economic Analysis, which currently produces the national income and product accounts, could spearhead the aggregation of the new indicators. The President's Council of Economic Advisers

could then play a lead role in reporting the indicators, particularly through its annual "Economic Report of the President."

WE GET WHAT WE MEASURE

Once instituted, this set of GDP supplements would have profound impacts on both the public narrative and the policy-making process. Imagine the symbolic power of headlines like "GDP Grows, Welfare Falls" and blog-disseminated graphs revealing a growing gap between GDP (G1) and sustainable economic welfare (G3). Such press could catalyze a shift to a broadened definition of progress. In time, policy makers themselves could use such tools to more adequately weigh critical policy decisions and to set more comprehensive policy goals. The Government Performance and Results Act (GPRA) Modernization Act of 2010 (GPRAMA) already requires that the Office of Management and Budget establish "long-term, outcome-oriented goals for . . . crosscutting policy areas" every four years (Dodaro 2011, 3). New G2 through G5 indicators could inform such holistic benchmarking.

The conventional wisdom that "we get what we measure" is as true for policy making now as it was in the era of Kuznets. Most people today would agree with his eighty-year-old warning that GDP does not capture all that policy making should seek to "get." The time has come to move beyond one-dimensional growth and to pursue growth that is shared, sustained, and translated into a higher quality of life. The time has come for indicators of real progress. ■

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For Struggling Boards, the Answer May Be Closer than You Think

BY MELISSA SANDGREN



Photo by Eric Chan



There is a scene in *The Iron Lady* film where the actress who plays Margaret Thatcher is walking defiantly down a marble hall; the camera zooms in on her solitary pair of high heels amidst a sea of squeaky parliamentary loafers. Thatcher pushes open the door to the lady's restroom only to find a lonely ironing board waiting to press the suit of one of the countless MPs whose loafers we have just seen on the screen. The leitmotif of the scene could not be clearer: this is a world where even the women's bathroom is designed to support the men.

To those of us who live in Western democracies, these images—and the pronounced gender disparities they represent—may seem antiquated. Yet in the United States today, women constitute only 3.6 percent of Fortune 500 CEOs and hold only 16.1 percent of Fortune 500 board seats, despite the fact that they make up 51 percent of the population as a whole (Soares et al. 2011a). Contemporary boardrooms, both in America and abroad, are not nearly as far removed from Thatcher's era as we would like to believe.

Throughout the history of the struggle for gender equality, moral- and fairness-based arguments have been used to advocate for women's rights. Today, however, there is a new dimension to the gender discussion: corporate profits and performance. For more than ten years, Catalyst, a nonprofit focused on women and business, and McKinsey & Company, a global consulting firm, have each tracked the effects of diversity on corporate performance.

Financial Performance at Companies With Three or More WBD vs. Those With Zero WBD

Companies with sustained high representation of WBD (three or more WBD in at least four of five years) significantly outperform those with sustained low representation (zero WBD in at least four of five years).

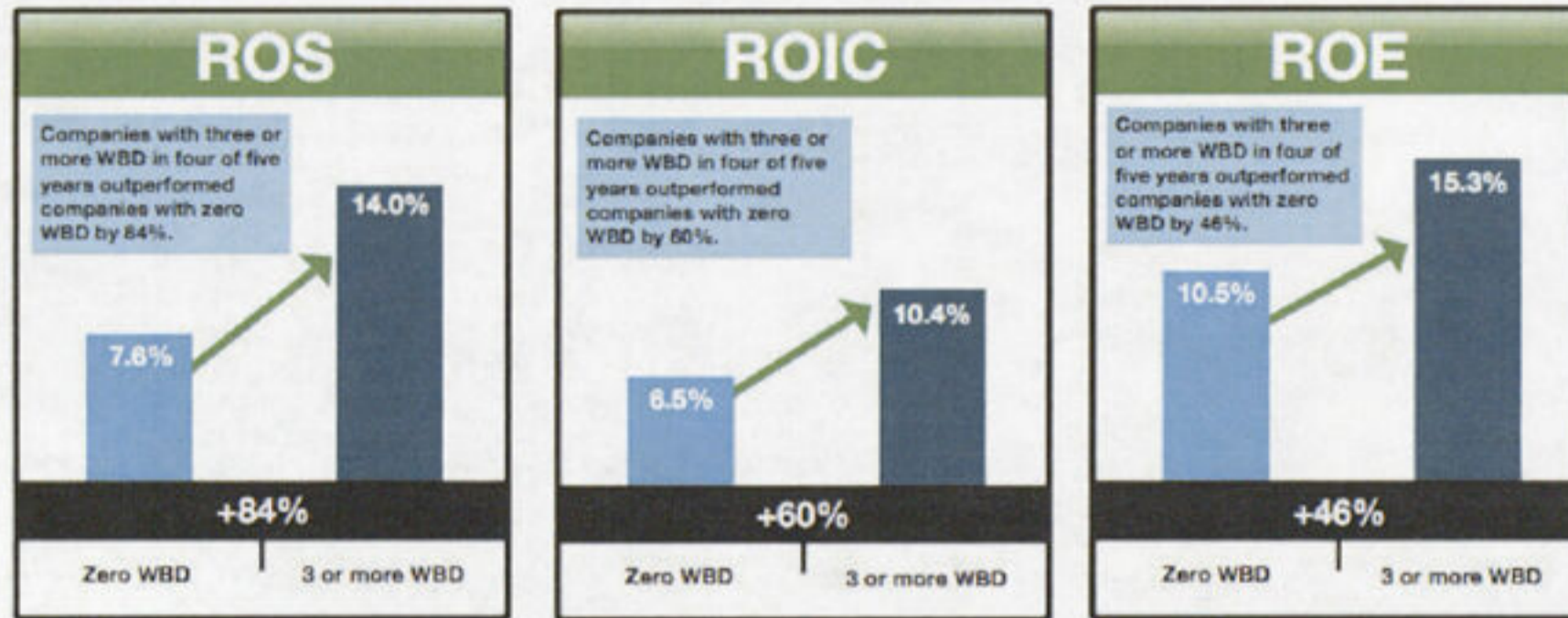


Figure 1 – Difference in companies with zero women on the board of directors (WBD) compared to those with three or more (courtesy of Catalyst) (Carter and Wagner 2011).

The research from each organization suggests that gender diversity in the boardroom is not only the right thing to do, it's also good for business and, by extension, the economy as a whole.

At just 16.1 percent, the overall proportion of women on Fortune 500 corporate boards is low. A 2011 study by Catalyst found that women filled between zero and 18.3 percent of Fortune 500 company board seats (Soares et al. 2011a, Appendix 7). For women of color, the number is even worse. In 2011, non-White women held only three percent of board seats, and more than two-thirds of companies had no women of color on their boards at all (Soares et al. 2011a).

The dearth of women on corporate boards is not specific to the United States. Globally, women represent 9.8 percent of board members, according to a 2011 study from GovernanceMetrics International (2011), an independent firm rating corporate governance. Among industrialized economies, the number swings from less than 1 percent in Japan to 35.6 percent in Norway. Although the percentage of women on corporate boards in the United States is incrementally increasing—up from 15.7 percent in 2010 to 16.1 percent in 2011—at its current rate of increase, it would take more than eighty-four

years for women to gain equal representation on boards.

However, there may be reason to think that things will speed up. Research by Catalyst and McKinsey & Company finds that, on average, Fortune 500 companies with three or more women on their board of directors—often deemed a “critical mass”—substantially outperform companies without any female board members (Kanter 1977, cited in Carter and Wagner 2011). Over a four-to-five-year period across many different industries, these companies showed, on average, an 84 percent increase in return on sales (ROS), a 60 percent increase in return on invested capital (ROIC), and a 46 percent increase in return on equity (ROE) relative to their peers (Carter and Wagner 2011). Figure 1, courtesy of Catalyst, highlights the difference in companies with zero women on the board of directors (WBD) compared to those organizations with three or more (Carter and Wagner 2011).

Companies with women on their boards see gains beyond their balance sheets. McKinsey's 2011 study identified nine key drivers of a company's long-term health, including such factors as direction, leadership, and organizational culture. Its researchers found that companies with women on their boards performed bet-

ter across all nine of these dimensions as compared to their male-dominated peers (Boardroom Diversity 2011).

At roughly the same time as the McKinsey study, Catalyst released a report demonstrating that companies with more equitable gender distributions tend to have higher levels of corporate philanthropy by a factor of almost thirty to one. According to researchers, every additional woman on a corporate board increased charitable giving by up to \$2.3 million (Soares et al. 2011b). These findings hold true even when other factors like industry, corporation size, and baseline performance level are taken into account, suggesting that gender-inclusive boards are not only good for business and the economy but for society as well.

While this research may surprise the average consumer, many in the industry are familiar with the business rationale for incorporating women into the boardroom and, more broadly, into the company's strategic initiatives. Today's business leaders understand that women are a largely underutilized source of creativity, innovation, and talent and that these skills generally translate into an improved bottom line, increased long-term internal diversity, and a more socially responsible company. Yet in spite of the research, women

are still woefully underrepresented in the boardroom. In today's data-driven and profit-demanding corporate world, why have corporations not increased the number of women on their boards?

MORE OF A BOTTLENECK THAN A CEILING

Current research suggests that many factors may compromise a woman's ability to reach the top. Rather than a glass ceiling the problem may be more of a bottleneck. After all, women hold 51.5 percent of management positions but only 14.1 percent of executive officer positions (Catalyst 2012). For companies to excel and stay competitive, they must address this impasse. But where exactly is it that women's advancement is being held up?

IN THE PIPELINE

A common response to explain the dearth of female board members and CEOs is that too few qualified women are present in the pipeline. This belief purports the absence is largely due to the fact that many women drop out of the workforce when they have children, and that afterwards, they either delay return or never return at all. To some extent, this is true. Myra Hart, a Harvard Business School professor conducting research on the school's alumni, finds that women suffer almost no career setback at all when they leave the workforce for short periods of time. "The issue isn't around three to six months maternity leave," she told me one day in her office (Hart 2012). Hart finds the real career challenges occur somewhat later, "usually two to three years after the birth of a second child when the increasing demands of multiple schedules and more complex parenting issues result in women reducing their work commitment or exiting the

paid workforce altogether for a period of several years" (2012).

She observes that, "Women with advanced degrees in business, law, and medicine are very likely to have partners who are also well-educated and have high earning capacity. Their families often have the financial wherewithal to live on a single income. Many couples perform a type of cost-benefit analysis and find the man's career has a higher probability of financial and professional returns" (Hart 2012).

However, the logjam can be traced back to an even earlier point. A 2010 study by Catalyst that surveyed more than 9,900 alumni from twenty-six top-tier MBA programs in the United States, Europe, Asia, and Canada who graduated between 1996 and 2007 found the discrepancies between male and female career advancement start right from the beginning (Carter and Silva 2010). After controlling for parental status, experience, industry, and other variables, male MBA graduates still earned an average of \$4,600 more than their female peers and were also more likely to be given a higher-ranked job. The study found that even when women and men started at the same level, men outpaced women significantly in climbing the corporate ladder and that "only when women were hired at mid-level or senior executive ranks were there no significant differences between the rate of men's and women's career advancement over time" (Carter and Silva 2010).

OUTSIDE PERSONAL NETWORKS

Embedded in the legacy of historically male-dominated industries, many companies may not realize their biases in favor of men. For instance, traditional methods of networking, coaching, or mentoring, which were developed when corporate management was almost entirely male,

may not necessarily work for women.

Harvard Business School (HBS) professor Rosabeth Moss Kanter says that discrimination still takes place in the corporate world, though, unlike in past eras, this discrimination is usually informal and unintentional. Kanter summarizes this phenomenon in a 2010 HBS interview: "I think one of the hidden sources of discrimination that still goes on in many companies is sort of informal and behind the scenes. When there's a discussion in a private conversation about, 'Well, who are the people that we should put into certain positions?' And then, 'Well, she isn't quite as dedicated' or 'We love the fact that she has a family, and we're very family friendly; we don't want to take her away from the family' and so they don't even give the woman a choice" (Kanter 2010).

Kanter is a pioneer for encouraging organizations to achieve a "critical mass" of women in their leadership structures. Her initial research, first published in the 1977 book *Men and Women of the Corporation*, found that when women held one-third of positions, it prevented tokenization and encouraged equal evaluation, allowing women to be perceived beyond their traditional gender-based roles.

Research from Harvard Kennedy School professor and Academic Dean Iris Bohnet corroborates Kanter's four-decade-old-thesis on the importance of having two or more females on a company's board. Bohnet recently analyzed the perception of "luck" and "effort" on performance-based outcomes. She found that performance was significantly lower when people had less access to information and consequently attributed their success—and the success of others—to mere "luck" (Bohnet and Saidi 2011). Thus, in the absence of social networks or people similar to themselves,

84 YEARS

The amount of time it would take women to gain equal representation on boards in the United States.

Closing the gap between male and female employment would have huge economic implications for the global economy, boosting US GDP by as much as 9%, Eurozone GDP by 13% and Japanese GDP by 16%.

-2007 GOLDMAN SACHS REPORT

individuals were less likely to succeed and more likely to attribute the success of others to factors outside of their control.

In addition, a 2008 study from Catalyst, "Advancing Women Leaders: The Connection Between Women Board Directors and Women Corporate Officers," found that companies with multiple female board directors were more likely to have a higher percentage of women as corporate officers five years later (Joy 2008). This means that having women in the corporate ranks and the executive levels provides a signal, as well as an opportunity, for women to mentor other women.

BY OUR OWN INDIVIDUAL BIAS

Finally, there is an individual bias, shared by women and men alike, when we picture business leaders or elect board members. The youngest and first female partner of Goldman Sachs, Jacki Zehner, has written extensively on the underrepresentation of women in the corporate world. In a 2011 article, "Saying 'No' to All-Male Corporate Boards," she argues that one indisputable fact about male corporate boards is that we, as shareholders, elect them (Keefe and Zehner 2011). While the board may be groomed from former or current CEOs, we have the opportunity to choose who we want to represent us. Even when we are not intending to be gender-biased, when we imagine a CEO or corporate leader in our mind's eye, the image is almost always male. This bias seeps into our unconscious and stays, unwittingly perpetuating the gender inequality and "old boys" networks that continue to hold women back in corporations across the United States and world.

THE PROCESS, THE SOLUTION

Many international corporations already openly recognize the business case for diversity and are encouraging in-house methods to increase and promote parity. IBM, General Mills, Proctor & Gamble, Coca-Cola, McKinsey, and many others have internal initiatives to train and mentor women while simultaneously making diversity a key component in their com-

pany's long-term growth (Spence 2010). IBM created the Women's Task Force in 1995 to groom and promote female leaders, eventually leading to a 592 percent increase in female executives; General Mills currently sees five of its seven major divisions run by women, which is not surprising given that nearly 75 percent of consumer purchasing decisions are made by women; and Kraft recently implemented an internal coaching program specifically targeting high-potential women and people of color (Spence 2010).

While some countries, like Belgium and Italy, have recently passed legislation assessing fines on companies that do not achieve a specific critical mass of women within certain timelines, these kinds of policies would likely face a strong backlash in the United States. In recent years, American companies have tended to shun government interventions of all varieties, quotas have been viewed as discrediting merit, and incentives have been seen as biasing individual selections. If the European stick approach won't work in the United States, perhaps the American government could offer carrots? The United States might consider extending tax credits to companies providing paid maternity and paternity leave or child care, along with other incentives for companies that are openly addressing diversity issues.

But achieving greater diversity ultimately comes down to corporate policy. Recent research from McKinsey finds that leadership is the crucial point for setting the tone when it comes to women's hiring. A commitment from a company's top-level leadership—particularly the CEO—to increase diversity is perhaps the most critical component to challenging the status quo. Given the skewed gender representation on corporate boards today, ironically, this leadership usually needs to come from a man (Boardroom Diversity 2011).

What should this leadership look like? To be successful the CEO must be openly committed to the issue both internally and externally. Companies must make public goals and hold themselves accountable through transparent performance mea-

asures. In addition to this top-level commitment, companies must also work to embed diversity into the fabric of their corporate culture. Paid paternity leave, diversity recruitment bonuses, and on-site day care are just three examples of how companies can work to foster diversity and increase equality in their corporate culture. But companies have to support these initiatives as well, and they usually need the buy-in from the CEO and the board to do it.

Long-term, sustainable corporate commitment is perhaps the most promising lead from the last decade of research. As one of five recommendations to “close the leadership gap” in business, “The White House Project Report: Benchmarking Women’s Leadership” (2009) specifically requests: “CEOs [to] develop a plan for advancing women onto their boards” and places specific importance on boards and companies to achieve the “critical mass.”

But the report is invested for more than parity’s sake: having women in the workforce increases economic growth. A 2007 Goldman Sachs report, “Gender Inequality, Growth and Global Ageing,” found that: “Closing the gap between male and female employment would have huge economic implications for the global economy, boosting US GDP by as much as 9%, Eurozone GDP by 13% and Japanese GDP by 16%” (Daly 2007).

In the current economic downturn, coupling equality with corporate strategy may improve both the corporate bottom line and the economy at the same time. Removing the last vestiges of Thatcher-era ironing boards within American business—especially the underrepresentation of women in corporate leadership—would do much to help us get out of the recession and revitalize the twenty-first century American economy. ■

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Figure 1 — Difference in companies with zero women on the board of directors (WBD) compared to those with three or more (courtesy of Catalyst) (Carter and Wagner 2011).



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Greek Drama

Behind the Scenes of EU Integration



BY MARKUS SCHIMMER AND SVEN KUNISCH

The primordial gods—along with the world economy—must be sitting at the edge of their seats right now as they watch a very Greek drama unfold in the European Union (EU). As public debt in the EU's most vulnerable countries has reached higher and higher levels, several now face a serious risk of insolvency. With the maturity dates of these countries' sovereign bonds resembling the ticking of a time bomb, the EU as a whole has become the stage for a doomsday scene.

Economists and politicians alike have had no shortage of advice on how to solve the so-called Euro crisis. Their consultation stretches between two basic suggestions: a breakup of the EU or its further integration, with hopes that the adoption of either would resolve the current crisis.

rough plan to solve the current crisis that fits into their general vision for future European integration. But to execute this plan and reach their grand vision, a painful process is first required to resolve the flaws that underlie the design of the union itself. In reality, an instant jump to the preferred outcome is simply not possible. Put differently, in order to come to the preferred ending of the Euro crisis drama, those in charge must carefully stage the entire play instead of jumping the gun on the final act.

How will the drama unfold? To understand, we must first examine the earlier scenes of the play. Before turning to the current crisis we will briefly recap EU history.

Although the EU can trace its roots back to the European communities of the

by a political rather than an economic vision (Europa n.d.). To some extent, for example, the EMU was meant to dispel the concerns of a reunified and economically strong Germany.

This primarily political motivation has meant that economic factors and constraints have received a lower priority in the design and running of the EMU. For instance, by creating a monetary union without also creating a fiscal union—as most other currency zones in the world are set up—the EU lacks an effective mechanism to enforce its participation rules. So rather than even out economic differences between countries, the Euro has exacerbated them while also seducing economically weaker countries into higher levels of debt.

Despite heated rhetoric that might suggest otherwise, European political leaders know that there is joint responsibility for the current crisis.

Yet, even as critics repeatedly call for EU leaders to take more decisive actions, time and again, European officials have made only last-minute and seemingly unavoidable decisions. What are EU leaders doing?

We believe that EU leaders do have a

1950s, it was only established in 1992, and it wasn't until 2002 that the Euro became the common currency for many but not all EU members through the Economic and Monetary Union (EMU). Yet in many ways the creation of the Euro was driven

This fundamental flaw in the EMU's design has produced a rather obscure scene. Ever since the outburst of the Euro crisis, the EU has threatened its highly leveraged countries with ending its support even though the EMU itself partly accounts



for the reasons behind the deficits. While Greece, for example, may always have been an economically weaker member of the EMU, it was the cheap financing enabled by the laxly governed EMU that made it possible for the country to fall prey to such high levels of debt. Despite heated rhetoric that might suggest otherwise, European political leaders know that there is joint responsibility for the current crisis, and accordingly, it is not just Greece that must make concessions but also the EU.

Even as the stage appears beset with chaos, a focused plot proceeds. While the world economy waits, a disguised integration process is taking shape. Given the pressures the capital markets and the international community exert on the EMU, European leaders know that they must undo prior failures built up over decades. After seeing progress in the financial and economic restructuring of Europe's highly indebted countries, economically strong countries like Germany, which have so far benefitted most from the EMU's single currency, will make concessions toward a stronger economic union (European Council 2011). This restructuring will be painful and slow, but it will happen because it is a prerequisite for European integration to continue.

Bystanders may take the dawdling progress of this process as a reason to doubt the determination of EU leaders. Indeed, if only economic considerations were at stake, the resolution would be less clear. But the EU and the Euro are political endeavors more than mere economic ones, originating from a deep wish to maintain peace amongst Europe's many nations. In the minds of European leaders this purpose alone justifies all necessary sacrifices. It is a vision so embedded in the European mentality that there is little reason to seriously doubt the final act European leaders have "planned" for this play.

But for now, we remain in medias res, with much drama still to unfold. As Europe's most indebted countries deal with their deficits, the world economy awaits every sovereign bond maturity date in the EU with a level of suspense only Sophocles could conjure. Yet, the essential motivation for the EU—the political vision of a unified and peaceful Europe—hints at a further integration path through a comprehensive process. It is only the course of this play and the pace of its performance that remain opaque. ■

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View from Main Street

The Need for Financial Reform

BY MARK TRUMAN

In early 2009, I attempted to secure a loan through a new federal program designed to help entrepreneurs improve their cash flow by consolidating outstanding debt. As a cash-poor but profitable enterprise, my tutoring business, Omniac Education, seemed to be a perfect candidate for the program. Although we sometimes had trouble making rent, we had survived the enormous downturn brought on by the financial crash in 2008, and I knew that if we could get a loan to steady our cash flow, my company would be able to get back on its feet.

But it soon became clear that I was not actually eligible for the loan in question. While America's Recovery Capital loan program was designed to "help small businesses meet existing debt payments" to succeed in the long run, after going in to apply and completing two hours of paperwork, the bank agent informed me that Omniac would only be eligible if we had been profitable in 2008. I was furious. Who would ask for a loan if they had made money the year before?

Yet as I drove from the bank back to my struggling business, I felt strangely free. The idea that you needed to have money in order to borrow money seemed almost Kafkaesque, and somehow the realization of this absurdity released me from many of the self-imposed burdens I had been shouldering up to that point. I had spent years under the impression that the success of my company depended solely on my own effort; now I realized that I had reached the edge of my personal capacity, and that no matter how hard I worked I could not overcome the financing wall that my business was now facing.

I sent the Wells Fargo staff a card the next week. "Thank you for your time and energy," I wrote, "it has made a world of difference for myself and my company." I sent the note without malice or anger; the

whole experience had finally let me face the reality of my situation, and I felt it was only fitting to thank the employees of the bank for the good deed they had done.

Unless you live in Albuquerque, New Mexico, and have a high school age kid you have probably never heard of Omniac Education. But for the past five years, my for-profit education firm has employed a dozen tutors and administrators who help New Mexican students prepare for college. We coach and advise kids from all parts of the economic spectrum, from wealthy

I started my business the way most businesses are started in America:

without
enough
money.

high achievers who want to pay top dollar for exclusive, extensive programs to low-income students who work with us in programs subsidized by the city or state. While we are a for-profit company, we take great pride in making sure that each and every family we work with is ready for college by the time they leave us, and we are especially focused on the quality of our teachers and counselors. To that end, Omniac Education has paid out nearly half a million dollars to its employees and contractors over the last five years.

For most of the last five years I personally handled payroll for Omniac, collecting Excel sheets from tutors tracking the hours they worked, then painstakingly entering the information submitted into our accounting software before writing checks to the employees. Twice a month I would sit down to an oversized business checkbook filled with enormous, blank checks and sign away a few thousand dollars in revenues to tutors and administrators who earned every penny that they were paid. I grew to love the moment that I handed an employee a pay stub and a check: it was a

tangible reminder that we had made a difference in a child's life and that the business had provided an opportunity for someone to be gainfully employed.

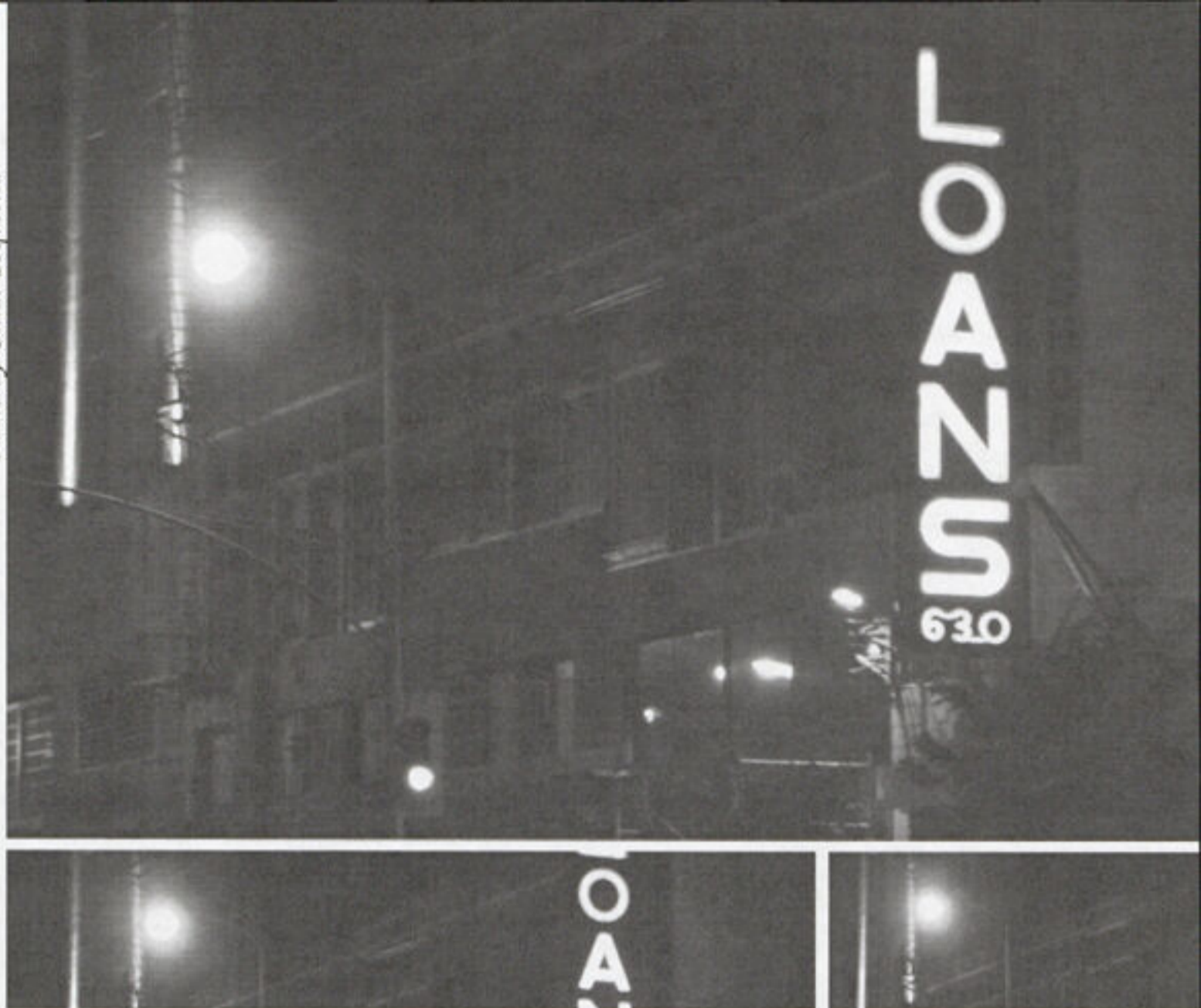
This past summer, I stepped out of my role as Omnic Education's executive director to enroll in the Master in Public Policy program at the Harvard Kennedy School. I considered closing down the business, but I did not have the heart to pull the plug on teachers who wanted to teach and students who wanted to learn. I spent most of the first half of the year preparing everyone for my impending departure, hiring a new executive director, and training other key workers to do new jobs.

Since leaving, I have discovered that being an owner rather than an operator merely exchanges one set of challenges for another. In August, accounting problems required me to reenter dozens of transactions into our system from my apartment in Boston. Then in September, the new executive director sent me an e-mail explaining that although they had secured a large government contract for the fall, they did not have the liquidity they needed to make it through the next month. Once again, financing difficulties were proving to be Omnic Education's Achilles' heel.

Omnic's finances have always been a bit precarious. I started my business the way most businesses are started in America: without enough money. I neither procured a loan nor secured a line of credit; instead, I used my last paycheck from my previous job to open a corporate account and then, for the first year, financed my new business from cash sales. At first it was exhilarating to try and figure out how to pay the bills each month, but the rush quickly turned to fear as I questioned whether I would be able to pay my employees the money they were legally owed.

It was 2008 and the following year was marked by national economic difficulties, a period that Berkeley economist Brad DeLong has described as "The Lesser Depression." We were broke, and I was forced to fire the majority of my administrative staff. I delivered the news personally to each one of them over a cup of coffee, awkwardly explaining that as much as I

Photo by Omar Bájrcena



wanted to keep them on, it was simply not possible. Most of my employees nodded sadly, conveying emotions that made me feel like it was me, and not my company, who was terminally ill. They moved on to other jobs, and I found myself alone in the office, trapped in the company I had built. I still had teachers to meet with kids, but managing Omnic Education became my lonely vigil.

Like so many other small business owners operating in the worst economic environment of the last seventy-five years, my waking hours were spent scheming for survival. Although the company endured and my teachers were paid, at one point, I ended up in the emergency room on the verge of a nervous breakdown, shaking uncontrollably from the stress of running a business on the verge of collapse. The doctors ran me through the MRI, showed me bright and healthy images of my brain, and told me to get some sleep. I went back to work the next day. I tried to pretend that the incident had not fazed me, but the shaking continued, and the business suffered further. It was not until I shut down our satellite offices in Arizona and brought the business back into the black that I was able to rest easy.

I recently spoke on the phone with a fellow small business owner, Jennifer Hartman. A former stay-at-home mom, Jennifer now owns two snack bars located in call centers in Albuquerque. We met a few years ago at a networking event called "Connect 4 Lunch" and have kept in steady contact ever since. Jennifer's daughter is completing high school, and we talk often about her progress toward college.

Before opening her snack bars, Jennifer worked for McDonald's, on and off, for about seven years. Like me, she opened her business without any formal training, but unlike me, she was unable to personally cover the cost of getting her business running and struggled to raise the \$800 required to open up her location.

Unsure of where to find the money, she turned to the place of last resort: her own precious valuables. A few years back she had been given a bracelet from her grandmother that was an agglomeration of different kinds of gold. Although it was not worth very much money, selling it could cover the small startup cost of the snack bar. "I was really upset, thinking 'Is this the right thing to do?'" she told me in our conversation. "I talked to my grandmother, luckily she was still alive. . . . She said 'Just

sell it. It's fine. I want you to have money. I wish it was more."

Using the proceeds from the bracelet, Jennifer was able to start her small business in 2008, the first year of the recession. Ironically, her business's success owed much to the dire market conditions that had made financing her business so difficult. Her product line—what she calls "moderately priced snack meals" but what is essentially cheap food with low profit margins—has been popular with call center employees, in part, because of the poor state of the economy. Many of these employees have been forced to buy Jennifer's cheaper fare because they are paid so little that they can spare no more than a few dollars for lunch.

Jennifer told me that the demands of her business do not allow for time to keep up with politics. However, she does believe the status quo is untenable and that much of the blame can be laid on the financial establishment. "The corruption in our own government is despicable," she told me. "It's what's driven us, I believe, into this recession, with the government and the bankers, the people with all the money."

Financing problems like Jennifer's and mine are all too common for small businesses in today's current climate. In the face of the recession, most banks view us as too risky and unprofitable for a loan. Consequently, many businesses are forced to scrape by through creative means: either by scraping every last penny available from our personal accounts or, as in Jennifer's case, selling our family's past for a shot at a better future. While larger firms continue to enjoy the deep pockets of committed financiers, many small businesses close down not because their business model is unviable but because no financing is available. Of course, in an ideal world, this would not be the case. We hope that our policies reward and protect entrepreneurs who work to make a real difference in the world and who care if their business offers something of value to their community, regardless of the size of the business in question.

Yet even if we expand opportunities for

small business financing, the cold truth is that businesses like mine and Jennifer's are not going to fill the gaping hole that years of deregulation and financial management punched in our economy. While securing greater lines of credit or reducing the payroll tax would surely help a few small business owners keep their doors open, businesses of all sizes will not be truly sustainable until we substantially increase and regularize consumer demand. What we need is an influx of customers—regular people with money in their pockets—to build great businesses and hire more employees. Anything short of a comprehensive solution to get the economy moving again is a Band-Aid for our problems. That means reregulating the banks so that it is more profitable to invest money in actual businesses than in unproductive financial instruments and enacting public policies that produce middle-class jobs that leave people with enough money to pay for our services. Washington needs to acknowledge that it is not higher taxes or regulatory uncertainty but a simple lack of demand that keeps small businesses like mine and Jennifer's on a knife's edge.

As our nation takes steps to address the growing inequality between those who get too little and those who have everything, I am stunned by the lack of American leadership. Why is the Republican party so eager to further deregulate financial markets that have become so diseased and sickly that they no longer function as real markets? Why is our president, a man who comes from modest means and has dedicated his life to public service, so unwilling to confront bankers who have done so little to better the lot of their fellow man? And why are we, a people who once prided ourselves on our almost unhinged ability to dream of a better tomorrow, so willing to settle for so little from those we place on the thrones of power?

It should be obvious now that what is good for big business and the 1 percent may not be good for the rest of the American economy. A world that caters to large firms and the economies of scale they enjoy may be toxic to the people at the

lowest rung of the business ladder. The denial of that fact has meant that we have increasingly balanced the economy on the backs of people who have worked too hard and too long for too little. Washington owes us a more honest assessment. ■



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Getting Lost on the Road to Recovery

Why We Need More Keynes and Less Caricature

BY JASON ROWE

After a descent not seen since the Great Depression, the U.S. economy is finally starting to tangibly recover. The turnaround is due in large part to the American Recovery and Reinvestment Act (ARRA), the Keynesian fiscal stimulus enacted by Congress and signed into law during the first weeks of the Obama administration. The stimulus quickly halted the economy's two-year hemorrhaging of about 9 million jobs and helped reactivate the engines of job creation (Bureau of Labor Statistics 2012a). Yet recovery has been slow, as the depth of the recession and the degree of needed countervailing stimulus both proved greater than most analysts had initially forecast.

While ARRA produced some incremental gains, accelerating the recovery will require a more vigorous Keynesian boost. Instead, Congress has largely abandoned Keynesian fiscal policies. To borrow a metaphor from Jeffrey Liebman, a professor at the Harvard Kennedy School and adviser in the early Obama administration, Congress's incoherence is akin to confused firefighters facing a large house fire. The firefighters exhaust their water supply after successfully fighting back but before extinguishing the blaze. They then conclude that water does not extinguish fires, leave the still burning house, and head back to the fire station. Partisan politics has driven many in Congress to make similar pronouncements on the efficacy of long-proven Keynesian policies.

Worse yet, Congressional leaders have redirected the urgency of the unemployment crisis to distracting concerns about federal debt. Their recent pursuit of fiscal austerity threatens to exacerbate rather than expedite the sluggish pace of recovery. If the jobless are not to be left to languish, policy makers will have to return to sensible economics and provide another urgently needed dose of Keynesian fiscal action.

DRIVING 25 ON THE FREEWAY

Current economic conditions, while improving, are still bleak. The economy created about 3 million total jobs in 2010 and 2011. However, that still leaves a yawning gap of more than 10 million jobs in order to restore prerecession levels, when accounting for the 9 million jobs directly lost to the Great Recession and the fact that a healthy economy would have created at least 100,000 jobs per month merely to keep up with labor force growth. At the last two years' average pace of 1.5 million new jobs per annum, it would take more than three decades to fill this gap (Bureau of Labor Statistics 2012a). Meanwhile, a historically unprecedented share of the unemployed—nearly half—is going without jobs for longer than twenty-seven weeks (Bureau of Labor Statistics 2012b). Such enduring unemployment brings not only economic desperation but also long-term scarring of the labor force as workers lose skills and start taking positions for which they are not a good fit.

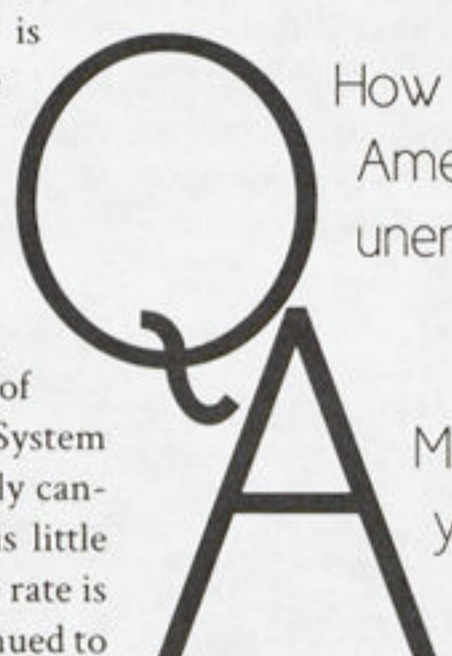
While fiscal policy makers have decided to do nothing to stabilize the economy for the last three years, the Federal Reserve has actively tried to pick up the slack. Yet the slack is too great for the Fed to handle alone, and without support from Congress, it has exhausted its available policy levers. The Fed's primary mechanism for responding to recessions is to lower the Fed Funds rate, or the interest rate levied on banks, in order to decrease the cost of borrowing and spark investment. In late 2008, the Fed lowered the Fed Funds rate to essentially zero, where it has since remained (Board of Governors of the Federal Reserve System 2012). But since interest rates simply cannot be reduced below zero, there is little more a central bank can do once the rate is set to zero. While the Fed has continued to engage in extraordinary policy measures—

multiple rounds of quantitative easing and 2011's "Operation Twist"—as a way to try to overcome the limitations created by this zero lower bound, the hands of monetary policy makers are largely tied. Further action will have to come from Congress.

A WELL-MAPPED ROUTE

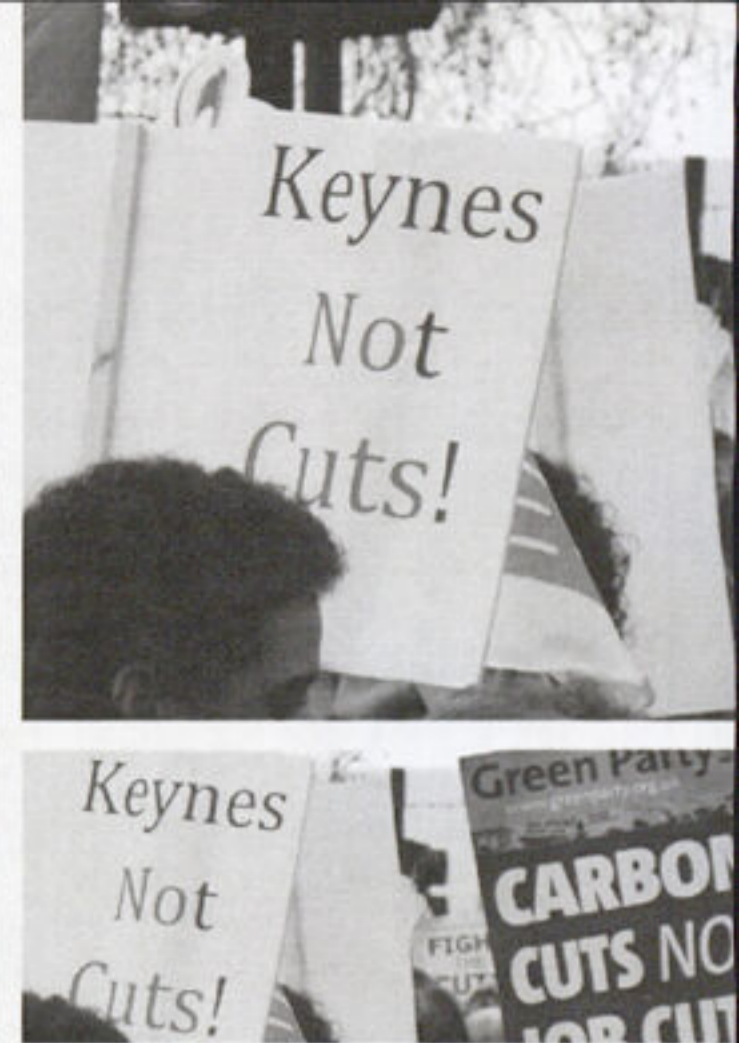
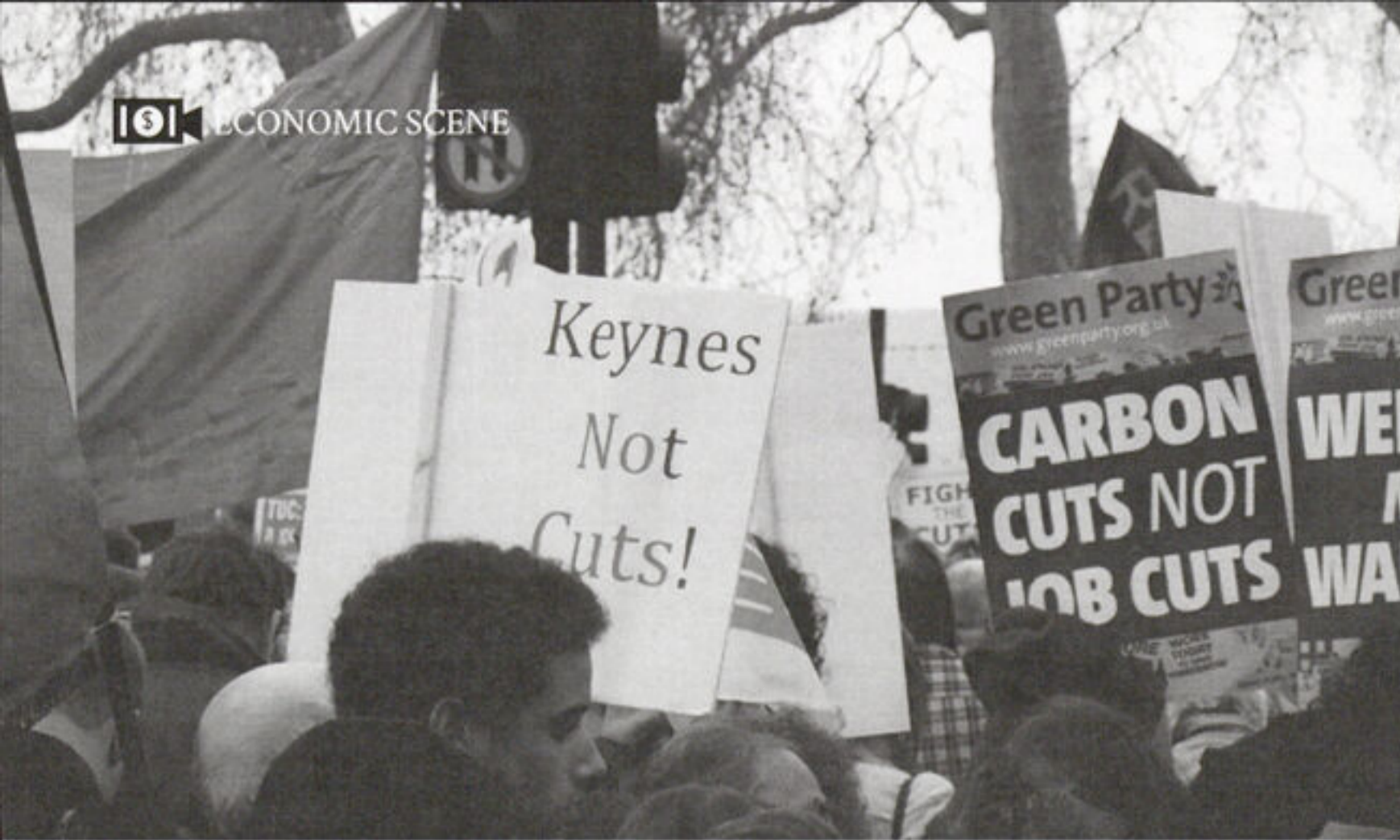
A man who always had a way with words, John Maynard Keynes wrote in a 1935 letter to friend George Bernard Shaw: "I believe myself to be writing a book on economic theory which will largely revolutionize—not, I suppose, at once but in the course of the next ten years—the way the world thinks about economic problems" (Galbraith 1971, 43). His intuition was correct: within several years, a Keynes-inspired and war-enabled fiscal expansion lifted the U.S. economy out of the Great Depression and provided a new policy tool kit for stabilizing the economy.

In the three decades following World War II, the mainstream of both U.S. political parties accepted Keynesian stabilization as standard economic policy. These policies inspired median income to grow, inequality to shrink, and the frequency and severity of recessions to decrease, engendering one of the most economically prosperous periods in U.S. history. While Keynesianism faced an intense intellectual and politi-



How long will it take Americans to fill the unemployment gap?

More than 30 years at the current pace.



ABOVE: Protesters at the Trades Union Congress (TUC) "March for the Alternative" in London last April. Photo by Gwidion M. Williams/flickr.

cal attack in the decades that followed, it nonetheless has remained the backbone for macroeconomic stabilization during times of recession.

The central premise of counter-recessionary Keynesian fiscal policy is simple: when an economic downturn prompts businesses and households to reduce spending and thereby exacerbate the downturn, the government should reverse the vicious cycle by temporarily increasing spending or reducing taxes to spur consumption. The underlying logic is the multiplier effect: every dollar that the government spends, or that taxpayers retain, fuels economic growth by more than a dollar. For example, if the government pays a construction worker one dollar for road repair, the worker will then take some of that extra dollar—say, \$0.70—and spend it on groceries. The grocer, now possessing an extra \$0.70, might then spend \$0.50 of it on a taxi ride, allowing the taxi driver to also spend more and further perpetuate the demand-spurring chain reaction.

While further Keynesian fiscal action could reignite this multiplier effect to spur the recovery's pace from a crawl to a gallop, Congress remains entrenched in a do-nothing posture. As any grade-schooler knows, any number multiplied by zero will yield a product of zero.

MISREADING THE MAP

Many in Congress justify their fiscal inaction by arguing that the United States

already tried Keynesian stimulus in ARRA and that these policies failed. The evidence begs to differ. ARRA was the tourniquet that stopped the hemorrhaging of U.S. jobs, which numbered 6 million and counting at the time of its passage (Bureau of Labor Statistics 2012a). The act almost immediately slowed the rate of job losses, then squeezed it to a halt, and finally reversed the downward trend within a year of implementation. The Congressional Budget Office estimated last year that, absent ARRA's stimulus, unemployment in late 2010 would have been between 0.7 and 1.9 percentage points higher (Congressional Budget Office 2011).

ARRA was the right prescription, but it was administered at an insufficient dosage. This misalignment stems from two related mistakes by the White House. First, the \$787 billion ARRA, when broken out over its three-year implementation period, was too small to fully counteract the projected recession. Second, the economic projections used by the White House (and many others) were overly optimistic. A recently published memo, prepared in 2008 by Obama's economic transition team, reveals that economists ranging in political stripes from Robert Reich, former President Bill Clinton's secretary of labor, to Kenneth Rogoff, a campaign adviser to Senator John McCain, recommended stimulus amounts of at least \$1 trillion over two years—nearly twice the per annum stimulus of ARRA. Even these estimates would likely have

been higher if the prevailing projections of the recession's depth had been more accurate. In the same memo, Obama's early advisers predicted a worst-case scenario in which, absent any stimulus, unemployment would peak at 9 percent in 2010 and job losses from the recession would total 5 million. In reality, even with the stimulus, unemployment peaked at 10 percent, and the economy shed nearly 9 million jobs before it was done (Summers 2008).

By the time the new administration was starting to get settled in the White House, it became clear that its initial projections were too rosy. In January 2009, actual recessionary job losses already exceeded advisers' initial projections by 2 million (Bureau of Labor Statistics 2012a). However, since time was of the essence, the White House prioritized the immediate passage of an imperfect package. The Obama administration assumed, quite reasonably, that after making some incremental progress with ARRA, Congress would help shepherd further Keynesian efforts to finish the job. However, in words that would prove prescient, just before ARRA's unveiling Paul Krugman fretted, "I see the following scenario: a weak stimulus plan . . . [which] limits the rise in unemployment, but things are still pretty bad, with the rate peaking at something like 9 percent and coming down only slowly. And then Mitch McConnell says 'See, government spending doesn't work'" (Krugman 2009). It was not long before Congressional leaders con-

firmed his fears, claiming that “water does not extinguish fires.”

VEERING OFF THE ROAD

In 2011, the U.S. economy stood at a standstill—no longer plummeting, thanks to ARRA, but still not recovering, thanks to Congressional inaction. Rather than push for further gains, policy makers and pundits seemed bent on exacerbating the losses by shifting the economic debate to a distracting discussion of federal debt.

Absent from this debate is the fact that debt and deficits are nothing new for the United States and that they are almost always expected to rise in recessions. In recovering from the Great Depression—when military spending for World War II acted as a Keynesian stimulus—the U.S. debt to gross domestic product (GDP) ratio catapulted to 120 percent of GDP, which is significantly higher than the current level, before falling significantly during the postwar expansion (Office of Management and Budget n.d.). Since then, annual federal debt levels have averaged 56 percent of GDP, and in the last twenty-five years, they have never dipped below 50 percent of GDP.

When evaluating debt sustainability, debt should be considered relative to GDP, which means that the denominator matters. With the U.S. economy so far below potential, many of Congress’s recent budget-slashing proposals would actually hinder GDP more than they would limit debt, leading to an even more unsustainable debt position. Thus, policy makers concerned with the national debt would do well to join forces with Keynesians in stimulating the economy, rather than pursuing self-defeating austerity.

While politicians and Tea Partyers continue to hem and haw about federal debt sustainability, financial markets seem unconcerned. The federal government is currently able to borrow at historically low rates. In real terms, U.S. Treasury yields have approached and even dipped below zero (U.S. Department of the Treasury 2011). While the S&P was downgrading the federal government’s credit rating last

summer, markets acted as if Treasury securities were safer than ever.

Ignoring these signals, debt-obsessed policy makers have embraced anti-Keynesian fiscal contractions that threaten the recovery. Emboldened by their midterm elections victory, Congressional Republicans last year proposed an austerity budget with \$61 billion in spending cuts. Mark Zandi, the prominent head economist for Moody’s Analytics, assessed that the proposal would mean foregoing 700,000 jobs in 2012 (Zandi 2011). While Democrats were ultimately able to reduce the proposed cuts by nearly half, they failed to clearly emphasize the irresponsibility of erasing jobs amidst a feeble economic recovery. Both sides repeated this mistake in attaching automatic spending cuts to the doomed “super committee” process, which resulted in a commitment to further fiscal regression next year.

THE ROAD AHEAD

Congress needs to swiftly overcome debt alarmism and return to common sense Keynesianism. A step in the right direction would be to finally pass the American Jobs Act that President Obama sent to Congress in September 2011. The legislation would take advantage of the essentially free borrowing opportunities offered by zero and negative real interest rates on Treasury securities and inject \$447 billion of fiscal stimulus into the crawling economy over the next two years. It would fund infrastructure projects, extend unemployment benefits, aid state and local governments’ efforts to prevent layoffs, and continue the payroll tax cut enjoyed by all working Americans (White House 2011). In short, it would help finish the job that ARRA started.

Keynes’s famous quip, “In the long run, we’re all dead,” has been referenced frequently during the twentieth century by those who realize the urgency of bringing struggling economies back to full employment. With more than 12 million Americans still without a job, Congress should learn from its predecessors and enact a strong stimulus package that puts

these people back to work (Bureau of Labor Statistics 2012b). To do anything less will leave too many Americans dead in the short run. ■

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Jason Rowe is a 2012 Master in Public Policy candidate at the John F. Kennedy School of Government at Harvard University, focusing on economic policy. In 2009, he helped implement American Recovery and Reinvestment Act jobs’ projects in his home state of New Jersey as an official of the Laborers’ Union. As both an avid cyclist and a Keynesian, potholes are his mortal enemy.

Smart Stimulus Amid Deepening Debt *Future-Flow Tax Credits*

BY WILLIAM WERKMEISTER

Entering 2012, the world finds itself in a precarious financial position. In January of this year, the World Bank released its new economic outlook, warning of a global, double-dip recession. "An escalation of the crisis would spare no one," Andrew Burns, manager of global macroeconomics and lead author of the World Bank report stated in a press release, matter-of-factly, before continuing: "Developed- and developing-country growth rates could fall by as much or more than in 2008/09. The importance of contingency planning cannot be stressed enough" (World Bank 2012). The report lists several key risk factors, including the sovereign debt crisis in Europe; the global spread of risk aversion resulting from the European crisis; and stifled economic growth resulting from inflation-motivated tightening of monetary policy in developing countries.

But the World Bank may have forgotten a critical fourth concern: the snail-paced economic recovery of the world's leading generator of global demand and output—the United States. The United States still faces constrained economic growth and an unemployment rate of 8.5 percent, according to the U.S. Bureau of Labor Statistics. With an already expanded U.S. money supply and all-time low interest rates, monetary policy is no longer an effective tool—even in the short term—to stimulate growth. Meanwhile, record high debt levels and a self-imposed debt ceiling have severely limited the possibility of any fiscal expansion funded by borrowing.

How then can the U.S. government expedite a recovery? I propose a new form of fiscal stimulus, financed by future-flow tax credits rather than government borrowing. Similar tax credit programs have been used on a small scale to promote low-income real estate development and small business investing. I suggest a large-scale,

federal stimulus plan that is financed in a similar manner—as a budget-neutral engine of job creation.

FUTURE-FLOW TAX CREDITS: A SMART ALTERNATIVE STIMULUS

Many prominent economists argue that stimulating small and medium-sized business employment is critical to rehabilitating the U.S. economy. During the past two decades, small and medium-sized businesses have been the workhorse of U.S. economic growth, accounting for more than 65 percent of net jobs added (U.S. Small Business Administration). Recognizing the importance of small businesses, the Obama administration created Startup America in 2011 to provide resources to entrepreneurs and, in January 2012, elevated the Small Business Administration (SBA) administrator to a cabinet-level post.

Such approaches are not without their problems. Josh Lerner, Harvard Business School professor and venture capital expert, highlights a core concern with many state-sponsored funds that invest in small businesses: the funding tends to be managed by politicians who direct capital to politically convenient investment opportunities (Lerner 2009). This results, almost inevitably, in poorly performing funds and an inefficient and corrupt allocation of public capital. For example, a late 2011 Republican presidential primary debate revealed that 47 percent of investments from the state-run Texas Enterprise Fund went to companies affiliated with Texas Governor Rick Perry's political donors.

One solution, already implemented in several small investment programs, is the creation of public-private partnerships. In such partnerships, the government incentivizes authorized private investment funds, which bring investment expertise, to raise and place capital in underinvested

With an already expanded U.S. money supply and all-time low interest rates, monetary policy is no longer an effective tool—even in the short term—to stimulate growth.

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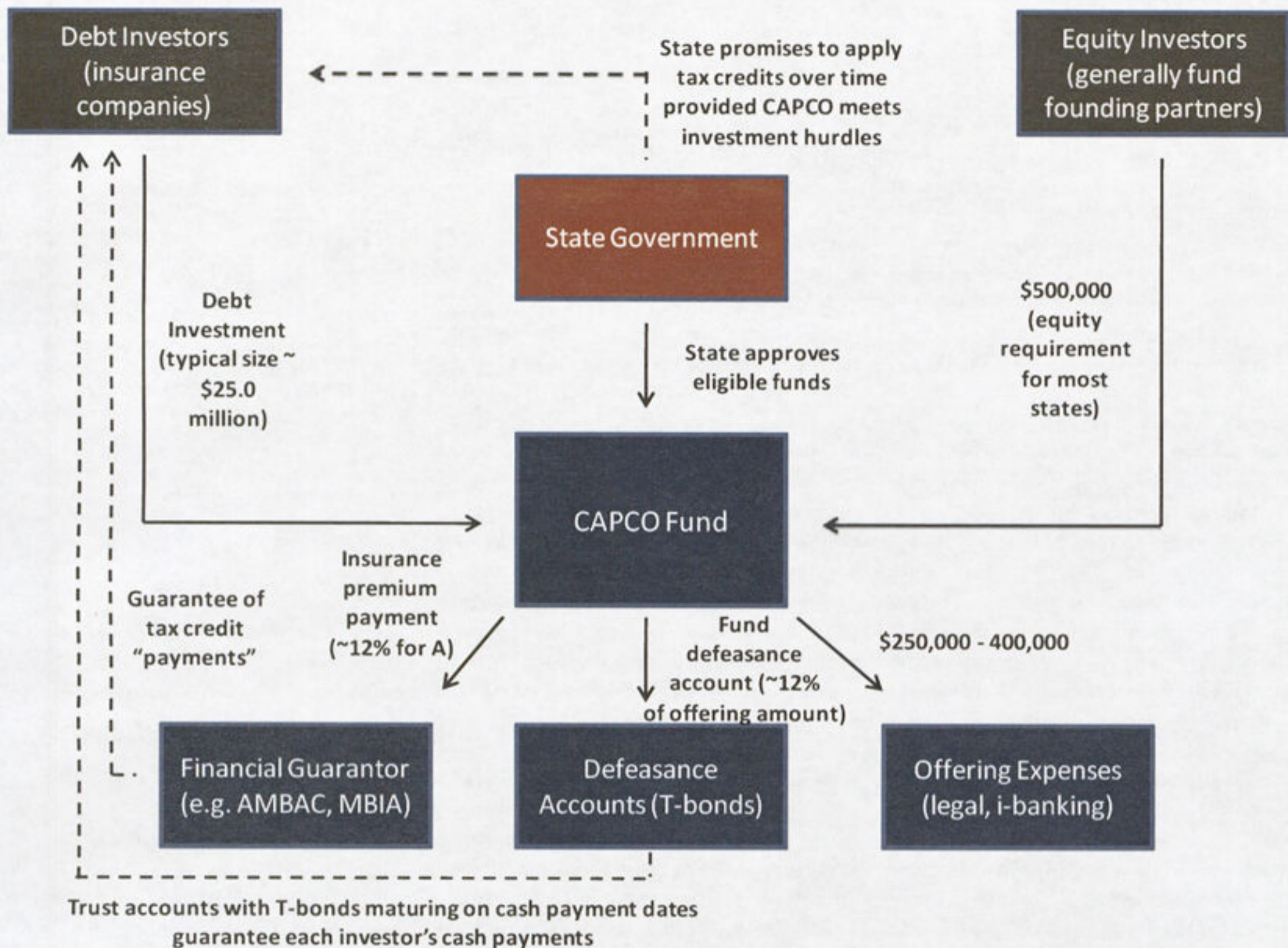


Figure 1 – CAPCO flows at fund closing.

areas. The incentive comes through a tax credit match, paid out to fund managers over time, on the amount of capital raised and placed. (This mechanism explains the “future-flow tax credit” moniker.) By requiring investment within a certain time frame and in certain sectors or geographies, the government can effectively stimulate job creation in periods of illiquidity or risk aversion and in struggling areas or industries. By creating a floor on potential losses for fund investors, the tax credits improve the funds’ risk/reward profile in times of risk aversion. At the same time, fund managers retain a significant equity ownership in the investments, ensuring their incentive to make quality investments.

Compared with deficit-funded fiscal spending, future-flow tax credit programs

do not increase public debt levels. In many current state-level initiatives, the government allocates the tax credits to authorized private funds over the course of ten years, yet requires the funds to invest the majority of the targeted capital within just a few years. This structure offers an expedited positive impact on business investment and job creation but a delayed impact (if any) on deficit levels. If investments are properly targeted to spur growth, increasing tax revenues can offset the delayed tax credits, yielding a neutral or even positive impact on public budgets (see Figure 2).

Another distinct advantage of tax credit-incentivized investment pools over traditional consumer stimulus programs (e.g., tax rebates) is that such investments fuel the capital stock appreciation necessary for longer-term economic growth. The

job creation potential of consumer tax rebates fades within months of mailing the rebate checks. Similarly, while employer grant programs (when the government offers businesses a subsidy per job created) produce new jobs, employers often lay off the new workers after the minimum required duration to receive the subsidy. Tax credit-incentivized business investments spur longer-lasting jobs but carry the tradeoff of not having as immediate an effect as either tax rebates or employer subsidies. As such, if short-term growth is needed, future-flow tax credit programs should be used in combination with more direct consumer stimulus mechanisms.

**CAPCOS AND NMTCS:
A PROVEN TRACK RECORD**
Certified Capital Companies (CAP-

COs) are one of several prominent models of future-flow tax credit-subsidized investment funds currently in use in the United States. CAPCOs currently operate in the District of Columbia and seven U.S. states: New York, Texas, Louisiana, Florida, Missouri, Colorado, and Alabama. State governments offer certified CAPCOs a dollar-for-dollar tax credit match on the amount of capital raised and invested in small businesses. Some states target high-tech, venture investing by requiring that a minimum percentage of the capital be invested in high-tech startups. Others, such as New York and Louisiana, target economic development and job creation in rural or impoverished areas. State legislatures have decided to use a specific type of tax credit—insurance tax credits—as insurance companies are regulated and taxed by states, pay significant levels of state tax, and manage more investable capital than all other sectors except banking. To attract capital from risk-averse insurance companies, CAPCOs structure the government-provided tax credits into bonds, which are then insured by financial guarantors to raise the bonds' credit quality to investment grade (see Figure 2). To date, the CAPCO model has raised and placed more than \$3.5 billion in small business investments.

Meanwhile, the federal New Market Tax Credits (NMTC) program has allocated more than \$29.4 billion in capital to date, offering 39 cents on the dollar in federal tax credits for capital raised and invested in low-income census tracts throughout the United States. While the overwhelming majority of this financing has been invested in low-income real estate development, a limited amount of funding has also flowed into business investment. A panel of administrative judges chooses how to allocate NMTC tax credits to private funds, based on their past low-income investment experience, investment track record, and fund-raising track record. Unlike the CAPCO model, qualifying funds can only pass the tax credits through to equity investors.

TAKING THE MODEL TO SCALE: A NATIONAL STIMULUS PLAN

To surmount the inertia of current recovery efforts in light of record low interest rates and the federal debt ceiling, I propose a new, multibillion dollar, federal-level, future-flow tax credit program that builds on the success of the CAPCO and NMTC programs. This small business-focused stimulus program should take the following general form:

Size: The brunt of investment funds should be allocated to low-tech, small businesses. I propose a program that garners \$250 billion for general small business investment (in areas like retail, distribution, services), which would nearly triple SBA loan volume compared to the previous four years. This capital would be dedicated to filling the unfunded niche between higher-risk venture capital and lower-risk SBA loans, using both equity and debt funding. Given widespread concerns that risk aversion has also been hindering venture capital, I propose allocating an additional \$60 billion to venture investing over four years, which would constitute a 30 percent to 50 percent increase in venture funding each year.

Tax credit structure: I propose a 50 cent tax credit for every dollar of funds raised and invested by authorized fund managers. By offering an overly generous dollar-for-dollar tax credit match to a much smaller investor universe, CAPCO programs have been oversubscribed by up to eight times the available tax credits. While the 39 cents on the dollar NMTC program is also regularly oversubscribed, this fiscal stimulus plan is much larger in size, and a larger tax credit match may be necessary to incentivize absorption of the offering. The match level should be adjusted over time to reflect the changing supply and demand for credit. I suggest the credits be allocated over ten years, with the expectation that the diversified investments would yield typical long-term, small business returns of 20 percent to 30 percent, generating enough federal tax revenue to offset the tax credits. The tax credits should also be

Tax credit-incentivized business investments spur longer-lasting jobs but carry the tradeoff of not having as immediate an effect as either tax rebates or employer subsidies.

transferrable so as to increase their liquidity and value to investors.

Investment requirements: I propose that certified funds be required to place 50 percent of the targeted capital within two years and 100 percent within four years. Further, the investments should take the form of five-year or longer maturity debt or equity to ensure that (1) the capital is kept in place long enough to fuel business growth and sustained job creation, and (2) short-term debt repayment does not bankrupt small, startup businesses.

Choice of fund management: Tax credits should be allocated to venture and investment funds by the vote of an independent judging committee based upon prior venture and small business investing experience; prior investment track record and returns; prior capital raising experience; and existing commitments to invest in a tax credit-incentivized fund, if chosen. This model contrasts with that of CAPCOs, which allocates tax credits solely based upon funding commitments obtained and, therefore, results in CAPCOs with the best investor contacts, not the best investment track records, obtaining

the majority of the tax credit allocation.

This future-flow federal tax credit program would offer an efficient, market-driven solution to provide fiscal stimulus and drive small business investment by leveraging private-sector expertise for public ends. Tax credit subsidies would help cure illiquidity, temporary risk aversion, and other job-inhibiting financial illnesses associated with the current economic slump. Further, by spurring small business investments today in exchange for credits tomorrow, the federal government could fuel sustained job growth without taking on additional debt. With monetary policy options exhausted and traditional fiscal options mired in politics, this innovative investment stimulus offers a viable means of surmounting our current economic hurdles. ■

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Figure 2 – Model of future cash flows and capital stock appreciation.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Tax Credits Allocated by Year	\$31,000	\$31,000	\$31,000	\$31,000	\$31,000	\$31,000	\$31,000	\$31,000	\$31,000	\$31,000	\$0	\$0	\$0	\$0	\$0
Cumulative Tax Credits Paid Out	\$31,000	\$62,000	\$93,000	\$124,000	\$155,000	\$186,000	\$217,000	\$248,000	\$279,000	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000
Capital Invested															
Capital Displacement	\$77,500	\$77,500	\$77,500	\$77,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cumulative Capital Invested	\$77,500	\$155,000	\$232,500	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000
Results With 10% IRRs															
Total Returns (@10% IRR)	\$3,875	\$11,819	\$20,160	\$28,918	\$34,239	\$35,950	\$37,748	\$39,635	\$41,617	\$43,698	\$45,883	\$48,177	\$50,586	\$53,115	\$55,771
Capital Stock - Period End	\$79,438	\$162,847	\$250,427	\$342,386	\$359,505	\$377,480	\$396,354	\$416,172	\$436,980	\$458,829	\$481,771	\$505,859	\$531,152	\$557,710	\$585,595
Assume 50% Distribution of Value Created	\$1,938	\$5,909	\$10,080	\$14,459	\$17,119	\$17,975	\$18,874	\$19,818	\$20,809	\$21,849	\$22,941	\$24,089	\$25,293	\$26,558	\$27,885
Cumulative Distributions to Date	\$1,938	\$7,847	\$17,927	\$32,386	\$49,505	\$67,480	\$86,354	\$106,172	\$126,980	\$148,829	\$171,771	\$195,859	\$221,152	\$247,710	\$275,595
Tax Receipts (@ 35% Tax Rate)	\$678	\$2,068	\$3,528	\$5,061	\$5,992	\$6,291	\$6,606	\$6,936	\$7,283	\$7,647	\$8,030	\$8,431	\$8,853	\$9,295	\$9,760
Cumulative Tax Receipts	\$678	\$2,746	\$6,274	\$11,335	\$17,327	\$23,618	\$30,224	\$37,160	\$44,443	\$52,090	\$60,120	\$68,551	\$77,403	\$86,698	\$96,458
Results With 20% IRRs															
Total Returns (@20% IRR)	\$7,750	\$24,025	\$41,928	\$61,620	\$75,532	\$83,086	\$91,394	\$100,533	\$110,587	\$121,645	\$133,810	\$147,191	\$161,910	\$178,101	\$195,911
Capital Stock - Period End	\$81,375	\$170,888	\$269,351	\$377,661	\$415,428	\$456,970	\$502,667	\$552,934	\$608,227	\$669,050	\$735,955	\$809,551	\$890,506	\$979,556	\$1,077,512
Assume 50% Distribution of Value Created	\$3,875	\$12,013	\$20,964	\$30,810	\$37,766	\$41,543	\$45,697	\$50,267	\$55,293	\$60,823	\$66,905	\$73,596	\$80,955	\$89,051	\$97,956
Cumulative Distributions to Date	\$3,875	\$15,888	\$36,851	\$67,661	\$105,428	\$146,970	\$192,667	\$242,934	\$298,227	\$359,050	\$425,955	\$499,551	\$580,506	\$669,556	\$767,512
Tax Receipts (@ 35% Tax Rate)	\$1,356	\$4,204	\$7,337	\$10,784	\$13,218	\$14,540	\$15,994	\$17,593	\$19,353	\$21,288	\$23,417	\$25,758	\$28,334	\$31,168	\$34,284
Cumulative Tax Receipts	\$1,356	\$5,561	\$12,898	\$23,681	\$36,900	\$51,440	\$67,434	\$85,027	\$104,380	\$125,668	\$149,084	\$174,843	\$203,177	\$234,345	\$268,629
Results With 30% IRRs															
Total Returns (@30% IRR)	\$11,625	\$36,619	\$65,362	\$98,416	\$124,803	\$143,524	\$165,052	\$189,810	\$218,282	\$251,024	\$288,677	\$331,979	\$381,776	\$439,042	\$504,898
Capital Stock - Period End	\$83,313	\$179,122	\$289,303	\$416,011	\$478,412	\$550,174	\$632,700	\$727,605	\$836,746	\$962,258	\$1,106,596	\$1,272,586	\$1,463,474	\$1,682,995	\$1,935,444
Assume 50% Distribution of Value Created	\$5,813	\$18,309	\$32,681	\$49,208	\$62,402	\$71,762	\$82,526	\$94,905	\$109,141	\$125,512	\$144,339	\$165,989	\$190,888	\$219,521	\$252,449
Cumulative Distributions to Date	\$5,813	\$24,122	\$56,803	\$106,011	\$168,412	\$240,174	\$322,700	\$417,605	\$526,746	\$652,258	\$796,596	\$962,586	\$1,153,474	\$1,372,995	\$1,625,444
Tax Receipts (@ 35% Tax Rate)	\$2,034	\$6,408	\$11,438	\$17,223	\$21,841	\$25,117	\$28,884	\$33,217	\$38,199	\$43,929	\$50,519	\$58,096	\$66,811	\$76,832	\$88,357
Cumulative Tax Receipts	\$2,034	\$8,443	\$19,881	\$37,104	\$58,944	\$84,061	\$112,945	\$146,162	\$184,361	\$228,290	\$278,809	\$336,905	\$403,716	\$480,548	\$568,905

The above table illustrates in highly simplified form, the potential value creation and cash flows from a tax credit incentivized, investment fund at 20%, 30%, and 40% returns on invested capital over 10 years. The illustration includes investment timetable, return assumptions, and an assumption for 50% distribution of value created (common in most small businesses, if not higher) and taxes on those distributions at 35%.

The Disparity Bubble

How Inequality Fed the Financial Crisis

BY JAMES WALSH

One of the painful lessons of the Great Recession has been that markets do not operate in a vacuum. They are influenced by a variety of external factors, including socioeconomic dynamics, norms of behavior, and institutions. Conversely, the market also has the capacity to shape our politics and society by creating and directing financial resources toward lobbying and campaign donations. The complex interplay between the market and society becomes evident when examining the relationship between economic inequality and the Great Recession. Though many economists dismiss equality as a normative concern outside their discipline, the recession demonstrates that chronic inequality can contribute to macroeconomic inefficiency. As such, today's deepening levels of inequality should be a concern not only to Occupy Wall Street sympathizers but also to all economists.

AN EMPIRICAL RELATIONSHIP

Media attention has focused on the United States' extraordinary inequality in the wake of the Great Recession. Less attention, however, has been devoted to inequality in the lead-up to the crisis. Recently, an increasing number of people have started to explore this connection between inequality and economic stability. From disenfranchised activists to prominent economists, there is growing support for the idea that the deeply unequal economic environment in the United States helped to facilitate the reckless behavior of the financial sector that ultimately led to the financial collapse in 2008.

David Moss, a professor at Harvard Business School, has graphed the association between market deregulation, financial instability, and income inequality

Photo courtesy of woodleywonderworks/flickr

in the United States over the past century (2010). As he notes, financial crises and bank failures were commonplace in the United States until 1933, when Congress passed the Glass-Steagall Act establishing strong federal financial regulations. For the next fifty years, financial instability was effectively eradicated. But after anti-regulation philosophy became increasingly pervasive in Washington during the late 1970s and deregulatory policies were adopted in the early 1980s, financial crises began to reemerge.

Income inequality in the United States has followed a broadly parallel trend. It increased in the years prior to the Great Depression before falling rapidly in the years immediately after. For almost forty years, it remained relatively low, then in the early 1980s it began to balloon once again. Remarkably, income inequality peaked both in 1928 and 2007, the years immediately preceding the Great Depression and the Great Recession.

Of course, this extraordinary correlation between income inequality and financial crises does not necessarily spell causation. A causal relationship requires a convincing story of how inequality led to the crisis.

MORTGAGES: ESCAPE VALVES FOR THE 99 PERCENT

Raghuram Rajan, an economist at the University of Chicago and former chief economist of the International Monetary Fund (IMF), tells this causal story as one of populist government failure caused by the rising income inequality that began in the 1980s (2010). He argues that the stagnant real wages that marked this era created political pressure to increase incomes. Responding to demands for cheap credit from their low-income constituents, politicians eased housing credit restrictions, allowing millions of low- and middle-income workers to buy homes for the first time and pay for increased consumption through the equity in their homes. The end result was the illusion of rising living standards.

As a result of this policy, home ownership rose significantly. This politically

appealing solution not only appeased popular angst over flattened incomes but also fit America's narrative as a property-owning democracy. Moreover, it helped boost the economy by stimulating demand in the construction sector. Policy makers thought that the costs of expanding access could be reasonably delayed for years to come.

A core facet of this strategy was to use financial innovation to facilitate lending to people who had previously been unable to qualify for certain kinds of credit. This laid the seeds for the notorious NINJA (no income, no job, no assets) loans, mortgage-backed securities, and collateralized debt obligations so strongly associated with the Great Recession. Thanks to these credit-easing tools, subprime lending proliferated in the years leading up to the crisis. Lending from the quasi-public financial institutions Fannie Mae and Freddie Mac "accounted for 54 percent of the market across the years [2003-2004], with a high of 70 percent in 2007" (Rajan 2010, 38). By the time of the crisis, financial institutions were buying and selling enormous quantities of packaged subprime mortgage liabilities with little information about the value of these assets.

Ultimately, the consequences of this deregulation were devastating. In their influential article, Atif Mian and Amir Sufi (2009) link these lending practices directly to the crisis by showing how the rapid expansion in mortgage credit to subprime ZIP codes was followed by substantial default rates.

However, while stagnant real wages likely increased demand for credit amongst lower-income individuals, it is unlikely that such demand alone was a sufficient catalyst for mortgage deregulation. If lower-income individuals had as much political power as Rajan claims, they would not have sought easier access to credit but instead demanded government interventions that were actually redistributive and genuinely rectified inequality. Part of the answer lies on the supply side of deregulated mortgages.

If lower-income individuals had as much political power as Rajan claims, they would not have sought easier access to credit but instead demanded government interventions that were actually redistributive and genuinely rectified inequality.

DEREGULATION: A BUSINESS PLAN FOR THE 1 PERCENT

Daron Acemoglu (2011) and Robert Reich (2010) offer the clear alternative to Rajan's consumer-driven explanation for unchecked risky lending: pressure from above. As Reich contends, "The real reason . . . had to do with power. . . . With hefty campaign contributions, and platoons of lobbyists and public relations flacks, the rich helped push through changes that enabled them to accumulate more and more wealth [through] deregulating Wall Street" (2010, 58).

Acemoglu points to work by Larry Bartels (2008) showing that politicians are much more responsive to their higher-income constituents than to voters in other income cohorts. While politicians are somewhat responsive to middle-income voter preferences, they are unresponsive or even inversely responsive to the stated desires of the lowest-income voters.

For high-income financial firms, lobbying practices intensified throughout the precrisis period. IMF economists Deniz Igan, Prachi Mishra, and Thierry Tresselt find a worrying association between risky behavior and access to the political system in their 2011 study of the crisis. They write:

We find that lobbying was associated with more risk-taking during 2000-07 and with worse outcomes in 2008. In particular, lenders lobbying more intensively on issues related to mortgage lending and securitization (i) originated mortgages with higher loan-to-income ratios, (ii) securitized a faster growing proportion of their loans, and (iii) had faster growing originations of mortgages. Moreover, delinquency rates in 2008 were higher in areas where lobbying lenders' mortgage lending grew faster." (Igan et al. 2011, 1)

This is exactly the outcome one would expect if financial sector lobbying was driving deregulation. In a particularly notorious case, the CEO of major subprime lender Countrywide Financial personally offered below-market mortgage financing

rates to former Senator Chris Dodd and Senator Kent Conrad—who, at the time, chaired the Senate Banking Committee and Senate Budget Committee, respectively—as well as other key Congressional figures who supported increased governmental backing of subprime lending (*Wall Street Journal* 2008).

INEQUALITY: THE COMMON DENOMINATOR

What implications do these claims have for our understanding of the cause of the Great Recession? This is best understood by considering the counterfactual. If Americans' median real wages had been rising rather than stagnating, would there have been as much demand for cheap credit? Probably not. Second, had the financial sector held less influence over the American political system, would there have been as much deregulation? Again, probably not.

The arguments of Acemoglu and Rajan are not mutually exclusive. Together, they suggest that stagnant wages from below fueled demand for risky credit, while lobbying from above fed the supply. The common source of both dynamics was inequality. Had families in the lower-income brackets seen their real incomes rise during the 2000s, they would not have depended as much on mortgages to finance increasing consumption levels. Had corporate wealth not become so concentrated, financial firms might not have had such a pervasive influence on Capitol Hill. Had economic inequality not climbed to historic highs in 2007, we might have avoided much of the economic fallout of 2008.

EFFICIENCY VERSUS EQUALITY, OR EFFICIENCY VIA EQUALITY?

What do these findings tell us about the relationship between economic equality and efficiency? Equality has implications for the economy, including the efficient functioning of the market. Such a conclusion would complicate the standard eco-

nomical treatment of equality and efficiency as competing principles.

The trend toward increasing inequality has not abated. After dipping slightly during the recession, income inequality today has reached its prerecession apex and continues to climb. If the Great Recession teaches us anything, it should be that inequality and efficiency are fundamentally intertwined. We cannot continue the policies of the past. To build a stronger economy, we must at the same time build a more equal one. ■

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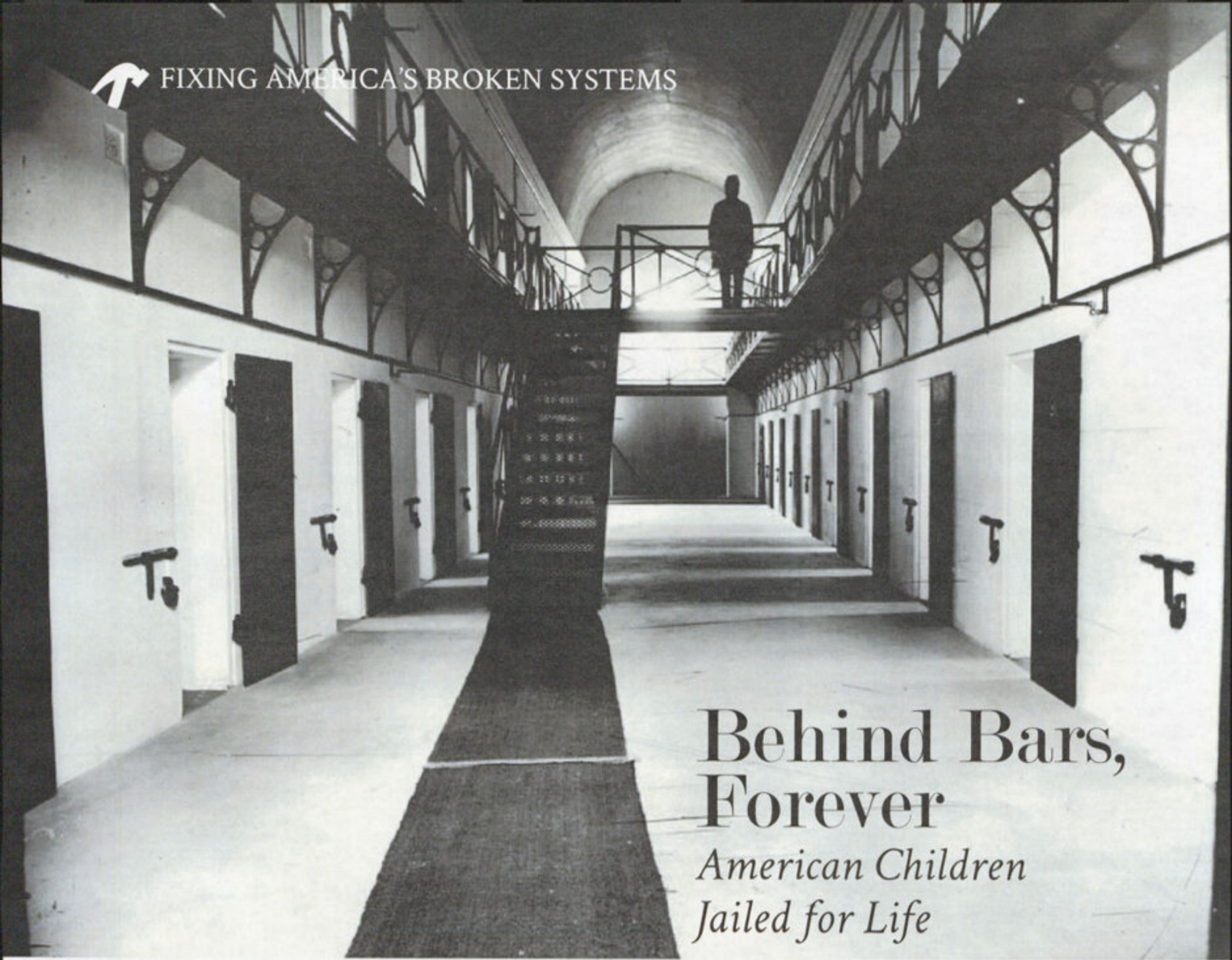
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Behind Bars, Forever

*American Children
Jailed for Life*

BY CASEY SCHUTTE

The law does not trust them to vote. It forbids them from watching certain movies in the theater or signing up for a credit card on their own. Consuming alcohol is certainly off limits, as is smoking cigarettes. Society proscribes certain activities for these people because, the thinking goes, they lack the wisdom of age and so cannot be trusted to make informed choices.

But when some children commit crimes, the calculus changes. Suddenly the legal system has no problem assigning children responsibility for their own decisions, implicitly concluding that crime committed by the young is the product of a deliberate decision-making process. These children are sentenced to die in prison.

And it is not only sixteen- and seventeen-year-olds, adolescents who may look old enough to buy alcohol, who are sentenced to life without parole. The Equal Justice Initiative has documented seventy-three cases in the United States where children thirteen- and fourteen-years-old have been given a sentence of life without parole (LWOP) (Equal Justice Initiative 2007). Absent a change in their sentence or some form of pardon, these kids will never again experience life outside an institution. All seventy-three of them are people of color, and most have histories as victims of abuse or neglect.

Take, for example, Quantel Lotts. Quantel grew up in a troubled section of St. Louis. His mother sold and used drugs at

home, and Quantel lived in three different foster homes before his father took him to live in a different part of the state. During an argument with his stepbrother, Michael, Quantel fatally stabbed him with a knife. Quantel, fourteen at the time of the stabbing, was sentenced to LWOP.

Even the combination of young age and mental disability does not preclude a sentence of life without parole. Joe Sullivan has a severe cognitive impairment and was thirteen when an older codefendant accused Joe of a sexual battery that allegedly took place in a home they burglarized together. Joe denied the allegations and still maintains his innocence. He was sentenced to die in jail and is currently serving his time in Florida.

The United States stands alone in its willingness to hand out LWOP sentences to children. A 2005 Amnesty International/Human Rights Watch study found that while at least twelve countries still had laws allowing juvenile life without parole, only three other countries had children actually serving the sentence: Israel had seven, South Africa four, and Tanzania one. At this point, the United States is likely the only country in the world that continues to impose the sentence in new cases.

The United States' status as an outlier is due in part to the fact that juvenile LWOP contravenes several international treaties. The Convention on the Rights of the Child, for example, has been ratified by 193 nations; the United States is one of only two countries in the world that has refused ratification. Article 37 of the Convention states, "Neither capital punishment nor life imprisonment without possibility of release shall be imposed for offences committed by persons below eighteen years of age" (Office of the United Nations High Commissioner for Human Rights 1989).

Such juvenile sentences also constitute a violation of additional international treaties including: the International Covenant on Civil and Political Rights; the United Nations Standard Minimum Rules for the Administration of Juvenile Justice; the United Nations Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; and the American Declaration of the Rights and Duties of Man (American Academy of Child & Adolescent Psychiatry 2009).

In 2010, the Supreme Court brought the United States closer to international norms when it placed substantial limitations on states' freedom to sentence juveniles to life without parole: no LWOP for non-homicide crimes. The Supreme Court case *Graham v. Florida* involved a sixteen-year-old boy, Terrance Graham, who pled guilty to armed burglary with assault and battery and attempted armed robbery. Six months later, he was arrested for a home invasion robbery in violation of his plea agreement and sentenced to life without parole. Graham challenged that sentence as violating the Eighth Amendment ban

on cruel and unusual punishment, and the court agreed. In the majority opinion, Justice Anthony Kennedy wrote: "The judgment of the world's nations that a particular sentencing practice is inconsistent with basic principles of decency demonstrates that the court's rationale has respected reasoning to support it."

And it appears that the matter is still not settled. As of the time of this writing, the Supreme Court was set to hear oral arguments in March 2012 in two cases challenging juvenile life without parole in murder cases. The two cases, *Miller v. Alabama* and *Jackson v. Hobbs*, both involve youths who were fourteen-years-old at the time of their crimes. The juveniles' petitions to the court argued that there is a "national consensus" against a sentence of life without parole for children as young as fourteen.

The Supreme Court's shift on the acceptability of juvenile life without parole comes at least in part from an emerging body of scientific knowledge about how the adolescent brain operates. Though this knowledge may often come from research conducted in artificial settings and may not translate perfectly to emotionally charged real-life moments, it still provides insight into how adolescents think and act differently from adults.

One of the most important research findings is that even though intellectual maturity reaches adult levels at age sixteen, psychosocial development continues into early adulthood. This can change our perception of adolescent culpability for a crime; yes, an adolescent may have the same ability to reason as an adult, but real-world decisions involve a lot more than a simple question of intellect or rational judgment. In high-pressure situations where a crime is being committed, adolescents must contend with their shortsightedness, impulsivity, and susceptibility to peer influence. And in these areas, as research by the MacArthur Foundation Research Network on Adolescent Development & Juvenile Justice (n.d.) has demonstrated, adolescents differ significantly from adults.

The network conducted studies to as-

The Convention on the Rights of the Child has been ratified by 193 nations; the United States is one of only two countries in the world that has refused ratification.

sess how adolescents and adults envision themselves in the future and found that adults look much further ahead and therefore display a stronger orientation toward the future. Generally, adolescents are far less likely to consider future consequences of their actions. In one study, the network gave subjects the choice between smaller, immediate rewards or larger, longer-term rewards. Adolescents consistently had a lower threshold than adults for giving in to the smaller, more immediate reward. This tendency to focus on immediate rewards and ignore long-term consequences has obvious implications for criminal conduct; where an adult might judge the possibility of punishment as outweighing the payoff for a crime, an adolescent is more likely to think only of the short-term reward.

The organization's research also showed that adolescents have poor impulse control and that individuals are less likely to seek thrills and act impulsively as they age. To examine this, researchers gave study subjects a "Tower of London" task, where the goal was to solve a puzzle. When subjects made a wrong move, it took extra moves to undo it. The research showed that adolescents took less time than adults to plan and consider their first move, preferring instead to dive right in to the task, often

with predictably negative consequences. This lack of sensitivity to risk, combined with an increased sensitivity to rewards, makes juveniles more likely to take risks in pursuit of immediate benefit. In crime situations, this impulsivity can have dangerous and disastrous consequences.

Finally, the network looked at vulnerability to peer pressure and came up with probably the least surprising of its research findings: youths are more susceptible to peer influences than adults. One study involved a computer car-driving task and showed that the mere presence of friends increased risk taking for youth and college undergraduates, but the same was not true for adults. Overall, youths' desire for peer approval and fear of rejection often leads them to take actions they would otherwise refuse.

Collectively, these research findings demonstrate that adolescent crimes may be more the product of age and immaturity than enduring lawlessness. This raises important questions about the wisdom of locking children up for life: does a child who commits a crime at fourteen deserve to be incarcerated forever, when the developmental circumstances that helped incite the criminal behavior will fade with age?

Sentencing juveniles to die in prison is

bad policy and should be banned. The Supreme Court has the opportunity to do just that when it decides *Miller v. Alabama* and *Jackson v. Hobbs* and should take the opportunity to issue a categorical rule outlawing the sentence. Absent such a decision, state legislatures should recognize the immoral nature of these sentences and end juvenile life without parole within their borders, as at least six states have already done. Advocacy groups have an important role to play in this state-level process and can work to educate legislators about the numerous reasons juveniles should not receive life sentences.

Whether the change comes from a judicial decision or from legislation, it is time to stop sentencing America's children to die in prison. ■

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Photos courtesy of NSW Australia



Bending the Cost Curve

Using Comparative Effectiveness Research to Improve Health Care

BY SAMUEL TAKVORIAN

With the U.S. economy teetering on the edge of recession, policy makers have turned again to rising health care expenditures—hatchet in hand and ready to strike—as a necessary place to start in getting America's fiscal house in order. U.S. health care spending accounts for 17.9 percent of the nation's gross domestic product (GDP), the highest of any industrialized nation (Squires 2011). More worrisome, the growth of health care spending has for decades outpaced the growth of GDP by an average of 2.5 percent (Reinhardt 2009). While recent statistics from the Centers for Medicare & Medicaid Services (CMS) show some slowing of national health expenditures, this is largely due to decreased utilization during periods of slow economic activity; there is little reason to believe that the drivers of rising health care costs have fundamentally changed (Martin et al. 2012).

How to “bend” the cost curve remains the fundamental question of health care policy makers, as every dollar spent on health care is a dollar lost to other worthy investments. In the wake of national health care reform, legislators have proposed numerous solutions, including substantial expansions in care coordination, disease management, and value-based payment programs such as accountable care organizations. While many of these reforms have yet to be fully implemented, early results have been disappointing. A recent analysis of Medicare's demonstration projects by the nonpartisan Congressional Budget Office (CBO) concluded that: “on average, the 34 care coordination and disease management programs had little or no effect on hospital admissions or regular Medicare spending.” Of the four value-based payment demonstrations evaluated, three had little or no effect on Medicare spending (Nelson 2012).



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How can we harness the cost-saving potential of CER? Part of the answer lies in the fabric of the delivery system itself.

Perhaps one of the most celebrated tools for reducing health care costs without compromising quality is comparative effectiveness research (CER), which is designed to uncover which treatments actually work in clinical practice, for whom, and under what circumstances. CER has great potential to reduce health care costs but only if its scope is broadened to encompass the delivery system as a whole in addition to specific treatments and technologies. President Barack Obama invested \$1.1 billion in CER in his 2009 economic stimulus package and called for further measures in his landmark 2010 health care reform bill. Chief among these was the creation of a new institutional home for CER: the Patient-Centered Outcomes Research Institute (PCORI). An independent, non-profit entity, PCORI was established to set

national priorities for CER and to fund the systematic generation of evidence on the effectiveness of competing interventions (Garber 2011).

President Obama's investment in CER came after more than a decade of evidence demonstrating widespread deficiencies in the quality of U.S. health care. In 2000, the Institute of Medicine, an arm of the National Academies, published a seminal report estimating that 44,000 to 98,000 inpatient hospital deaths each year were attributable to preventable medical errors (Kohn et al. 2000). Three years later, a study by the RAND Corporation found that U.S. adults received only 54.9 percent of the care recommended by current evidence (McGlynn et al. 2003). These studies and others fueled a growing quality movement in American medicine, of which

evidence-based medicine and CER were at the core.

Realizing that medicine's evidence base was insufficient for many decisions made by payers, providers, and patients, policy makers turned to CER as a way of both improving quality and lowering costs. Peter Orszag, CBO director from 2007 to 2008 and director of the Office of Management and Budget under President Obama, was a notable champion for an expanded federal role in CER, lauding not only its impact on patient outcomes but also its potential to drive down health care spending in the long run (Congressional Budget Office 2007). An independent analysis by the Commonwealth Fund and Lewin Group estimated ten-year savings from coordinated public/private CER efforts at \$480 billion nationally, with \$174 billion in federal savings over the same period (Nuzum et al. 2009).

However, underlying these estimates was the assumption that the improved evidence generated by CER would be adopted by payers and providers in daily practice and delivered to patients seamlessly and efficiently. Ultimately, this relies not only on the generation of a solid evidence base but also on the structures and design of the delivery system itself. Consider the case of percutaneous vertebroplasty, a widely practiced procedure in which cement is injected into the spine to treat painful vertebral fractures. In 2009, two rigorous, double-blind, randomized controlled trials were published in the *New England Journal of Medicine* demonstrating that vertebroplasty was no more effective than a sham procedure in which no cement was injected (Buchbinder et al. 2009; Kallmes et al. 2009). Nevertheless, almost three years after the publication of these results, public and private insurers continue to cover the procedure, and it is still widely performed (Wulff et al. 2011). It takes time for best practice guidelines to disseminate into actual practice, and once these guidelines exist they are notoriously short-lived (Shojania et al. 2007).

How, then, can we harness the cost-saving potential of CER? Part of the answer

lies in the fabric of the delivery system itself, which is just as varied, redundant, and wasteful as the treatments and interventions under scrutiny in CER. What is missing from the nation's health care strategy is a systematic approach to studying this variation. Just as CER promises to add clarity to the muddled science behind competing treatments and technologies, comparative research on care delivery structures is necessary to optimize the delivery system and ensure the dissemination of evidence into actual practice. Physicians have traditionally strayed away from this type of research as it is less amenable to randomization and control, two research techniques long considered to be gold standards in the field. Indeed, delivery researchers will likely need to utilize new methodologies to tackle these issues, such as quasi-experimental design and cluster randomization (Platt et al. 2010).

Outsiders such as Michael E. Porter and Elizabeth Olmsted Teisberg have approached the field of health care delivery from the perspective of systems engineering, strategy, and business. In their seminal book, *Redefining Health Care*, Porter and Teisberg (2006) offer a useful organizing framework for health care delivery centered on patient value (defined as health outcomes achieved per cost incurred). Since value for patients is generated in the treatment of particular medical conditions, the delivery system must be organized accordingly and designed to meet the needs of patients at the level of their individual medical conditions. Likewise, value should also be measured at the level of the patient's medical condition: both outcomes (the multidimensional outcomes that matter most to patients) and costs (the actual resources utilized in the provision of care) must be measured over the full cycle of care from prevention and diagnosis to treatment and follow-up (Kaplan and Porter 2011; Porter 2010).

Applying this framework allows us to make meaningful comparisons among competing delivery systems and to identify value-adding and value-detracting processes. Such an analysis reveals sub-

\$480
BILLION:
Estimated ten-year savings from coordinated public/private CER efforts

stantial cost-saving opportunities from restructuring and streamlining the way care is delivered. At the organizational level, such opportunities stem from three main interventions: eliminating unnecessary or redundant processes that do not improve patient value; rationalizing service lines across separate facilities moving less resource-intensive services to less-expensive, lower-resourced facilities; and matching clinical resources to clinical processes, ensuring that each member of the health care team is utilized to the highest capacity that his or her training allows.

Some organizations are beginning to address these issues internally using process improvement tools such as "Lean" and "Six Sigma," which seek to identify and remove sources of error or inefficiencies and to minimize process variations. Currently a coordinating framework for addressing these issues is lacking at the national level, making it difficult to ensure appropriate benchmarking and guarantee the widespread adoption of best practices. PCORI, having recently announced a draft list of national research priorities encompassing some delivery topics (2012), may already be moving in this direction. These recommendations must be adopted and leveraged to bridge the divide between white coat physicians and dark suit administrators. What is needed is unity of purpose and a common understanding that bending the cost curve is just as contingent on redesigning care delivery structures and optimizing the system as a whole as it is on performing better medicine at the level of the individual provider. As former CMS administrator Don Berwick remarked: "Commercial air travel didn't get safer by exhorting pilots to please not crash. It got safer by designing planes and air travel systems that support pilots and others to succeed in a very, very complex environment. We can do that in healthcare, too" (Lowe 2011). ■

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Primary Care Physicians, An Endangered Species?

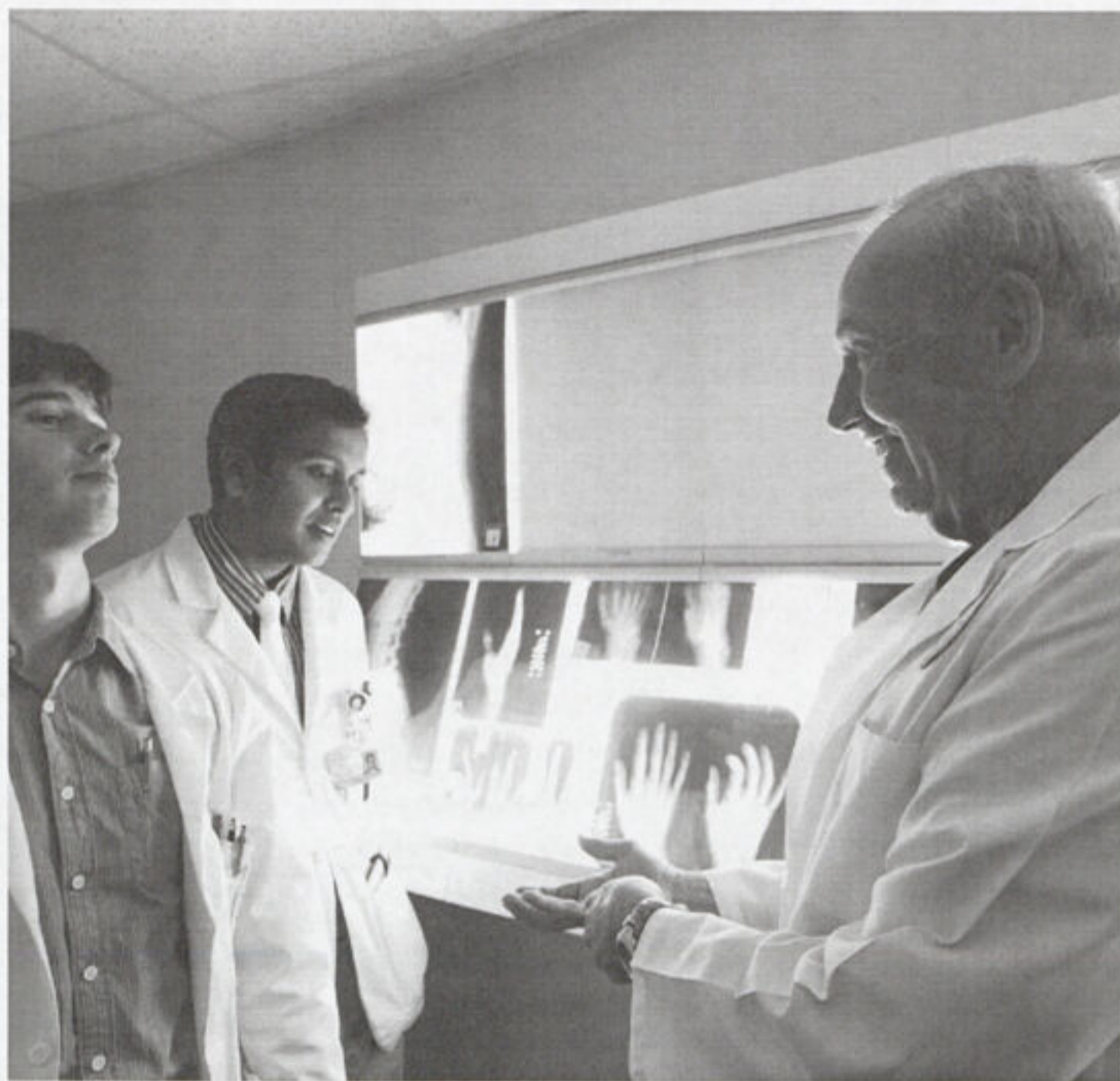
How Rising Medical School Debt Is Threatening our Health Care System

BY JANE ZHU AND IAN METZLER

Susan Tomkins will graduate from Harvard Medical School in May 2012 with \$196,000 in loans. As a first-year student she had hoped to carry her father's worn black medical bag into the rural Oregon community where she was born. But faced with the burden of high debt—totaling nearly \$500,000 over twenty to thirty years when interest is included—Susan reluctantly eliminated every primary care specialty from her career plans. She recently chose to pursue dermatology, a specialty that commands nearly double the salary of family care physicians. "I didn't expect to have to worry about the economics of it all," she explains. "But the harsh reality is that I have to choose between relieving my family from an enormous debt and pursuing a greater good in my small hometown. As is, I'll be paying my debts until my forties or fifties."

A composite of three real-life medical students, "Susan" illustrates the kinds of choices that all too many aspiring doctors face today. As education costs grow larger than most people's personal resources, more students are going into debt to finance their degrees; in fact, more than 85 percent of medical students now graduate with outstanding loans. Average student indebtedness is \$157,990, with nearly 80 percent of graduates owing at least \$100,000. Just two decades ago, indebtedness averaged \$27,000 (American Medical Association n.d.). Physicians' incomes have increased much more slowly during the same period—and even more slowly than consumer prices—making it more difficult for doctors to repay their educational loans today than ever before.

This trend is costly not only for new generations of doctors but also for American society. For one thing, it will deprive us of a critical presence in our medical ranks: doctors from low-income and ethnic minority backgrounds. One of our



Physicians' incomes have increased much more slowly during the same period—and even more slowly than consumer prices—making it more difficult for doctors to repay their educational loans today than ever before. Photo courtesy of Tulane Public Relations.

most pressing health care challenges is the need for a more diverse physician workforce to serve an increasingly racially and socioeconomically diverse population. By 2050, more than half of the U.S. population will be racial and ethnic minorities (Association of American Medical Colleges n.d.), and as the recent Occupy protests have reminded us, the income gap continues to widen. It is no wonder that the Association of American Medical Colleges and many other physician organizations have called for increased diversity in medicine as a way to improve access to health care for the underserved.

But it is unlikely that these communities will be fully served without reforming who we educate to become doctors. The evidence is clear: minority physicians are more likely than White doctors to practice in low-income and minority communities. When it comes to underserved communities, a diverse workforce builds better patient-doctor relationships, increases patient satisfaction, and encourages more culturally competent care (Association of American Medical Colleges n.d.). But despite there being two applicants for every medical school spot, cost remains the strongest deterrent for minority and low-

income students considering a medical degree, and these groups remain severely underrepresented in medicine (Jolly 2005). Only one in ten graduating MDs is Black, Hispanic, or Native American; just 3 percent of medical students are from households in the bottom 20 percent of U.S. income earners. Meanwhile, more than half of all medical students come from families in the top 20 percent (Greysen et al. 2011). If the current rate of debt continues, there may come a time when only the elite can finance a medical education. Millions of Americans will suffer as a result.

The specter of debt also profoundly influences postgraduate career choices and discourages future doctors from entering primary care. Primary care has always been the foundation of our health care system, allowing doctors to establish long-term relationships with patients and to en-

sure coordination of care. But nearly one in five Americans today does not have access to primary care due to a shortage of nearly 30,000 primary care physicians (Cullen et al. 2011). This shortage exacerbates the fragmented care, inappropriate use of specialists, and skyrocketing health care costs that are exhausting our current system.

Consider the choice facing medical school graduates: in 2010, a primary care physician earned a median salary of \$159,000 while radiologists earned more than double this amount (Guglielmo 2011). While these earnings may appear high, primary care no longer compensates doctors enough to cover the costs of running a clinic, malpractice insurance, and paying off debts from school. To make ends meet, primary care physicians either must take on more patients and risk the quality of care provided, or they must exclude

publicly insured patients altogether. Not surprisingly, as average indebtedness has risen, the number of applicants to primary care residencies has shrunk. For every one-hundred medical school students who graduate next year, only seven will go into general internal medicine or family practice. This diminished interest in primary care means that we cannot possibly meet our current shortage of primary care doctors, which is expected to increase exponentially as retiring baby boomers begin to flood the health care system.

WHAT TO DO ABOUT IT

A comprehensive solution to our broken health care system must include financial reform for medical education. But instead of decreasing the debt burden at its roots, the federal government has addressed the issue primarily with loan-repayment programs. The National Health Services Corps helps doctors repay their loans in exchange for work in underserved areas. Less than 4,000 clinicians currently participate, and this number includes nurses, counselors, dentists, and other health care personnel. States like Kansas, Arkansas, and Texas have loan-forgiveness programs in exchange for commitments to return to designated in-state areas upon graduation, but these programs are small and do little to shift the larger cost trends (Schick 2011). To add to these options, the 2010 Affordable Care Act capped monthly loan repayments based on income, reducing a typical monthly payment from \$2,000 to about \$400 (Schick 2011). These programs are commendable but insufficient. They occur too late in the education process to effectively recruit underrepresented minorities during college or to affect specialty choices for graduating medical students. And recent legislation has only compounded the problem. With the 2011 Budget Control Act, Congress removed subsidies from federal Stafford loans for all graduate and professional school students. Effective July 2012, medical students will begin accruing more interest on their already bulky loans,

BY THE NUMBERS

\$157,990

AVERAGE STUDENT INDEBTEDNESS IN THE UNITED STATES

ONE YEAR OF MEDICAL SCHOOL TUITION IN FRANCE

\$258

85

PERCENT OF MEDICAL STUDENTS GRADUATING WITH OUTSTANDING LOANS

PERCENT OF MEDICAL STUDENTS FROM THE BOTTOM TWENTY PERCENT OF UNITED STATES INCOME EARNERS

3

directly undermining the intended benefits of federal loan-forgiveness programs (U.S. House of Representatives 2011).

These initiatives are Band-Aid solutions to the student debt crisis, but the medical education system needs a cure. Rather than address skyrocketing debt after the fact, we should reduce student loan needs from the start, a crucial step that the Obama administration has already applied to the undergraduate student debt crisis (Nakamura and de Vise 2012). The president recently announced a plan that would make federal aid contingent upon college affordability; as efforts move forward to alleviate the undergraduate debt burden, we have a rare opportunity to address medical school debt simultaneously. By reducing the cost of medical education, medical students will have incentives to assume a wider range of socially responsible roles. In almost every other country, the costs of medical education are substantially lower. Medical school tuition in France costs less than \$258 annually, with almost all expenditures financed by the state. In Canada, medical tuition ranges from \$6,000 to \$16,000, with partial funding from the government, private resources, and redirected clinical earnings (Segouin and Hodges 2005).

These numbers compel us to ask: how much should we pay to train physicians, and does more spending necessarily produce higher value in medical education? Our current health care reform efforts have given us an opportunity to reevaluate our runaway health care expenditures and eliminate an estimated \$1.3 trillion in annual waste. Money saved from improved efficiency could be reinvested into medical education, not through loan-forgiveness programs but as tuition caps for individual medical schools and grants for minority and low-income students. In the face of our mounting federal debt, we also ought to eliminate the up-front costs of medical school and allow physicians to redirect a nominal percentage of their earnings back to the system over ten to twenty years. This strategy is self-sustaining and requires

little long-term financial support from the federal government. Most importantly, it would remove the economic constraints that currently discourage diversity in medicine and push students out of primary care. If our current system continues, one thing is clear: the medical profession—and the health of our communities—will soon become crippled by the growing weight of unmanageable debt. ■

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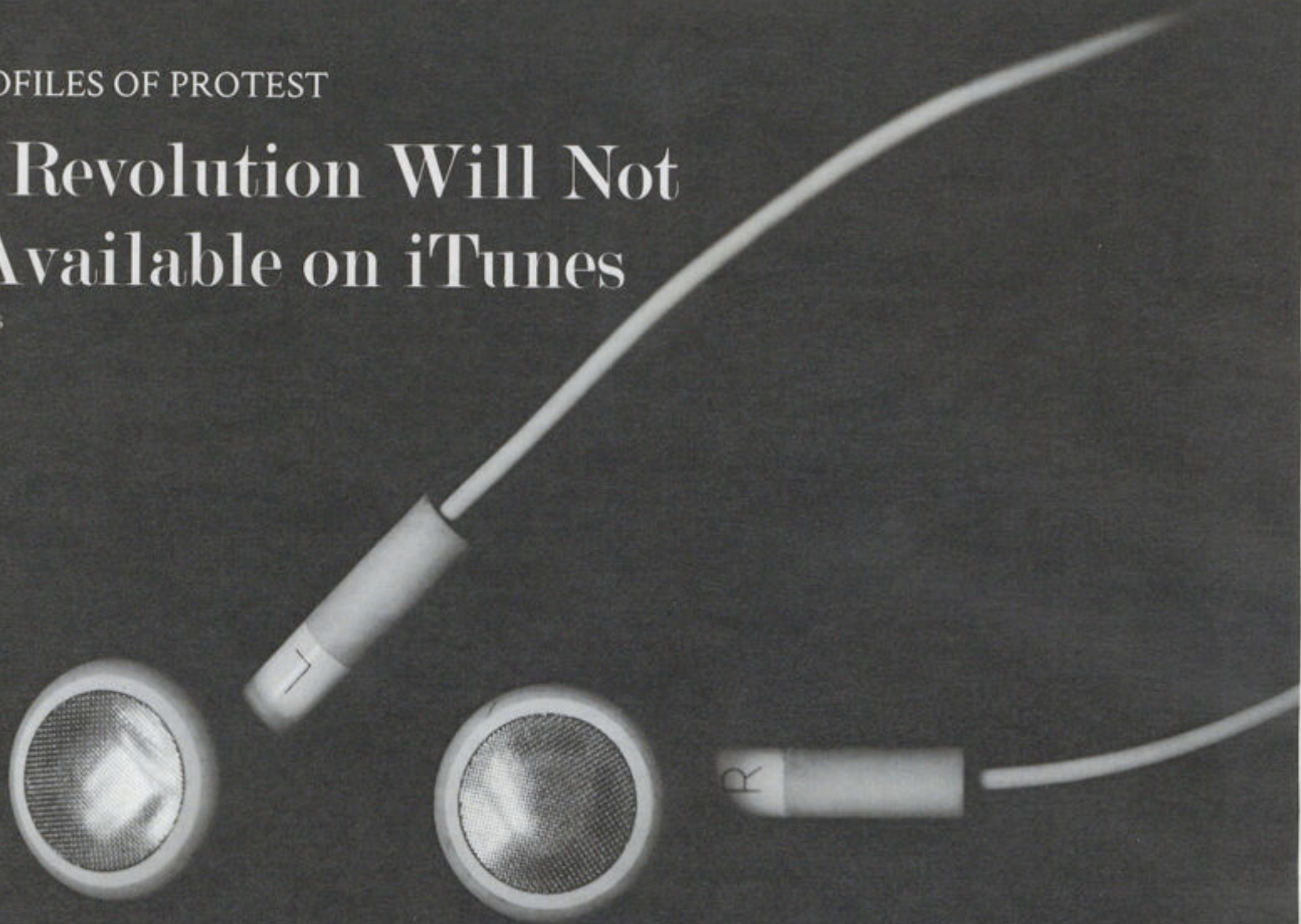


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The Revolution Will Not Be Available on iTunes

BY SEAN KATES



The millennium could have started better for Americans. We saw the nation voluntarily enter two wars costly in terms both monetary and human. An ineffective government response exacerbated one environmental disaster, while private cupidity and stupidity caused another. Promises of universal home ownership crashed down around us, aided by slick financial creations misunderstood by everyone. At times, 10 percent of the nation stared unemployment in the face, and for the most part, it stared right back. War, environmental misdeeds, and economic hardship, the last decade has been a perfect breeding ground for protest music that would move the nation and set its hearts ablaze with a thirst for change.

Except none came.

Instead, in a time of great social unrest, people looking for protest music had to go farther afield than at any other time in the past century. While there were a few commercially successful songs with social

impact, popular music in the United States was dominated by boy bands, female solo artists, and an enchanting but innocuous dance-based hip-hop. Protest music played very little part in the largest social movements, even as musicians expressed their solidarity through other means. When the next generation makes a movie about this time in America (and it will), the film will lack a meaningful soundtrack.

Many will be inclined to ask, "So what?" But protest music has always played an important role in American society, especially in the cultivation of a social conscience. It serves two communicative purposes, one primary and one secondary. Overwhelmingly, protest music coordinates and strengthens a movement by appealing to the movement's members. However, as a side benefit, it may also serve to persuade outsiders to join the fray.

We should care, then, why protest music has largely disappeared from our radio stations. There are many reasons for

Photo by Rob Ellis

the decline that are endemic to the music industry itself, and we should strive to understand those first. After all, the landscape in which music is created and sold has certainly changed since the days of Bob Dylan, Joan Baez, Chuck D, and Johnny Rotten. However, as discussed below, these environmental differences cannot fully explain the recent draught of commercially successful but socially conscious music. We must look outside the industry and consider plausible reasons for this cultural phenomenon. Could it be that the new media so helpful in organizing the Tea Party and the Occupy movements has played a detrimental role, marginalizing its low-tech predecessor? If so, what future exists for this once widely prevalent form of political speech?

THE INFANTILIZING INDUSTRY

Perhaps the most important difference between then and now is the audience. A shrinking industry has become ever more monopolistic, as independent labels are swallowed up into a limited number of multinational corporations, and radio stations both large and small fall under the ownership of Clear Channel or a select few other big fish. This consolidation and its resultant economic realities have altered the landscape in a new and unique way: audiences have become "target demographics" with a lowest common denominator fit for mass appeal. Such target demographics are likely to be very young and largely apolitical. In the view of the ever profit-maximizing corporation, newly pubescent minds are easier to shape and predict than an older audience and far more likely to support alternative revenue streams like television shows, movies, and country-wide tours. From the industry standpoint, political messages are best avoided, even when aimed at adults, since they unnecessarily split an already too narrow market.

The best-selling artists of the 1970s include Elton John, Peter Dinklage, Neil Young, and Fleetwood Mac—all artists who appealed to a wide range of ages and

politics. In contrast, the 2000s were dominated commercially by Taylor Swift, Justin Timberlake, Beyoncé, Usher, Eminem, and the enterprising youth behind the High School Musical soundtracks—artists with a far more narrow audience comprised mostly of the young. The trends, meanwhile, are moving ever younger and ever more "safe," as Lady Gaga and Ke\$ha leverage their vast armies of teenage fans to move up the list.

Meanwhile, the biggest stars with adult audiences are shying away from inserting politics into their music. One can un-

Perhaps the most important difference between then and now is the audience.

derstand such a reaction after the Dixie Chicks faced radio blacklists and ostracism from the country music community for speaking out against former President George W. Bush and the Iraq war. However, other claims ring more hollow. Chris Martin, otherwise politically active in the fair trade movement, explained that his band Coldplay—by some measures the largest rock band in the world—would not include these beliefs in its music because, in part, "It's very hard to find things that rhyme with North American Free Trade Agreement." If only he had a slightly more elastic rhyming dictionary, it seems, he would be leading the modern protest music movement.

It should be noted that not everyone sat by quietly. Tom Morello, R.E.M., Ani DiFranco, and Michael Franti continued combining politics with song, though less profitably than before. We discovered new voices in Lupe Fiasco and dead prez—hip-hop artists intent on filling the role previously occupied by socially conscious artists like Public Enemy and N.W.A. Green Day, of all bands, delivered a concept album and a Broadway musical focused on the dispiriting crush of being young and

American, consumed with a fear and a fire you cannot acceptably express. But these are the outliers. Protest music, in general, is in steep decline.

Why it should be so is not altogether clear. Yes, popular music is aimed at a new audience, and yes, there are economic reasons to remove polarizing topics from one's music. But these effects have not eliminated the large number of socially conscious adults looking for an outlet. Perhaps the decline in protest music was not solely determined by factors internal to the music industry after all.

THE TWITTER BOMB

Part of protest music's power and appeal over the past half century was the breadth it offered to protest movements. In a locality-based world with few truly national or international media, communication (and thus, movements) tended to stop at borders, whether geographic or cultural. Commercially successful popular music could transcend those barriers and deliver a movement's message from enclave to enclave, eventually uniting the pockets across the nation and, in some cases, the world. In music's case, the medium mattered as much as the message in traversing the roadblocks placed by physical and social realities.

The advent of the Internet steamrolled those barriers. Technology flattened the world, globalization shrunk it, and protest music found nearly endless competitors. Individuals with general grievances could choose twenty-four-hour news channels that mirrored their views, while saving their specific gripes for partisan blogs that ensured that any political action would make at least one run through the snark gauntlet. Facebook and other social networking sites moved beyond facilitating

snowball fights and extramarital affairs, launching platforms for like-minded protestors to join forces across the country. Using the new media, both the Tea Party and Occupy movements connected local groups to a national conversation and created platforms to facilitate the quick and efficient proliferation of their ideas. Twitter became the tool of choice for Americans following and supporting uprisings in the Arab world.

Meanwhile, traditional media is being forced to respond to the technological threat or wither in its wake. There are reasons to believe that this transition is harder for protest music than most others. From the writing process, to the time spent in studios, to the slow burn of a sung message transforming into a battle call as it finds its audience across the radio waves, protest music has always been a painstaking endeavor. And the world, in its current state, no longer seems to have time for it. One tweet can organize a boycott. An article about economic injustice can be linked to by hundreds, read by thousands, and misused by millions in less than a day. As news cycles shorten alongside attention spans, the process of creating protest music seems more and more archaic.

It does not help the cause of protest music that its own potential practitioners have taken up with the enemy, as musicians espouse their beliefs via the social networks most assured of bringing them attention and fame. They find ways to say in 140 characters what is apparently too difficult to artistically express in song. The echo chambers fashioned for us by modern technology have proven effective at giving us access to an endless amount of information we agree with while also ensuring that it is very hard for us to hear anything else.

THE FUTURE OF PROTEST MUSIC

If the above is true, and the communicative powers of protest music have been replicated and replaced by our new media, it would be far from the first time a new technology has made a form of com-

munication obsolete. As a population, we have moved away from carrier pigeons, the Pony Express, telegraphs, and even the handheld landline, all in search of greater immediacy and convenience.

Still, there may be hope for the Pete Seeger stalwarts who are still among us. Protest music, unlike the media discussed above, has an emotional connection that, from time to time, can conquer the human drive for technological progress. As Wazir (Willie) Peacock, Student Nonviolent Coordinating Committee member, noted in Seeger and Bob Reiser's *Everybody Says Freedom*: "When you sing, you can reach deep into yourself and communicate some of what you've got to other people, and you get them to reach inside of themselves. You release your soul force, and they release theirs, until you can feel like you are part of one great soul." No social networking site has yet managed to replicate this feeling—one that sits at the very heart of protest movements. Will this distinct advantage be enough to save the protest song? It's an increasingly tenuous thread to cling to, but protest music fans have never had difficulty embracing lost causes. ■

Endnotes

¹In other words, if it's rhymes you're after, don't sing about NAFTA.

²For instance, R.E.M.'s aptly titled environmentalist album *Green* sold well over two million copies in the United States. *Around the Sun*, *Accelerate*, and *Collapse into Now*, the band's three releases from this period, sold about a third of that—combined.



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The best-selling artists of the 1970s included artists who appealed to a wide range of ages and politics. In contrast, the 2000s were dominated commercially by artists with a far more narrow audience comprised mostly of the young. Photo by Mark C. Brennan.

Mind the Gap

Connecting the Movement to the Moderates in India and the United States

BY ABIGAIL BELLOWS

As pro-democracy revolutions swept the Arab world last year, citizens in the world's two largest democracies also rose up. In India, a massive anticorruption movement spearheaded by activist Anna Hazare started in April 2011 and boomed in August. In the United States, Occupy Wall Street and its sister movements sprung up in September. The uprisings provide a portrait of how citizens in formal democracies, where elections and political rights are already established, struggle for more functional democracies, where public needs supersede private interests. By all accounts, the movements have resulted in a surge in public outrage over corruption and inequality in their respective contexts.

While there are important differences between the movements, the similarities are striking. In particular, both movements claim to represent a majority of citizens. Hazare frames himself as the Indian "common man," in contrast to politicians. This is notable given the preponderance in India of politics based on caste or region rather than Hazare's universalistic grounds. Similarly, Occupy's ubiquitous "We are the 99 percent!" chant is boldly populist. While most progressive movements revolve around segments of the population, such as undocumented immigrants or the uninsured, Occupy asserts that 99 percent of Americans have a common economic stake—particularly when up against the 1 percent at the top—and that Occupy is their voice.

This article evaluates each movement's populist claims. I argue that while the aspirations of both movements are widely shared, the movements themselves have failed to capture the support of centrists who "should" be affiliating. As examined below, the movements' demands, leadership, and tactics have inadvertently alienat-

ed moderates. The article concludes by offering recommendations that could bring the movements closer to their broadest possible base. The analysis is limited to the first stages of these dynamic movements, through the fall of 2011.

CENTRIST GOALS

It is hard to deny that the rallying cries of the two movements reflect public opinion. In India, corruption is perceived to be the second-biggest hurdle to doing business domestically (Schwab 2010). According to a 2011 poll, 96 percent of Indians believe that the powerful in India can "get away with anything" and that government has a "culture of non-accountability" (*The Hindu* 2011). At the same time, the growing middle class, now accustomed to private-sector efficiency, has an increasingly low tolerance for bribe paying and the costs of government theft; this new expectation for accountability was on display in 2010, when a \$40 billion telecommunications scandal sparked fury in the media (Malik 2011). The frequency and scale of such scandals has grown as economic liberalization has expanded. The Arab Spring "suddenly made change possible," according to one activist, while growth in the young middle class created a demographic with energy and money, restless for a noble cause (Balasubramaniam 2011).

Just such a noble cause appeared in April when Anna Hazare embarked on a hunger strike against corruption. The immediate *raison d'être* for his protest was condemning the feeble anticorruption bill proposed by the ruling coalition. Hazare, like millions of others, perceived the legislation to be a betrayal of election promises to crack down on corruption. Hundreds joined Hazare on the hunger strike and hundreds of thousands more rallied in support. The newspapers rang with agreement about

96%

of Indians believe that the powerful in India can "get away with anything" according to a 2011 poll.

the need to fight corruption, and expatriates in London and Paris even held solidarity rallies.

Similarly, most Americans are united in their anger over rising inequality, joblessness, and foreclosures. In the wake of the 2008 recession, a record number of Americans—close to 50 percent—were classified as poor or low-income (Yen 2011). When reports surfaced in July 2009 that the same banks that had received federal bailouts had paid their top executives sky-high bonuses, the media buzzed with articles about Wall Street's excesses and President Barack Obama's seeming inability to rein in inequality.

In the United States, activists in early 2011 were captivated by the people's revolution in Cairo's Tahrir Square. In Spain, youth in fifty-seven cities staged *acampadas*, or campouts, to protest soaring unemployment. Inspired by these movements, in July 2011 the anticonsumerist magazine *Adbusters* created a new hashtag: #OccupyWallStreet. Many such protests had been staged before, but when thousands flooded Wall Street starting 17 September, it surpassed anyone's expectations.

The anger driving Occupy Wall Street was widely felt. A November 2011 NBC News/*Wall Street Journal* poll found that three-quarters of Americans believed the

country's economic structure to be "out of balance" in favor of the rich and that there was a need to "reduce the power of major banks and corporations and demand greater accountability and transparency" (Hart/McInturff 2011). As of October 2011, 59 percent of Americans agreed with what they perceived to be the "goals" of the Occupy movement (Princeton Survey Research Associates International 2011).

LOSING POTENTIAL SUPPORTERS

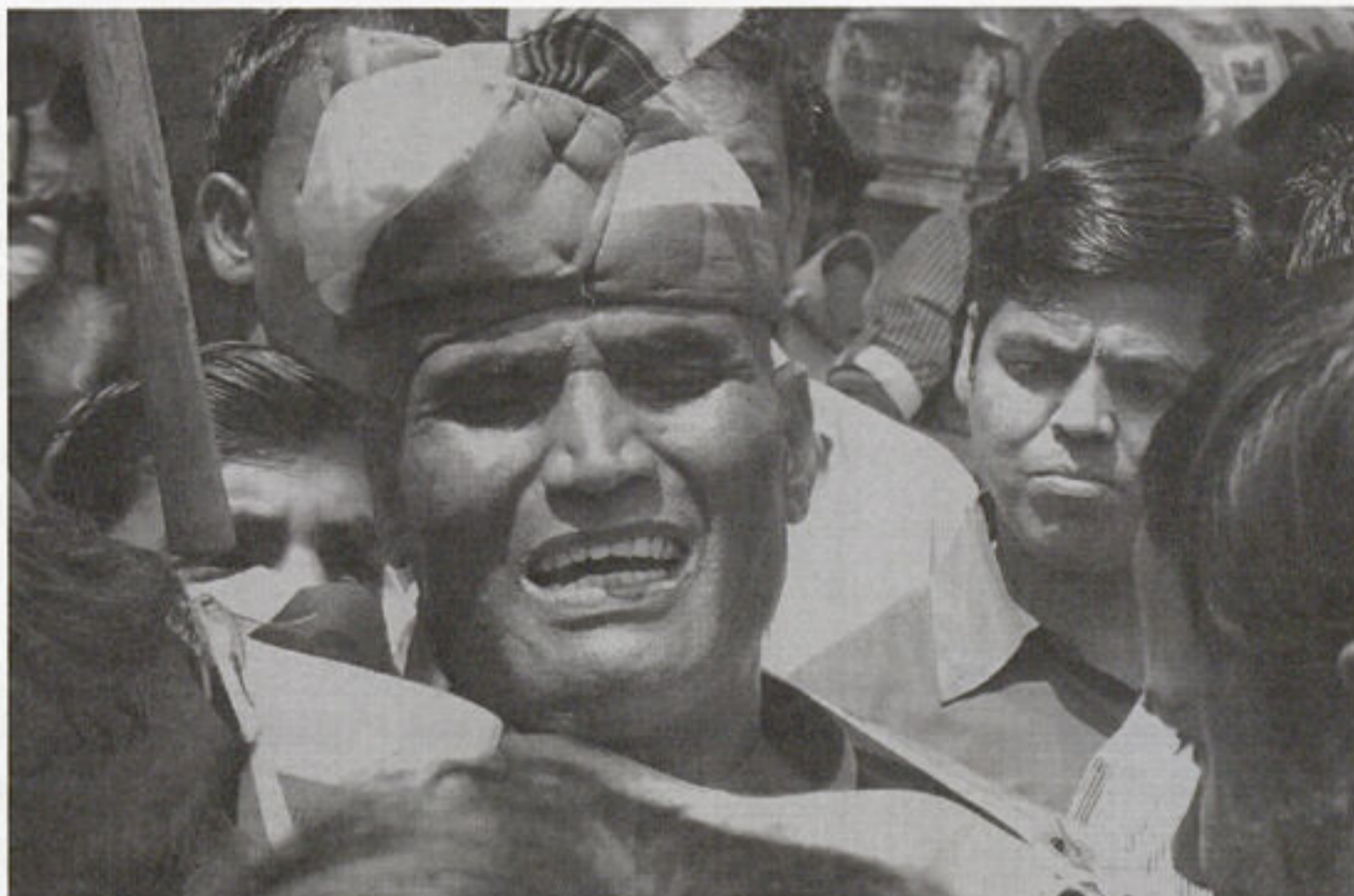
Given the widespread consensus on corruption and inequality, we would expect to see similarly widespread support for the campaigns tackling these ills. While the movements have received significant mainstream attention, they have also faced serious detractors among opinion makers and low participation from some who share their basic concerns.

In India, outspoken anticorruption activists such as Aruna Roy and Arundhati Roy came out against Hazare's demands and tactics, as did influential commentators like Vinod Mehta in *Outlook* magazine and Manu Joseph in the *New York Times*. While most Indians were glad someone was taking a stand against corruption, only one-third of Indians had actually heard of the Lokpal, Hazare's key demand (Yadav 2011).

In the United States, 40 percent of those who share Occupy Wall Street's concerns report disagreeing with their tactics (Pew Research Center 2011). While union leadership expressed support for Occupy, the face of the movement was not the all-American teachers and firefighters so prominent in the February 2011 union protests in Wisconsin. Jenny Jenkinss (2011) highlighted the tension between the Occupy organizers and everyday citizens in an address to fellow activists: "We have to be secure and uncompromising when it comes to the state and the 1 percent. But we have to be gentle, compassionate, and open when it comes to the 99 percent."

SOURCES OF DISCONNECT

What caused the estrangement between the movements and their would-be sup-



Top: Anti Corruption Rally in Delhi.
Bottom: Occupy Wall Street. Photo by Mike Fleshman.

porters? I argue that each movement's demands, leadership, and tactics narrowed the breadth of support they enjoyed.

DEMANDS

While most Indians and Americans supported the broad goals of their respective movements, many were ambivalent when it came to specific demands. In India, Team Anna's proposal to institute a Jan Lokpal—

a body that could investigate corruption at every level of government—was termed a "Jokepal" by some. Samar Halarnkar of the *Hindustan Times* critiqued the Jan Lokpal's "fuzzy definitions, inadequate separation of judicial and police powers, and possible prosecution of bribe givers" (2011). Others worried that the Jan Lokpal would not do enough; by demonizing individual officials it avoided addressing the systemic

problems that reproduce corruption. Such concerns significantly dampened support for the movement.

Occupy Wall Street has resisted articulating specific demands at all. Beyond the practical challenges of reaching consensus, organizers like Tammy Shapiro believe that enumerating specific demands would obviate the movement's function as an "umbrella for all our concerns" (2012). Others fear demands will reduce Occupy to another issue campaign. As the Onion quipped: "Americans are eagerly awaiting a list of demands from the group so they can then systematically disregard them and continue going about their business" (2011).

Regardless of the rationale, the absence of demands has made the movement less accessible. As organizer Yotam Marom put it: "Working families from the South Bronx aren't gonna come to a General Assembly for four hours to express their own demands. Demands are one way for them to hear that it's about them without them having to be there" (Heilemann 2011). After reiterating his support for Occupy's

are also indicted on more far-reaching charges. "They have poisoned the food supply through negligence," the declaration states. "They purposefully keep people misinformed and fearful through their control of the media. . . . They have accepted private contracts to murder prisoners even when presented with serious doubts about their guilt" (New York City General Assembly 2011). Such conspiratorial assertions are not substantiated and appear extraneous to the distributional issues that were originally at the heart of Occupy. As a result of its demands—or lack thereof—Occupy has lost the support of moderates who share its fundamental economic concerns.

LEADERSHIP

The current anticorruption movement in India orbits around Anna Hazare. His allure as a leader comes largely from his seeming purity: robed in simple whites and seated under an image of Gandhi, Hazare embodies the honest villager confronting corrupt New Delhi. This image is essential to Hazare's moral legitimacy,

against the Congress Party in Haryana, could have been avoided if the movement was guided by the wisdom of multiple leaders.

In contrast, Occupy is committed to an egalitarian and decentralized structure, alternatively described as "leaderless" and "leader-full." Nonetheless, organizers like Marom argue, "Anybody who says there's such a thing as a totally nonhierarchical, agenda-less movement is . . . not stupid, but dangerous, because somebody's got to write the agenda; it doesn't fall out of the sky" (Heilemann 2011). The myth of the "leaderless" movement can generate a lack of transparency about who actually holds power and how one becomes a leader.

Without a process through which to assign leadership, Occupy's default spokespeople tend to be those who are most impassioned or who the media finds most intriguing. As in any movement, those who are more outspoken also tend to be more radical. And the media seems to be particularly intrigued by Occupiers that are dreadlocked, pierced, and young. As a result, the public face of Oc-

The media seems to be particularly intrigued by Occupiers that are dreadlocked, pierced, and young. As a result, the public face of Occupy is disproportionately radical and deviant in both politics and appearance.

goals, Nicholas Kristof (2011) echoed the concern: "Where the movement falters is in its demands: It doesn't really have any. The participants pursue causes that are sometimes quixotic—like the protester who calls for removing Andrew Jackson from the \$20 bill because of his brutality to American Indians."

Furthermore, the statements that come closest to Occupy demands do not fully resonate with "the 99 percent." The declaration ratified by the New York City General Assembly in September 2011 decries exorbitant executive bonuses and illegal foreclosures yet "they" (the corporations)

and Hazare may be essential for the movement's success. It is possible that the protests would not have risen to national prominence if they did not revolve around a symbolic leader.

Still, dependence on Hazare also opens the movement up to significant vulnerabilities. First, revelations that Hazare enforced upper-caste practices in his village and forbade local elections eroded his credibility. Furthermore, by depending so much on Hazare, the movement can only be as strategic as he and his advisers are. Perhaps actions that cost the movement public support, such as campaigning

cupy is disproportionately radical and deviant in both politics and appearance. This image alienates mainstream audiences who might otherwise identify with Occupy's concerns.

Finally, Occupy's well-intentioned egalitarianism can limit participation. Consensus decision making at General Assemblies is remarkably inclusive, but it is also time-intensive and requires in-person attendance. In effect, participation is more feasible for the unemployed, students, and professional activists. The process inadvertently limits the involvement of those working multiple jobs,



parents, the elderly, and those outside urban centers.

TACTICS

The primary tactics employed by Team Anna and Occupy are controversial among potential supporters. Hazare and his allies used hunger strikes to pressure the government to pass the Jan Lokpal. Though the tactic captured public attention, it also brought on a hailstorm of criticism from moderates and civil society leaders. The former executive editor of the *Times of India*, Gautam Adhikari, summarized the sentiment: "Anna Hazare's fast-unto-death is a clear instance of misunderstood democracy. . . . Suicide is against the law in this democracy; so is any threat to commit violence, even to oneself, if you don't get your way. That's blackmail" (Adhikari 2011). This criticism became more widespread as Hazare continued to reemploy the tactic.

In Occupy's case, the tactic of camping in public spaces enjoyed significant support at first but lost ground as questions arose about the "end game." In Los Angeles, Mayor Antonio Villaraigosa warmly distributed ponchos to Occupiers in early October but by the end of the month said the encampment could not "continue indefinitely." Likewise, Senator Dianne Feinstein declared that protesters do not "have the right to occupy forever" (Almendrala 2011). To defend the tactic, a subcurrent of activism focused on the "Right to Occupy" grew, leading John Heilemann (2011) to claim that "Mayor Bloomberg's clearing of Zuccotti Park is likely to prove a boon to the Occupy forces, allowing them to stop expending so much energy on defending space and more on movement-building."

Finally, neither fasting nor occupying is a realistic option for most citizens. Health, family, and work obligations mean that few will risk self-imposed starvation or voluntary homelessness. That said, dramatic direct action by a few might be an effective method of capturing public attention. The problem lies in the fact that the movements depended too heavily on these tactics, neglecting to create enough other

meaningful points of engagement. Yes, everyone was invited to solidarity rallies and encouraged to sign online petitions or post on Facebook. But the lack of more powerful and widely known pressure tactics for everyday citizens meant a loss in participation and impact.

Before offering some recommendations for how the movements could realign with the vast majority, the article addresses a key objection. Perhaps these uprisings are not meant to be broad populist movements. Perhaps instead they are the radical "bad cop" empowering a moderate "good cop." Occupy's anger heightened public concern about inequality, allowing more established players like the Working Families Party and unions to push through New York's tax increase on the wealthy. Team Anna's unyielding style made activists open to negotiation seem more centrist and appealing. Perhaps these movements exist, the argument goes, to pull the center in their direction.

If so, then the movements should not claim to already be the center, as they do now.

If, on the other hand, the movements want to make good on their centrist claims, they have much to gain. Mass support gives them a tremendous boost in raw numbers and moderate voices, making it easier to impact those in power. New supporters gain an outlet for their anger and hope, forging relationships with like-minded citizens. In order to reap these benefits, the movements must identify demands with which the majority of citizens agree and develop tactics that are accessible to the masses.

Recommendations for India's Anticorruption Movement

MAKE DEMANDS, BUT NEGOTIATE

Hazare has already started collaborating with civil society actors to develop a Lokpal proposal that reflects broader public opinion. Still, he faces criticism for his perceived rigidity. As Indian scholar Sunil Khilnani (2011) wrote regarding Hazare, "To make something political . . . is above

all to make it amenable to negotiation. Such inductions are never easy—the new entrants necessarily want to make the encounter a clash of wills, to affirm their importance." Hazare could better communicate which elements of his proposal are essential and commit to serious negotiations about the rest.

BEYOND HUNGER STRIKES

In an environment where corruption is endemic, fasting may have been necessary to awaken India to the urgency of the problem. But from August onward, the movement would have benefited from a series of escalating pressure strategies. Possibilities for the future include street theater and public testimonials about experiences of corruption (such as those recorded on the "I Paid a Bribe" Web site—<http://ipaidabribe.com>), letters to the editor, joint events with anticorruption champions in the private sector, and an award system honoring clean bureaucrats. Team Anna could add to the electoral costs of corruption by partnering with credible nongovernmental organizations such as Satark Nagrik Sangathan to compile objective "accountability report cards" on candidates (Banerjee et al. 2011).

RECOMMENDATIONS FOR OCCUPY WALL STREET OCCUPY THE DEMAND SPACE

Demands, like leadership, exist whether we acknowledge them or not. By creating a transparent and inclusive process for reaching demands, Occupy Wall Street could have greater control over perceptions of the movement and public discourse about inequality. Demands would build bridges with centrists who have been hesitant to affiliate with something nebulous or unpredictable. By rallying around specific demands, Occupy is more likely to retain clarity of purpose now that most physical occupations have been disbanded.

TACTICS FOR THE 99 PERCENT

Occupy's tactics have been in transition since most encampments were cleared. Some protestors started occupying fore-

closed homes, but participating in such a tactic remains unrealistic for most Americans.

To engage moderates, Occupy could organize a massive round of teach-ins and house meetings about income inequality. This would help connect movement organizers with the 99 percent, deepen education about the issues, and demystify the movement. House meetings would offer a comfortable and intimate atmosphere to complement "Occupy Town Squares," roaming one-day occupations in parks around New York City.

The "Occupy Faith" caucus is building links with congregations already but could partner with established faith-based organizing groups and denominations to make this outreach more systematic and focused on middle America. Together, they could organize a month of testimonials, sermons, and Bible studies related to inequality and shared prosperity, perhaps tied to Pentecost, Passover, and Ramadan.

Those who cannot attend in-person events could show their solidarity with "We are the 99 percent" yard signs, bumper stickers, and postcards. On these postcards people could share their struggles and hopes for their economic future and then send them to friends. This tactic would be directed at a peer target audience, a complement to the Wall Street letter-writing campaign at the Occupy the Board Room Web site (www.occupytheboardroom.org).

Another effective tactic could be a "one-phrase campaign," conducted on social media and at in-person actions, where participants each state one economic sacrifice their family has had to make recently (e.g., prescriptions, piano lessons, retirement savings). Hollywood actors could create a series of humorous 99 percent ads, and flash mobs in business districts could showcase a catchy 99 percent dance.

CONCLUSION

On balance, Occupy and India's anticorruption movement have something crucial going for them: most people agree with their overarching cause. By specifying

popular demands, developing strategic leadership, and expanding tactical options, the movements can connect with the everyday citizens who share their aspirations and together can produce lasting change. ■

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School for Revolutionaries

CANVAS Modernizes Nonviolent Resistance

BY SIMON ROWELL

A RESTLESS CAIRO NIGHT

On the night of 10 February 2011, Tahrir Square in central Cairo was seething with people inspired by the prospect of unprecedented political change. Transformed from a busy, dirty transport hub, the square had become an oasis of calm and cleanliness, organized by voluntary systems for recycling, compost, lost-and-found items, and even children's day care. Inside, political discussions raged openly; outside, the police continued to intimidate demonstrators and onlookers alike. Even under this extreme pressure, "The square and the protestors remained undeniably peaceful," recalls Maryam Ishani, a digital media journalist based in Cairo.

While the speed of the revolt gave the appearance of a spontaneous uprising, it had actually followed a deliberate strategic plan concocted many years before by a youth organization called the April 6 Movement, along with others. But the April 6 Movement did not work alone. Much of what transpired in Tahrir Square—the takeover of prime public space, the formation of parallel institutions, and even the "clenched fist" logo of the April 6 Movement—bore the undeniable hallmarks of CANVAS, an organization devoted to spreading the message of nonviolent resistance. Through a week-

long training course in Belgrade a year and a half earlier, CANVAS helped launch ripples felt in waves across Tahrir Square and all of Egypt.

REVOLUTION IN SERBIA

The peaceful toppling of Slobodan Milosevic in Serbia in 2000 is arguably the most successful recent example of nonviolent resistance. Two college friends from Belgrade, Srdja Popovic and Slobodan Djindjic, were instrumental in forming the OTPOR movement (meaning "resistance" in Serbian), which would galvanize wide-ranging Serbian popular support against the regime. OTPOR developed many innovative tactics for attracting attention and support of the local population, often relying on humor and popular imagery. In one such event, the image of Milosevic was plastered on a barrel in central Belgrade and locals were offered a chance to beat it with a stick, leaving police with the unenviable task of either arresting people for a nonexistent crime or arresting the barrel itself. (They opted to arrest the barrel, to the laughter of onlooking locals.) In another event, the city was brought to a noisy standstill as citizens beat pots and pans on their balconies during the state-run news broadcast to protest the closure of the last independent media outlet. Although they

were characterized in the press by a flag sporting a clenched fist, an unwavering commitment to nonviolent resistance remained at the core of their struggle.

OTPOR's approach was shaped by the work of preeminent nonviolent revolutionary scholar Gene Sharp. Sharp's seminal works, *From Dictatorship to Democracy* (2010) and *The Politics of Nonviolent Action* (1973), describe the theory and history of global nonviolent resistance and provide a list of 198 practical tools of nonviolent action. Years later, Sharp's treatise on how to destabilize a government's "pillars of support" is still a core part of CANVAS teachings.

The OTPOR movement was a remarkable success. It united the normally factional populace to stand behind one presidential candidate, Vojislav Kostunica, and it motivated a huge swath of Serbians to mobilize against Milosevic, storm the Parliament, and evict the leader from power. From this experience, Popovic and Djindjic learned that the combination of unity, discipline, and planning could bring down even the most intransigent regime.

MOVING BEYOND SERBIA

With the successful installation of a new democratic regime in Serbia, Popovic and Djindjic took different paths: Djindjic



focused on his growing telecommunications business and Popovic was elected to the new Serbian parliament. However, they also began to receive calls from others seeking models for change—most notably from Georgia. Under the brutal regime of Eduard Shevardnadze, Georgia was one of the most corrupt countries in the region, and a number of Georgian civil society groups were anxious for change. In early 2003, a number of these activists, including the Tbilisi State University Student Government, visited OTPOR's leaders to learn how to reform the much-derided electoral system. Nini Gogiberidze, a member of the visiting group, described to me in an e-mail interview how they "talked and talked and talked about helping the Georgians understand the vital structural campaign requirements for success," but these discussions also broadened their minds to possibilities beyond the initial scope of their intended campaign.

After these conversations, the Georgian resistance took on the name Kmara, meaning "It's enough." Upon their return, students began painting road signs with the evocative "Kmara" imprint, eventually building enough intrigue and momentum to result in the first ever Kmara demonstration on 14 April 2003. Djinovic and another OTPOR representative also sub-

sequently visited Georgian training camps multiple times. Gogiberidze recalls the experience. "Srdja and Slobodan provided more than just knowledge; they provided inspiration," she wrote. "I thought that initially whatever they were telling us was impossible to implement in Georgia . . . but they gave us a much needed wake-up call and allowed us to think of the impossible."

Only seven months after those initial meetings—and with the familiar clenched fist flying high on white flags—nonviolent protestors, armed only with red roses, stormed the national parliament in response to blatant election fraud. That act led to the eventual toppling of the Shevardnadze regime and the coining of the now familiar term, the "Rose Revolution."

CANVAS SPREADS THE MESSAGE

In 2004, Popovic and Djinovic established the Centre for Applied NonViolent Action & Strategies (CANVAS) as a way to meet the growing demand for their expertise in nonviolent resistance. The organization was deliberately designed as a nonprofit, nongovernmental, educational institution focused on the use of nonviolent conflict to promote human rights and democracy. At the request of a relevant organization, movement, or group of ac-

tivists, two CANVAS trainers will conduct a five-day workshop, adjusted to the circumstances of the individual participants. The trainers are usually former activists coming from countries where nonviolent resistance has recently succeeded, including Serbia, Georgia, Lebanon, the Philippines, and South Africa. Within the workshop, participants are empowered to determine the strategies and tactics that will work in their home nations and develop any new tactics that are needed.

The theory behind CANVAS teachings, which aligns strongly with Sharp's works, is that "power in society comes from the obedience of the people," as Popovic noted in an e-mail interview I conducted with him. Each individual, with his or her own small source of power, can withdraw that obedience and resist traditional commands. This process, in turn, destabilizes the existing autocratic power structure. Popovic emphasizes that the same ideas of "unity, discipline, and planning" applied in Serbia remain pivotal to the success of any nonviolent resistance. In practice, CANVAS focuses not on operations, but on the overarching strategy and long-term commitment required to wage effective resistance. As Popovic reflects, "There must be a shared vision of tomorrow and a grand strategy for how to attain it." However, to

Photo courtesy of "how will i ever"/flickr



CANVAS BY THE NUMBERS

46

NUMBER OF
COUNTRIES CANVAS
HAS CONDUCTED
WORKSHOPS INNUMBER OF
WORKSHOPS
TO DATE

123

2000

TOTAL PARTICIPANTS

achieve any lasting success, these movements must be built on a series of small victories.

CANVAS AT THE ROOT OF
REVOLUTION

Over the past ten years, CANVAS has conducted 123 workshops in forty-six countries for more than 2,000 participants. It has trained members of the "Pora" movement in Ukraine's Orange revolution, the "Cedar Revolution" in Lebanon, which through mass sit-ins helped oust Syrian troops after thirty-five years of conflict, and even a pro-democracy opposition group in the Maldives. It also trained Mohammed Adel, one of the leaders of the April 6 Movement, who became one of the most important organizers of the Egyptian uprising focused in Tahrir Square.

Not all trainings have been so successful, however. CANVAS trained a number of Iranian activists involved in the "Green Revolution." Despite generating significant community investment and practicing nonviolent tactics, the increasingly strict government stymied success. Other trainees in Syria are undergoing a very challenging standoff with the regime in early 2012.

What has changed in these revolutions over the last decade? Popovic explains that there are three main differences between the Eastern European revolutions of the 1990s and the Arab Spring. First, Arab activists are operating in a very narrow political space between oppressive autocratic governments and sometimes-radical Islamic groups. Second, unlike Eastern Europe's mostly middle-aged population, most Arab countries (with an average age of twenty-four) are built on youth born after the regimes were originally established and are therefore more open to thawing this "politically frozen" region. Third, new media has reshaped nonviolent resistance to the same extent as it has everyday life. It has created alternative media space for

democracy activists, enabled the rapid mobilization of activist groups, and allowed everyone to be a reporter. These factors, Popovic revealed, increase the "price tag" of oppression.

As an organization, CANVAS has an almost evangelical zeal in promoting its message of nonviolence and has been busy expanding its repertoire of educational tools. By bringing academics, media outlets, and international organizations into the fold, CANVAS has worked to increase broader awareness about the existence and practice of nonviolent resistance. CANVAS has developed a number of new tools including university curricula on nonviolent struggle, handbooks for activists, and video games, DVDs, and movies and has also developed a course to be taught at Belgrade University. Its position as the dominant force in nonviolent resistance trainings across the world looks set to continue.

THE FORCE FOR A NONVIOLENT
FUTURE

The world of nonviolent resistance is now expanding rapidly. When I visited the Albert Einstein Institution, the think tank of Gene Sharp, the small office was cluttered with heavily packaged envelopes responding to requests around the world for copies of Sharp's anthology of nonviolent resistance writings. CANVAS is also overrun with requests and is considering a host of ambitious plans including developing an online training capability. Sharp and Popovic are even recognized among *Foreign Policy* magazine's "Top Global Thinkers" (*Foreign Policy* 2011).

Even with the substantial demand for information on nonviolence, challenges remain. Funding for the work has always been tight, and currently half of CANVAS funds come from donations from Djinnovic's telecommunications business. The workshop model relies on a limited supply of trainers who are veterans of nonviolent revolutions. And, after the jubilation of

any successful revolution, beginning the long process of creating new institutions can be frustrating for a people anxious for immediate but fundamental change. Egypt more than any other country embodies these challenges.

While Egypt continues to experience the growing pains of a new democracy, there is little doubt that the country has changed forever since that restless evening of 10 February 2011. Popovic remains modest about the role of CANVAS in recent revolutions: "It is the commitment and courage of the (local) people to freedom that really counts." But it is because of the tireless and inspired work of groups like CANVAS that the information about

the power of nonviolent resistance is accessible to a wide audience. Hoarding power is becoming increasingly difficult for uncompromising dictators across the world. ■

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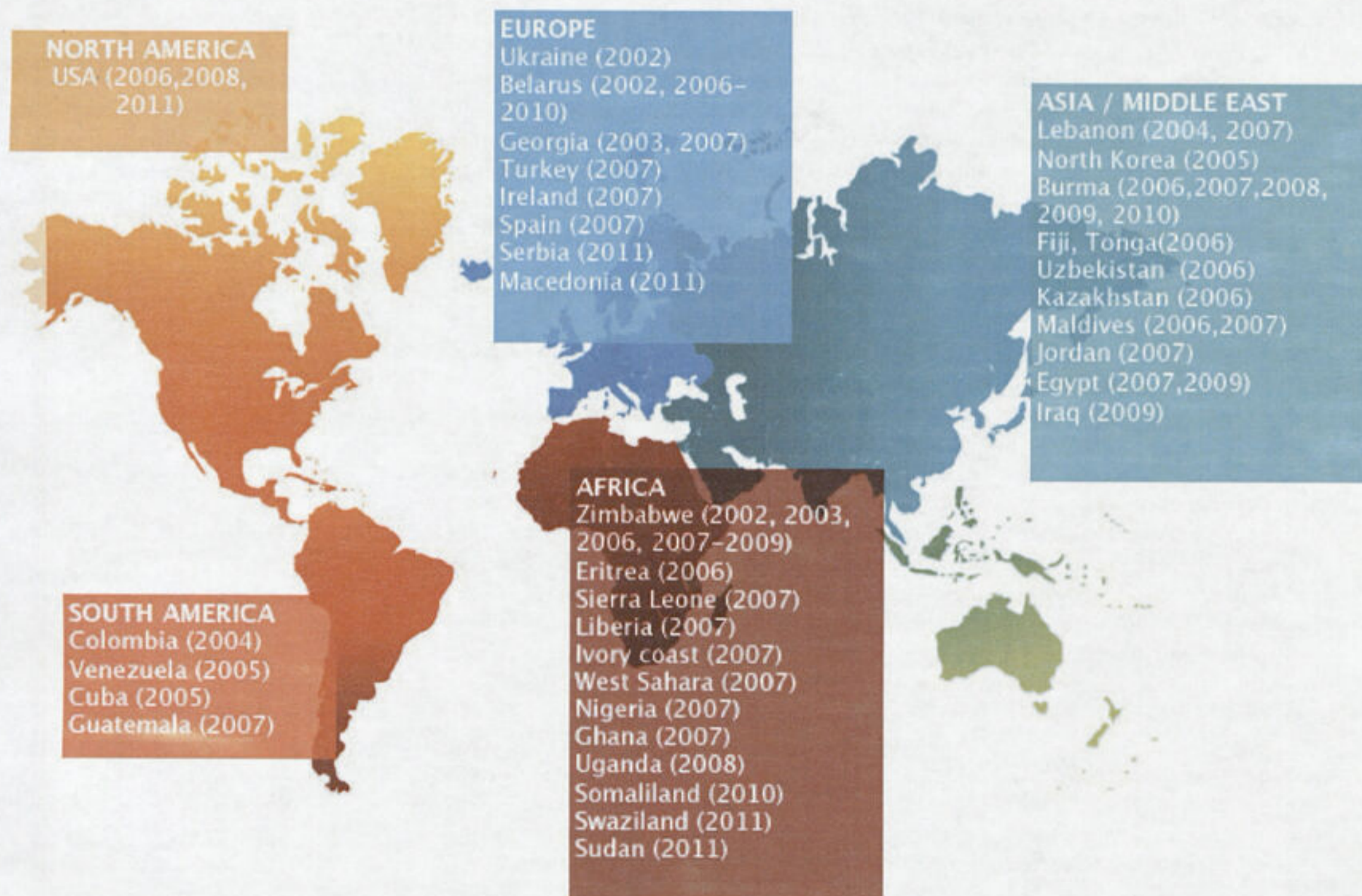
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Three's Not a Crowd

Technology and the Political Shakeup

BY HANNA SIEGEL

The American political system is exhibiting cracks. The approval rating for Congress has reached a record low of 13 percent, and more than 2.5 million voters have left the two major parties since the 2008 election (Washington Post-ABC News Poll 2012; Wolf 2011). Yet many Americans want change, and they are organizing to affect it.

The Tea Party movement, born in 2009, galvanized conservatives against taxation and helped elect more than sixty-five Congressional candidates during the 2010 midterm elections (Liasson 2010). On the other side of the political spectrum, the Occupy Wall Street movement has spurred protests in dozens of major U.S. cities, and its slogan, "We are the 99 percent," has infiltrated American culture and politics. Several Democrats in Congress have invoked the Occupy movement to push for legislation including President Barack Obama's jobs act and Internet access regulation reform. Meanwhile, less ideologically aligned organizations, including Americans Elect, a nonpartisan nongovernmental organization working to create a platform for an alternative presidential ticket, are also challenging the political status quo. All three of these groups have used technology to help them organize around a growing climate of discontent, and all three of these groups demonstrate the impact that political networks organized via the Internet can have on the American political process. Under the right conditions, these alternative networks could someday lead to a president who is not a Democrat or a Republican and eventually to the transformation of the American political system as we know it.

THE LONG TAIL

Central to the development of these new networks is a concept called the long tail. The long tail is the idea that the ag-

gregate total of small, niche markets (the tail) is greater than the sum of the few mainstream ones (the head). Originally put forth by Chris Anderson in the October 2004 issue of *Wired* magazine, the long tail describes how industries, unencumbered by the pre-Internet costs of mass production, advertising, and distribution, can customize their services to individuals and make money at the same time. As Anderson describes it: "By overcoming the limitations of geography and scale . . . [businesses] have discovered new markets and expanded existing ones" (Anderson 2004).

Before the Internet, devising a cost-efficient way to aggregate all of these smaller markets had been a near insurmountable challenge. But now, with obstacles like geography and communications costs reduced, a self-organizing marketplace of people has been able to form. This ability to connect has created a new customer base that, in many cases, has proven to be more profitable than the traditional base. The classic example of a long tail market model is Amazon.com, which has become a one-stop shop for every person who has a taste for Swedish documentaries or an obsession with Dziga Vertov movies. In effect, business models like Amazon's mean that everyone with nonmainstream tastes now has a place to shop.

Like the long tail of consumers, there is also a long tail of voters, ready to be tapped and mobilized if they are given the right options. The head of the political system is clear: the Democratic and Republican parties, along with the major donors who fund them. These groups monopolize campaign donations and set the rules for the American electoral process as they have for the past one-hundred years. Then there is the tail. This begins with the millions of eligible voters who do not participate, which in 2008 amounted to 37 percent of the voting population, but it also includes the

The classic example of a long tail market model is Amazon.com, which has become a one-stop shop for every person who has a taste for Swedish documentaries or an obsession with Dziga Vertov movies.



The Tea Party and Occupy movements represent just two examples among many of new political networks that are being organized on the Internet. Photo courtesy of nobama_nomas/flickr.

millions of other voters who begrudgingly choose among the Democratic and Republican nominees because those are the only realistic options on the table (AU News 2008).

THE NEW WAY TO ORGANIZE

Many Americans do not participate in politics, discouraged by what they see as an ineffective system that is unresponsive to their needs. Now more than ever, they feel powerless and unable to have an effect on the public policy decisions made by their political leaders. In the fall of 2011, a Washington Post poll showed that a majority of respondents think the American political system is not working. Furthermore, about 75 percent did not think the government could fix the country's current economic problems, while a majority disagreed with the debt ceiling compromise (Washington Post Poll 2011).

But the Internet has made it easier and cheaper to get involved in politics. Any voter can become an organizer or a donor just by using his or her computer. What's more, like-minded people can create cross-country networks and communicate digitally in order to organize effectively around a cause or candidate. Social media, in particular, has played a special role in enhancing what Hu Yong, a blogger and media critic in Beijing, calls micro-power. His concept refers to the power that small groups can have on the larger society when

they exchange information. By changing the definition of political activism and the role of the activist, platforms like Facebook and Twitter increase the micro-power, or influence, of their members.

THE NEW WAY TO FUND-RAISE

These new organization tools have already been utilized to great effect. During the 2004 presidential campaign, Howard Dean pioneered a new model for political campaigns that used the Internet to tap into the long tail and raise millions of dollars. Through a Web site called Meetup, Dean connected his supporters in the same area to each other resulting in "Dean for President" gatherings across the country. Of the overall \$50 million Dean raised, \$20 million was raised through the Internet, with an average donation of just \$80 (Rice 2004).

But it was Barack Obama's 2008 campaign that demonstrated the full fundraising potential of the long tail strategy. Historically, presidential candidates have relied mostly on big donors to cover the exorbitant costs of running a campaign. As a result, most candidates have catered to the small, wealthy population—the head. Although Obama, like other candidates, raised a huge amount of money from big donors, he also raised an unprecedented amount from small donors, and this small donor money was crucial for his defeat of Republican presidential nominee

John McCain.

THE NEW NETWORKS

The Tea Party formed when a relatively small number of people used the Internet to connect and organize antitax rallies in cities across the United States. Although the movement for small government and minimal taxation has existed for a long time in American politics, the Internet allowed the Tea Party to be more effective than groups in the past. It helped elect dozens of new members to Congress in 2010 and had a significant impact on the American debate over health care reform and the American Recovery and Reinvestment Act of 2009, helping defeat the public option and reduce the perceived economic benefit of the stimulus.

Occupy Wall Street also brought groups of people together in an effort to gain momentum and bring attention to their cause. They did this both digitally, through the Internet, and physically, through hundreds of occupations in cities nationwide. Although it is too early to tell what their electoral impact will be, they have already influenced the American political conversation. President Obama has addressed the movement personally, and the "We are the 99 percent" catchphrase has become a slogan for the income inequality debate happening today. Some commentators have even credited the Occupy movement as being one of the major political forces be-



hind the recent tax increase on the wealthy approved in December by the State of New York.

The Tea Party and Occupy movements represent just two examples among many of new political networks that are being organized on the Internet. Their activity has caused an increasing number of political analysts to view Internet-based political networks as a potential threat to the political establishment, with many arguing that as technology becomes more sophisticated, more Americans will connect and form groups and this could eventually remake the American political system. Yet despite this new reality, there is little sign that the current Democratic and Republican parties are willing or able to adapt to this changing landscape. As Matt Bai, chief political correspondent for the *New York Times Magazine*, told me in a 16 February 2012 interview: "There's no sense that either party really understands how profound that yearning is in the electorate or how different [the parties would] have to act. I think [a challenge] is just as likely if not more so to come outside the two-party system if the status quo holds the way it is." This has already happened in Rhode Island, where voters elected Lincoln Chafee, an independent, as their governor in 2010.

OBSTACLES TO CHANGE

There are, of course, many ingrained barriers in the American political system that make it very hard for an outside candidate, or a third party, to have a significant impact. Our electoral system favors two major parties, and the "winner-takes-all" mechanism means that it is difficult for third parties to have real influence on the national level. Furthermore, ballot access is a complex, technical, and expensive part of American campaigns that discourages many people from entering the race, and there are few signs that the rules will become simpler or more streamlined among states. Perhaps most critically, running a successful campaign in this country requires an increasingly huge amount of

money, making it more difficult for outside groups to compete. The rise of television advertising and the addition of political action committees (PACs), and now Super PACs, into the mix make a deep pocketbook necessary, and there is no denying the major parties have an advantage when it comes to raising that kind of money.

All of these trends have been exacerbated by the Supreme Court's decision in *Citizens United v. Federal Election Commission* (2009). The ruling gave establishment candidates access to more money through Super PACs, corporations, and other rich entities. But it also gave wealthy individuals and groups, regardless of party affiliation, more of an ability to independently influence campaigns. If, for instance, these individuals coalesced around an alternative candidate their impact would be amplified. For example, as of the time of this writing, Newt Gingrich's presidential campaign was still going primarily because of one man: hotel magnate Sheldon Adelson. Gingrich is not the GOP establishment's first-choice candidate, but Adelson's hefty contributions have made Gingrich impossible for them to ignore. Although this ability to influence the political process through money alone may not be good for democracy overall, it may help provide a platform for alternative candidates.

Recent events have also demonstrated regular citizens' ability to mobilize around issues and have a political impact, without a major donor. In early 2012, the Susan G. Komen for the Cure foundation, the nation's largest breast cancer advocacy organization, announced that it would cut the majority of its funding to Planned Parenthood amidst worry that it might lose key political support and donations. The decision sparked an online backlash that proved impossible for the Komen foundation to ignore. Within a week, Twitter users, for example, had sent 1.3 million tweets mentioning "Planned Parenthood" (Belluck et al. 2012), and a few days later the foundation reversed its position. Simi-

larly, huge online protests to The Stop Online Piracy Act and the Protect IP Act, two bills aimed at restricting access to certain Web sites in an attempt to curb copyright infringement, caused lawmakers in both the House and the Senate to indefinitely postpone any movement on the bills. These issue-driven campaigns have always existed, of course. But the speed and power with which they were able to organize, respond, and ultimately change major policy illuminates exactly how the Internet and the long tail together can have an impact that only large donors, powerful party members, or PACs could have had previously.

BUILDING AN ALTERNATIVE

Mark McKinnon, who has worked in the establishment for thirty years advising such Republican Party leaders as George W. Bush and John McCain, has recently distanced himself from the traditional system, aligning himself with groups like No Labels and Americans Elect, which are dedicated to finding an alternative to the current state of politics. He argues that for these groups to take hold, we will need to create alternatives to the current primary process, which he believes is too long and tends to "drive people to the extremes." What's McKinnon's alternative? The technological platforms that have allowed the Tea Party and Occupy movements to thrive. "We'd want to use technology to [help] eliminate the primary process, and we'd try to eliminate other hurdles to engaging not only voters but others to run," McKinnon told me in a 1 February 2012 interview. "We'd adopt technology to encourage other people to participate."

Americans Elect is an organization that is trying to put this idea into practice. It seeks to provide a vehicle for a new nominating process, using online voting, in order to create an alternative ticket for the 2012 presidential election. The group is both notably bipartisan (its bylaws state that a vice presidential and presidential candidate cannot be from the same major

The Internet has facilitated the organization of thousands of latent networks into political forces that challenge the Democratic and Republican parties.

party) and widely connected (it has collected more than 2.4 million signatures and is well on its way to ending up on the ballot). "If you change the way you nominate our leaders, you can change the way that leaders govern," the organization's CEO Kahlil Byrd told me in a 6 February 2012 interview. "As we change the way leaders govern . . . they are able to support solutions that take the best ideas from both the right and the left."

By facilitating this new nominating process, Americans Elect boosts opportunities for all of the groups that make up the long tail. *New York Times* columnist Thomas L. Friedman describes this potential: "What Amazon.com did to books, what the blogosphere did to newspapers, what the iPod did to music, what drugstore.com did to pharmacies, Americans Elect plans to do to the two-party duopoly that has dominated American political life—remove the barriers to real competition, flatten the incumbents, and let the people in. Watch out" (Friedman 2011).

THE WAY FORWARD

The Internet has facilitated the organization of thousands of latent networks—what I call the long tail—into political forces that challenge the dominance of the Democratic and Republican parties. As these new political networks come together, and their power increases, they could present a real challenge to the current political party duopoly and could lead to alternative leaders in our political system. Of course, our current system is not built to support more than two parties, and there are plenty of barriers to a nonestablishment group. But the movement has already started, and the road is being paved. While the two major parties are not likely to go away anytime soon, it is unlikely that they will remain alone for long. ■

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LGBTI Rights and the Wrong Way to Give Aid

BY PETER DUNNE

The year 2011 was a year of significant advances for lesbian, gay, bisexual, transgender, and intersex (LGBTI) rights worldwide. In the United States, Congress finally repealed the discriminatory "Don't Ask, Don't Tell" policy, allowing gay and lesbian individuals to serve openly in the military. In Australia, the government announced two important changes for the issuing of passports: transgender persons in Australia are no longer required to undergo sex reassignment surgery before having their preferred gender reflected on their passport, and intersex people may now choose an "X" marker if they so wish. Finally, the governments of the United Kingdom, Nepal, Denmark, and Finland all indicated their intention to introduce full marriage equality, while in Colombia, the Constitutional Court gave Parliament until June 2013 to legislate for the status of same-sex unions in that country.

The advancement of LGBTI equality has not been universal, however, and many grave human rights violations continue to take place around the world. Navanethem Pillay, the United Nations (UN) High Commissioner for Human Rights, observes in her recent report to the nineteenth session of the Human Rights Council that "in all regions, people experience violence and discrimination because of their sexual orientation or gender identity" (2011, 3). LGBTI persons around the globe, particularly in the countries of the Global South, are subject to legal sanction, physical abuse, and in extreme cases, killing. While in some countries existing discriminatory laws and practices are the relics of a more homophobic past, 2010 and 2011 were marked by a worrying increase in the criminalization of activities once considered outside the ambit of the law.

In December 2010, the Malawian Parliament introduced an amendment to the Penal Code that, for the first time, crimi-

nalizes consensual sexual activity between two women and allows for individuals to be imprisoned for up to five years. In Nigeria, the country's Senate approved legislation that would not only ban all official and unofficial same-sex marriage ceremonies but also prohibit the formation of LGBTI advocacy groups and the expression of same-sex affection in public. And in Uganda, the LGBTI community continues to live under the specter of the Anti-Homosexuality Bill that, if enacted, would introduce the crime of "aggravated homosexuality" and expose persons convicted of engaging in same-sex intercourse to a possible penalty of death.

UK'S CAMERON: "WE WANT TO SEE COUNTRIES THAT RECEIVE OUR AID ADHERING TO PROPER HUMAN RIGHTS"

It was against this backdrop of a growing global crisis for LGBTI rights that the leaders of the Commonwealth nations met in late October 2011 for their biannual gathering: the Commonwealth Heads of Government Meeting (CHOGM). At the meeting, which was held in Perth, Australia, UK Prime Minister David Cameron announced that the UK government

treat gay and lesbian people" (BBC 2011).

In the months since the Perth meeting, much has been written and said about Cameron's announcement. Politicians and advocates from the Global North and South have weighed in on the possible merits and potential pitfalls of aid conditionality, both with regard to the promotion of human rights generally and of sexual orientation and gender identity more specifically. Even assuming that Cameron genuinely desires to assist the LGBTI community in the Global South (an assumption that is controversial among advocates), the path his government has chosen to adopt is troubling. The decision to unilaterally impose aid conditionality, without considering the impact it will have on advocacy in affected countries, fails to appreciate the sensitivity of sexual politics in many parts of the Commonwealth and shows that Cameron is out of touch with the lived experiences of the very people he is purporting to help.

CAMERON'S "BURDEN"

The notion of aid conditionality recalls the troubling history of colonization and exploitation that exists between Britain and the Commonwealth. The fact that

Even assuming that Cameron genuinely desires to assist the LGBTI community in the Global South, the path his government has chosen to adopt is troubling.

would begin to use LGBTI rights as one of the conditions for granting aid to other members of the Commonwealth. Under the proposal, countries that maintain or introduce antigay laws and practices would risk seeing a direct reduction in their budgetary aid from Britain. In a subsequent interview with the BBC, Cameron stated: "Britain is now one of the premier aid givers in the world. We want to see countries that receive our aid adhering to proper human rights, and that includes how people

Cameron chose CHOGM as the setting for his announcement only reinforces that history, conjuring up the image of an old colonial master still seeking to place himself above his former subjects. By so openly holding the purse strings over the heads of its former colonies, the UK government has laid bare the power imbalance that persists between it and other Commonwealth nations (African Social Justice Activists 2011). It gives credence to the idea that Britain exploits that imbalance to fur-

In October 2011, UK Prime Minister David Cameron announced that the government would begin to use LGBTI rights as one of the conditions for granting aid to other members of the Commonwealth. Left: "Big Gay Ben" by Kurtis Garbutt

ther its own foreign and domestic policy agendas, even if that is to the detriment of other countries.

Bowden Mbanje and Darlington Mahuku, writing in the Zimbabwean *Herald Online* on 18 November 2011, argue that Cameron's announcement represents nothing more than a "camouflaging tendency of the foreign aid regime used by the Western powers to create governance structures that are conducive for the exploitation and external control of weak African states." Such conclusions may seem overly reductive and lurid to Western ears, especially when they are used by authoritarian leaders to justify their own oppressive governments. They also overlook the fact that Cameron's policy is not specifically addressed to the weakness, or otherwise, of Commonwealth states but rather seeks to help oppressed minorities within those states who frequently experience grave psychological and physical violence. Nevertheless, the conclusions do undeniably reflect widely held perceptions throughout the Commonwealth, particularly in sub-Saharan Africa, and are important factors in shaping how ordinary citizens view Western power.

Ironically, a great many of the world's current sodomy laws directly stem from British colonization (Sanders 2011). Of the seventy-six countries worldwide that currently prohibit same-sex sexual intercourse, forty-one are members of the Commonwealth. This legacy creates a particular challenge for the British government: How can it claim the moral authority to enforce LGBTI rights when many of the laws it is opposing were established during the colonial period? U.S. Secretary of State Hillary Clinton appeared to be

conscious of the difficulties that governments face while squaring current political commitments with past actions when she addressed the UN in Geneva on 6 December 2011. Speaking about the Obama administration's commitment to global LGBTI rights, Clinton began her speech by acknowledging that her "own country's record on human rights for gay people is far from perfect" (U.S. State Department 2011). The problem that Cameron faces is even more complex. Colonial Britain imposed its laws upon the countries of the Empire without regard, and often in direct opposition, to the will of the local people. Now, in 2012, Cameron is once again seen as attempting to enforce foreign legal standards while refusing to consider national will or culture.

Aid conditionality often can appear as patronizing to both the target country and local LGBTI advocates. Speaking to Andrew Marr, Cameron sought to explain his new policy as countries being on "a journey" and it being "up to us [Britain] to help them along that journey" (BBC 2011). While the UK government, as a member of the global community, has an obligation to ensure respect for human rights, Cameron's choice of language is unfortunate. In suggesting that the Commonwealth nations need British "help," the prime minister evokes memories of the old colonial justification of saving the savage "native" from himself—a kind of twenty-first century "White man's burden." He ignores the possibility that Commonwealth nations will be able to rationally debate the question of LGBTI rights without British intervention. He also ignores the possibility that "there might [already] be local movements, dialogues and activism around

sexuality and homophobia" (Khanna 2011). Throughout the Commonwealth, even in the most antigay regions, there exist sophisticated networks of LGBTI advocates. These individuals understand the traditions and cultural sensitivities of their environment and are best placed to affect real change at the local level (Orzulike 2011). While aid conditionality is undoubtedly intended to facilitate and enhance the work of these groups, it actually has the opposite effect. Aid conditionality ignores the importance of local advocates, suggesting instead that only the former "master" can bring the Commonwealth nations into line.

HOMOSEXUALITY AND THE POLITICS OF NATIONAL SOVEREIGNTY

Sexual orientation and gender identity are issues of immense controversy in much of the Commonwealth, particularly in the countries of sub-Saharan Africa. Many people believe that being gay is a "Western" concept, which has been imported by the United Kingdom and the United States in order to undermine local values (CSCHRCL 2011). These sentiments are often encouraged and manipulated by political figures as a means of distracting public attention from corrupt practices and failing infrastructure. In Zimbabwe, President Robert Mugabe has described homosexuals as "worse than pigs and dogs" (Human Rights Watch 2009, 10). The president of Malawi, Bingu wa Mutharika, has linked economic sanctions against his country to the question of same-sex marriage and in this way has portrayed LGBTI advocacy as a question of national sovereignty (Centre for the Development of People et al. 2011, 8). While he presents

Many people believe that being gay is a "Western" concept, which has been imported by the United Kingdom and the United States in order to undermine local value.

himself as a champion of African values, President Mutharika has labeled gay Malawians as agents of the West, responsible for losing the country vital foreign aid.

In order to stem the tide of state-sponsored homophobia, LGBTI communities throughout the Commonwealth have consistently demanded that they be allowed to exert their own agency, to implement their own plans, and to use their own voices to say: "We are from the Global South, we have not been influenced by the 'West,' and yet we are LGBTI." That is what can and does happen at the local level, and the result is many small, yet important, conversations that help to increase knowledge and to reduce fear.

The UK government's new policy of aid conditionality is the diametric opposite. While some may praise Cameron for at least attempting to vindicate the personhood of LGBTI individuals, most advocates see aid conditionality as merely confirming the rhetoric of leaders, such as Mutharika, that the UK wants to impose an LGBTI agenda. It serves to make "explicit" the threat of gay rights to national sovereignty (Long 2011). Aid conditionality also directly increases the threat to individuals living on the ground. As a coalition of Ghanaian activists noted in the aftermath of Cameron's announcement, "Cutting aid . . . due to homophobic laws . . . will not help the LGBT people . . . but will rather stigmatize these groups and individuals. LGBT people will be used as scapegoats for government inability to support its citizens" (Coalition against Homophobia in Ghana et al. 2011).

A HIERARCHY OF HUMAN RIGHTS

A central feature of LGBTI advocacy is the extent to which it intersects with other human rights abuses. Lesbians who suffer discrimination because of their sexual orientation are additionally targeted because they are women and because they challenge traditional notions of patriarchy. In many countries, men who have sex with men and transgender women experience disproportionately high rates of HIV infection and suffer unequal access to health care services. Like ethnic and social mi-

norities, LGBTI persons are frequently subjected to police harassment. There are numerous documented cases of gay individuals being denied due process and of transgender women experiencing sexual violence because they are placed within male prison populations (UN High Commissioner for Human Rights 2011).

It is precisely because LGBTI issues intersect with so many forms of abuse that advocates must seek to create wider social justice coalitions with other human rights defenders, particularly those promoting sexual health and women's rights. However, aid conditionality serves as a direct impediment to such broad movements. By holding out LGBTI rights as worthy of special protection, governments create resentment among other advocacy groups in the Commonwealth, particularly those who have been struggling for years to promote their cause and who have never been afforded the same level of international support (African Social Justice Activists 2011). As a consequence, these groups, some of which may already have found sexual rights problematic, are often unwilling to assist LGBTI advocates. Indeed, in extreme cases, they may even be encouraged to speak out against gay rights, hoping that an anti-LGBTI stance will encourage the national government to be more receptive to their own policy agenda.

TOWARD CONSTRUCTIVE PARTNERSHIPS IN GLOBAL LGBTI ADVOCACY

The year 2012 represents a unique opportunity for global advocacy around sexual orientation and gender identity. Cameron's announcement at least illustrates that his government is now truly willing to engage with this important area of human rights that affects millions of people around the world. Such new focus offers many opportunities for activists but also carries with it significant challenges. In seeking to lend its support, the UK government must be careful to provide constructive, well-thought-out assistance and should avoid complicating the already difficult situation faced by many LGBTI persons throughout the Commonwealth.

In formulating a strategy to assist global advocacy, the British government should follow what Stephen Wood has called "rule number one of working on international development" and remember to "[listen] to the lived experience of those you are campaigning to support" (2011). If Cameron sincerely does want to improve the lives of LGBTI individuals throughout the Commonwealth, he and his policy makers must first engage with the people on the ground and understand the reality of their daily hardships. Cameron must acknowledge that LGBTI advocates throughout the Commonwealth have agency and that they are already carrying out a plan of action to improve their own lives. Instead of dictating a British agenda, the UK government should work to understand how it can offer assistance within the framework of that community plan (African Social Justice Activists 2011). As a coalition of Ugandan advocates recently noted in its guidance to international partners, it is only by consulting with individuals on the ground that those in the Global North can make a real and lasting contribution to LGBTI advocacy (CSCHRCL 2011).

There may be a place for some consideration of aid and financial support in a comprehensive, well-thought-out global advocacy plan. In its much-publicized response to the Perth announcement, a coalition of leading African Social Justice Activists (2011) called upon the UK to directly "expand its aid to community based and lead LGBTI programs aimed at fostering dialogue and tolerance." This strategy might take numerous forms, such as redirecting budgetary aid from homophobic governments to grassroots projects or offering assistance to the new Global Equality Fund announced by the Obama administration in December 2011 (Tatchell 2011).

At an LGBT event held on 8 December 2011 at the UN headquarters in New York City, Executive Director of Human Rights Watch Kenneth Roth suggested that while states should not necessarily withdraw aid where antigay laws exist, the protection of LGBTI people might legitimately be raised when negotiations are first taking place, as a type of positive aid conditionality. Such

a plan is obviously not substantively dissimilar from Cameron's Perth announcement. Indeed, in an article that so heavily criticizes the practice of aid conditionality, it would be more than a little disingenuous to now suggest that all the problems of neocolonialism and cultural exploitation can be resolved by simply changing the point at which the conditions are imposed. However, if Cameron is resolute in his decision to condition foreign assistance on LGBTI rights, there may be some small—if only narrative-related—advantage to imposing obligations that act as positive incentives rather than being wholly coercive in nature.

Under a policy of aid conditionality, leaders such as Mugabe and Mutharika can legitimately point to LGBTI rights as a reason that the United Kingdom is withdrawing aid. This gives them the opportunity to scapegoat LGBTI persons as the cause of the nation's failing infrastructure. Though the difference is clearly subtle, positive aid conditionality may be seen as distinct from Cameron's policy and more akin to that of the United States' Millennium Challenge Corporation (MCC) (Council for Global Equality 2012). Under the MCC model, prospective aid recipients are asked to meet a series of "indicators," such as minimum human rights standards, before they are eligible for U.S. foreign assistance (Council for Global Equality 2012). Where a country fails to reach its agreed goals, there is no actual monetary loss because funding has not yet begun. But if the indicators are satisfied, the country stands to gain a significant benefit. In this way, the MCC indicators are, in theory at least, a vehicle for strengthening the national economy rather than mere U.S.-imposed values that if not embraced will lead to a reduction in foreign support. Of course, in reality, there may actually be very little difference in the way the public reacts to the loss of a possible future grant and the loss of a current grant because of LGBTI rights. But that is simply the nature of sexual rights advocacy, where clear, one-size-fits-all solutions frequently do not exist and where policy makers must there-

fore seek to reach the best possible solution while also accepting that the final outcome actually achieved will often not be perfect. The hope is that by applying the MCC model to LGBTI rights and incentivizing protections for sexual minorities, Cameron can play some small part in changing the narrative of LGBTI rights throughout the Commonwealth. LGBTI individuals may come to be seen, at least by some, as partners rather than as obstacles in building national sovereignty. ■

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Don't Give Up

Rekindling our Relationship with Iran

BY SHERRY HAKIMI

After the 1979 Iranian revolution and subsequent Iran hostage crisis, the United States ended its diplomatic relationship with Iran. In the period since, veiled threats and economic sanctions have become the American government's primary mode of engagement with the Islamic Republic of Iran. This strategy has further entrenched the Islamic Republic and undermined U.S. objectives in the region; far from aiding political reform efforts within Iran, U.S. and UN Security Council sanctions have consolidated the regime leaders' economic power and further strengthened the Islamic regime. If the United States is to effectively promote American interests in the region, it must fundamentally alter its foreign policy approach.

This article focuses on three areas in the current U.S. approach to Iran, highlighting the problems caused by bad information, failed statecraft, and counterproductive policies. It then examines four solutions, calling for improved information, renewed diplomacy, increased presidential leadership, and discourse-altering creative approaches.

CHALLENGES BAD INFORMATION

Current U.S. policy on Iran is ineffective because it does not utilize all of the instruments available to the American government. Typically, U.S. policy makers rely on three types of sources to inform foreign policy decisions: the military, the intelligence community, and diplomats on the ground. According to one U.S. Department of State official's account, military and intelligence information accounts for only 10 percent of the decision-making process while data gained through diplomatic channels, coupled with open source

information, constitutes the remaining 90 percent. By removing its diplomatic presence from Iran, the United States has severely undercut its ability to gather information about Iran and made it more difficult to resolve a variety of crucial issues, such as Iran's support of Hezbollah and Hamas.

FAILED STATECRAFT

In his 2007 book, *Statecraft and How to Restore America's Standing in the World*, Dennis Ross, a former State Department and National Security Council official who was a special assistant to President Barack Obama for the Middle East, Afghanistan, and South Asia from 2009 to 2011, describes the importance of statecraft in the context of U.S. foreign policy. He writes that effective statecraft requires "our understanding, effective assessments, the ability to match our objectives and our means, the know-how to wield influence well and to get others to do what we want, and the skillful application of all the policy instruments at our disposal." Yet the United States has not fulfilled the requirements of statecraft in its relations with Iran. In his 20 January 2009 inaugural address, for instance, President Obama made the

seemingly conciliatory overture of offering to extend a hand to Iran but only after chastising the country: "To those who cling to power through corruption and deceit and the silencing of dissent, know that you are on the wrong side of history, but that we will extend a hand if you are willing to unclench your fist." Even though this statement did constitute a real shift in the American approach, this opening was largely missed by the Iranians who saw it more as a backhanded insult wrapped in thin rapprochement clothing due to the condemnatory tone. To achieve real results with Iran, the United States must show much greater sophistication in its approach.

COUNTERPRODUCTIVE POLICY

The center of U.S. foreign policy strategy toward Iran has long been a policy of economic sanctions. But these sanctions have not helped the United States achieve its goals. Although sanctions may have successfully served as a warning to other would-be proliferators, they have not persuaded the Iranian regime itself to change its behavior. Take, for instance, the most crucial fear of the United States with regard to Iran: the acquisition of a nuclear

Right: Street art in Tehran.
Photo by David Holt.



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Threatening military action is similarly counterproductive. The current Iranian regime responds to coercive measures with reciprocal boasts and takes advantage of every opportunity to demonize the United States.

weapon. According to the International Atomic Energy Agency, the Iranians have been pursuing a nuclear energy program since the early 1970s, and the United States has imposed economic sanctions on the country since the 1980s. But thirty years of sanctions have not stopped the Iranians' pursuit of a nuclear program.

Threatening military action is similarly counterproductive. The current Iranian regime responds to coercive measures with reciprocal boasts and takes advantage of every opportunity to demonize the United States. If the United States were to actually follow through with a military option, the result would be even worse. Many experts predict that a strike would further unify the Iranian people against the United States, extend the life of the Islamic regime, and cause Iran to withdraw from the International Atomic Energy Agency.

Ironically, both sanctions and military action strengthen the Islamic regime. Every time the United States threatens Iran or imposes economic restrictions, the Iranian leadership is given more fodder to use in its effort to convince the Iranian people that Iran needs the current leadership and regime to avoid being dominated by the West. Since economic sanctions primarily hurt Iranian civilians, it is not a far stretch to blame the country's economic difficulties on the United States. The Islamic Republic of Iran was built on a foundation of anti-Western rhetoric; American policies over the last thirty-three years have bolstered the regime's claims and foothold on power in Iran.

OPPORTUNITIES: RETHINKING AMERICAN IRANIAN POLICY

How can American policy makers formulate a successful Iran policy strategy that

mitigates these concerns? Here are four ideas. First, ascertain better information about the Iranian government, economy, and population; second, renew diplomacy efforts in order to foster collaboration efforts in areas where the two nations can work together; third, make the president the primary spokesperson on Iran and disavow all alternative messages from both within and outside the government; and fourth, utilize creative strategies to shift the debate. One idea would be to run a public relations campaign with survivors of the Iranian hostage crisis.

IMPROVE INFORMATION

It is difficult to develop a clear strategy given how unfamiliar Americans are with today's Iran. To repurpose Winston Churchill's 1939 words, Iran remains "a riddle wrapped in a mystery inside an enigma" to most American government officials who work on Iran. These policy makers are as unfamiliar with Iranian communication styles and culture as they are with Iranian history and economic interests. Most top policy makers cannot even identify, with a significant degree of certainty, the key leaders and influential individuals in the Iranian political system. By not engaging diplomatically with Iran in a consistent and serious manner, the United States ultimately confounds its ability to achieve what it claims to be its most important goal: the prevention of a nuclear-armed Islamic Republic of Iran.

RENEW DIPLOMACY

The process of redressing the informational deficit can be undertaken alongside renewed efforts to deploy America's diplomatic tools. Many experts have recommended that the United States should

work with Iran on counter-narcotics campaigns and regional security measures in Iraq and Afghanistan, among other projects. At a basic level, Washington should at least renew the direct line of communication with Tehran. The United States maintained communication with the Soviet Union during the Cold War, and some cite the existence of the "hotline" between Washington, DC, and Moscow as a key reason the Cuban Missile Crisis did not, in fact, end in catastrophe. We cannot afford to forsake or snub the tools of statecraft at this critical juncture in the U.S.-Iranian relationship.

CENTRALIZE PRESIDENTIAL LEADERSHIP

The president should become the primary U.S. spokesperson on Iranian issues, and anything said by anyone that is contrary to the president's statements should immediately be disavowed by the U.S. government. This reform would remove a great deal of the ambiguity that exists between the two nations and help both sides better understand the signals and messages that are sent and received between the two countries on a near-daily basis. In a similar vein, the Department of State and Executive Branch should find ways to moderate the tone and rhetoric utilized by members of Congress and the media on Iran.

USE CREATIVE STRATEGIES TO SHIFT THE DEBATE

U.S. tensions with Iran began so long ago that many have lost sight of what sparked the current tension: the 1979-1981 U.S.-Iranian hostage crisis. Much of the American perception of Iran today was shaped in 1979 by the hostage ordeal. Yet it is striking to find that a significant number of the former hostages, such as John Limbert, Barry Rosen, and L. Bruce Laingen, are in favor of real engagement. Tapping into this group's stories and perspectives might represent a powerful, political, and public relations resource for changing the discourse about Iran. A focused and unified media and public relations campaign could be conducted that highlights the per-

spective of former hostages who, in spite of being held captive for 444 days by members of the current Iranian regime, still believe in discourse and diplomacy with Iran.

There are of course difficulties with all of these strategies. There is currently no domestic appetite—in the United States or in Iran—for serious engagement and rapprochement. Such action would take a great—and synchronized—show of political courage on the part of these nations' leaders that we simply cannot expect at this time, especially considering that 2012 is an American presidential election year and 2013 is an Iranian presidential election year. Whatever plan of action is decided upon, it must be implemented without delay. A foundation must be set, confidence must be built, and trust must be established so that when an opportunity to sincerely engage and improve relations arrives, the United States and Iran are prepared.

The difficulties of reform are far less than the difficulties that will result from maintaining the current status. Without dialogue and diplomatic ties with Iran, the United States is crippling its own power and ability to formulate effective policy. The United States must expect that establishing this relationship will take time. The breakup was more than three decades ago, and a lot has happened since then. Change does not come quickly or easily, but the process of change must be initiated. There is no short-term domestic appetite for real engagement, but there is room for foundation building. There will be wrinkles and setbacks, but as Algerian mediators of the U.S.-Iranian hostage crisis advised the Carter administration in 1980: "Don't give up." ■



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The Usual Cut

Is the Indian Anticorruption Movement Misguided?

BY AARTI SAXENA



Above/left: Protesters march at an anticorruption rally in New Delhi. The movement, led by Anna Hazare, is made up of mostly urban, educated, and middle class people. Photos by India Kangaroo/flickr.



Since April 2011, anticorruption protestors have been gathering by the thousands on the streets of Indian cities to demand an end to corruption in public offices. These protestors, who are mostly urban, educated, and middle class, led by the nonviolent social activist Anna Hazare, are calling for the enactment of a new anticorruption law and the establishment of an independent ombudsman to register and investigate complaints of corruption against politicians and bureaucrats. Although I applaud their passion, I can't help but think that they have the wrong solution.

In the summer of 2006, I took over as assistant commissioner of customs at the Custom House in Mumbai. I was twenty-four years old. In my very first hour of work, an employee of a customs broker handling customs formalities for businesses approached me to have four containers of imported electronic goods cleared. As I flipped through his file, he remarked hesitantly, "Madam, you get 20,000 rupees on each container."

I caught my breath, unsure of what I had heard. Having been brought up by an idealistic Naval officer, I had lived most of my life in a vacuum. Through school and college, and then in training for the civil service, I hadn't seen the real world, and I wasn't prepared for this moment. I knew bribery and corruption were common in my country, but sometimes knowing and realizing are different things.

When he saw me getting angry and restless, he tried to explain that such an offering was entirely normal. "Madam, that's the usual cut—0.01 percent of the value of the container is your cut," he told me in a way that made it sound like he was providing me with on-the-job training. In a daze, I asked him to leave. I soon realized that

India is a country not lacking in anticorruption laws and institutions; what it lacks is implementation.

this was the first of the many attempted training sessions I was to have in my five years of service in Indian customs.

Later, I learned more about my interaction with the broker. Not everything was right with his imports, but since he had the right papers, it was difficult to prove that he or the officers who cleared him had done anything illegal. Such bribes, I learned, were commonplace within Indian customs. Importers benefited by receiving their clearances faster and ensuring that the officer at the border did not ask too many questions, and customs officers got their money. At first, staff, brokers, and importers tried to convince me that the arrangement was safe and left no paper trail. They thought it was out of the fear of being caught that I refused to join them.

Over time, I became fascinated with this parallel "grease" economy. I was amazed at how smoothly and efficiently it functioned in the office. I learned that the business of dishonesty was very honestly conducted. I also learned that this was considered by most to be a symbiotic relationship, bringing benefits to customs officials and business without causing anyone else much harm. But such rosy assessments ignore the reality that bribes do in fact have victims, including inconvenient players like myself who do not flow with the current and the people of India who lose precious public money. But even more unsettling was the hypocrisy in people's attitudes. Outside the office, everyone would decry such practices, including the media—at times, owned by the same wealthy business houses I interacted with—and the businesses that formed the industry.

But perhaps worst of all was the culture of acceptance that existed in the office. There was hardly any stigma attached to accepting favors and taking money; at

times it felt like it was even encouraged. It pained me that I most often ended up having to justify why I did not take. When I explained that I did not accept bribes because the government paid me a salary to do my job, people often expressed surprise.

Today, I am glad to see people speaking out passionately against corruption. But I wonder if they are taking the right approach. Other than the number of people on the streets, will this movement change anything? The protesters demand an end to corruption, and they want a new law and an independent ombudsman to enforce this. But India is a country not lacking in anticorruption laws and institutions; what it lacks is implementation.

I am not convinced that a new ombudsman is the best solution to corruption in India. First of all, I fear that a supra-constitutional ombudsman may be vulnerable to corruption because of the power of the office. Worse, I am afraid that in a country with so many diverse interests, the powers of an ombudsman could be abused to harass marginalized minorities and others who have fallen out of favor with those in power. There are numerous instances of honest and well-meaning officers being made scapegoats by existing anticorruption bodies even today.

Instead of creating an entirely new institution, we should focus on reforming institutions that already exist. We could start by reforming our system of campaign funding. It is common knowledge that the bulk of electoral funding in India comes from the proceeds of corruption. Political parties should be required to declare their source of funds, as should corporations or other bodies that fund our political parties. These reforms are essential if we are to reduce the influence of business interests over India's politicians and bureaucrats.

Further, each public organization needs to minimize its public interaction and employ technology to ensure transparency and the speedy delivery of services. Simplifying our laws and regulations to minimize the discretionary power vested with government employees would also help combat corruption.

But even systemic reforms cannot entirely resolve corruption. In addition to reform, we must also change our ways. To the housewives, students, businessmen, lawyers, doctors, and others who are part of the anticorruption movement, I have a simple message: Corruption in India can only be fully eradicated if each of us decides to eradicate it ourselves. Regardless of what new laws come out of this reform moment, we must choose to change the culture of corruption that so many of us accept and support. We must refuse to pay bribes for admission to colleges or to policemen or to anyone else. We must resist approaching our "contacts" to get that promotion or appointment. This is idealistic, I know, and such actions would come at a considerable personal cost. But if India is to eliminate the endemic corruption that exists at all levels of our government, it is ultimately this culture that must change. The protestors are right to say that the time to end corruption in public offices has come. Now it is our job as individuals to increase the price of corruption by increasing the value of honesty. ■



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NEW IDEAS FOR DEVELOPMENT

*A Needle in
a Haystack
How a New Tool
Is Unlocking
Entrepreneurship
in Africa*

BY GREG LARSON

Left: Leah Mugure Mwaura, a wholesale mutumba dealer in Nairobi's Gikomba Market, spent twenty years building her business without any help from banks.

If you want to learn a thing or two about business, just ask Leah Mugure Mwaura. Leah is a charming Kenyan grandmother and owner of a clothing wholesale business in Gikomba, a sprawling, dusty, crowded place on the outskirts of Nairobi that is now East Africa's largest market. Every day, tens of thousands of Kenyans show up to trade in Gikomba's maze of wooden stalls, buying and selling everything from mangos, okra, fish, and poultry to shoes, radios, hammers, and rugs. But Gikomba's main industry is mutumba, Kiswahili for secondhand clothes. Tons upon tons of the stuff arrive every week after being cast away by charities like Goodwill and the Salvation Army. Mutumba is a multimillion dollar industry for Africa, and in Gikomba, it is a challenging but fertile opportunity for Kenyans with a little entrepreneurial spirit.

In 1991, Leah spent all her savings—the equivalent of about USD \$180—on a shrink-wrapped bag of used T-shirts, jeans, blouses, and skirts, with the simple goal of turning those wrinkled clothes into profit. In her early years, she'd arrive in Gikomba at 5:30 a.m. with a shoulder-slung sack of mutumba and spend long, hot hours hawking her wares in the vast, open-air flea market. Jostling for space in the throng, Leah would shout out prices for her small pile of clothes as shoppers picked through massive heaps of shirts, mounds of trousers, and pastel rivers of secondhand lingerie—Gikomba's biggest seller, according to Leah.

For nineteen years, Leah built her business from the ground up, without any help. She never even opened a bank account. "I was running it by myself, with my own money," she recalls. "Little by little, I saved." But building the business was slow going, and after a certain point, her sales plateaued. In a highly active market like Gikomba, growth is all about volume: the

customers are plentiful, and your sales are limited only by how much merchandise you have on hand. But in order to grow her volume, Leah needed to scale up her business. For that, she needed capital.

Every few years, a microfinance agency would come to Gikomba and offer Leah a small loan, perhaps \$500 or \$1,000. Microfinance was intended to help the poor, but Leah didn't feel that it was for her. The agencies had a lot of terms and conditions. To qualify, Leah would have to join a group of other borrowers, and if one of them defaulted on their payments, they would all suffer. And besides, Leah needed larger sums of money. By that time she already had a thriving wholesale shop, housed in a warehouse of rusty iron sheets near the center of Gikomba. To really boost her business, Leah would have needed five or six times the amount that the microfinance institutions were able to offer. A bank loan would have helped, but the thought never even crossed Leah's mind. "Banks were for the big people," she explains.

In a country like Kenya, where credit reports essentially don't exist, the banks enforce a seemingly draconian system of lending requirements. For most loans, you have to put up 100 percent collateral. If you do not have enough cash—and small business owners like Leah rarely do—the bank will come to your home to value your assets, from your car to your refrigerator; if you ever default on the loan, these possessions become subject to requisition. On top of collateral, you have to find a co-guarantor who agrees to reimburse the bank in the event of default and a lawyer to process your loan application and financial statements. Banks maintain that they must use such controls to weed out dishonest borrowers—the people looking for so-called *hakuna matata* loans, because they take the money and run. But as a result, most small businesses are locked out.

"It's like a mountain ahead of you!" Leah says. "People fear banks. The banks are not for us little people."

Thousands of shopkeepers in Gikomba, and millions of other small businesses in the developing world, face this challenge. These individuals are good businesspeople; many of them are brilliant entrepreneurs. They understand how a profit margin works, they know how to track turnover and costs, they know their supply chains. They know they have strong businesses, and they know what they need to grow. But they can't get the right financing.

It's a catch-22: these small and medium-sized enterprises (often called SMEs) are too big for microfinance, but they lack the collateral and credit history required by banks. Research shows that small businesses have incredible growth potential and high returns to capital. It also shows that banks want to invest in small businesses but too often do not because of the lack of information and the unknown risk. This leads to a "missing middle" in developing countries: lots of microenterprises at the low end of the economy, some giant firms at the top, and then a swath of small entrepreneurs who exist in this limbo, above the poverty line but unable to grow.

A NEEDLE IN A HAYSTACK

In 2010, two researchers from the John F. Kennedy School of Government at Harvard University started a social enterprise to address the problem of funding SMEs. The Entrepreneurial Finance Lab, or EFL, began as a research project for Bailey Klinger, a PhD student at the school, and Kennedy School Professor of Public Policy Asim Khwaja, an expert in development finance. Recognizing the dearth of credit-scoring and risk-assessment tools in developing countries, Klinger and Khwaja set about to build a solution: a credit-scoring test for the developing world. If finding



Top: Munga Kimata, owner of a retail shop for general goods in the Kamukunji area of Gikomba. After taking the EFL application, he was given a loan of 1 million Kenyan shillings (the equivalent of \$12,000 USD), which allowed him to double his stock and expand his business.

Bottom: Gikomba Market, on the outskirts of Nairobi, is one of East Africa's largest informal markets, and specializes in mutumba, Kiswahili for second-hand clothes.

creditworthy business owners is like trying to find a needle in a haystack, then EFL aims to be the metal detector.

The EFL tool is basically a questionnaire that measures an entrepreneur's risk and potential. Based on research about the common characteristics of successful entrepreneurs, the EFL application considers traits like drive, intelligence, attitude, outlook, ability, and character, as well as the entrepreneur's business acumen and quantitative skills. While it is not a personality test per se, the EFL test applies basic psychometric principles to the analytic process of credit scoring as a way to measure individuals' potential and to predict the risk of giving them a loan.

Klinger and Khwaja designed the tool over six years and have administered it more than 25,000 times in eighteen countries and eleven different languages. EFL uses this data to continuously fine-tune the model—to finesse out inaccurate questions, calibrate for each country's context and culture, and make sure the questions are complex enough that applicants cannot game the system. At the beginning, there were hundreds of questions, and the test took two or three hours to complete. After years of tweaking and throwing out irrelevant questions, the current EFL test, which includes multiple-choice and true-false questions, as well as math problems, takes an entrepreneur about thirty minutes to complete. Individuals can do it in the local bank branch or on a small netbook laptop in the comfort of their own shop.

Some find it difficult to believe that a thirty-minute questionnaire could predict so much about an entrepreneur. But the EFL application does not test for specific traits themselves; it tests for the symptoms of those traits. Business virtues like honesty and trustworthiness would be impossible to measure analytically, but there are certain skills, behaviors, and attitudes commonly shared by most honest and trustworthy business owners. EFL tests for evidence of these behaviors and attitudes; it asks questions directly related to an entrepreneur's ability to succeed in

For twenty years,
Leah had never
even opened a bank
account. Now in a
short fourteen months,
she had received
\$31,000
in capital loans.

business and the likelihood that the individual would repay a loan.

Many questions require the entrepreneurs to make calculations in their head; some ask about their knowledge of competitors' prices and products and about their budget estimates for future sales; other questions are more values-based. Typical questions might read:

* How do you calculate the profit margin of your main products?

* Do you think there are limits to the future opportunities of your business?

* Do you feel like your life has direction?

* Is it possible for an average employee to be honest 100 percent of the time?

On their own, individual questions seem basic, but combined, they provide EFL with a rich portrait of entrepreneurial potential. Measured against thousands of other applicants in a market like Gikomba, EFL can identify the top-tier entrepreneurs with the highest potential and the lowest risk and then recommend them to the bank for a loan.

In 2010, Klinger and Khwaja teamed up with Harvard Business School alumnus and entrepreneur DJ DiDonna and started selling the tool to banks in Africa, Latin America, and the Middle East. At first, the banks were skeptical. How could a thirty-minute test identify a creditworthy businessperson? But over time and several field studies, EFL generated impressive results. Research showed that banks using the EFL application as a screening tool could reduce the typical default rate on comparable SME bank loans by 20 percent to 45 percent. Finally, EFL secured its first customer: Standard Bank, the largest bank in Africa.

A BUSINESS BOOST

In November 2010, Leah learned about the new loan program that Standard Bank was rolling out in Gikomba. It sounded like a fantastic deal: all you had to do was take a thirty-minute quiz and you could get a loan with no collateral requirements, no guarantor, and no need for a lawyer. Leah simply thought, "Why not?"

She remembers it being a strange test.

"The questions were all about honesty," she recollects. "If I borrow money from a stranger, will I repay it?" Two days after taking the EFL questionnaire, the bank approved Leah for a first-time loan of 600,000 Kenyan shillings, or the equivalent of about USD \$7,000.

"I felt so excited and happy," she says. She used the loan to expand her stock. She bought fifty bales of clothes—more than she'd ever purchased before—and the larger stock attracted more and more customers. Business boomed, and she upgraded to a new and bigger warehouse. She paid back the bank loan in full, ahead of her schedule. "It felt beautiful," she recalls.

A year later, in response to her growth and the good standing of her account, the bank preapproved her for a new loan of two million shillings, or USD \$24,000. After receiving this inflow of capital, her profits tripled: "I moved from point A to point B," she says. "Maybe even point C or D. I'm proud."

For twenty years, Leah had never even opened a bank account. Now in a short fourteen months, she had received \$31,000 in capital loans.

A PATH TO THE MIDDLE

Leah's experience is no anomaly. In fact, more than 3,500 traders in Gikomba have now received loans like Leah's. Within the proverbial haystack, it turns out, there are thousands of needles waiting to be found.

Gikomba was the pilot project of EFL's partnership with Standard Bank to administer 100,000 tests to SMEs all across Africa. With an average loan size of \$7,500, that's a potential for \$750 million in loans to unbanked or under-banked African business owners who would otherwise be rejected. The tool is currently being used in Kenya, South Africa, Nigeria, Ghana, Tanzania, and Zambia, and Standard Bank is rolling it out in several other African countries this year. EFL is readying pilot projects for other banks in Pakistan, India, Saudi Arabia, and Egypt. Next year, it will expand to Southeast Asia.

To give a sense of how much lending this entails: every single week in 2012,



Photos by Greg Larson

the EFL tool is being used to lend millions of dollars to unbanked entrepreneurs all across Africa.

There are, like with any development initiative, some important drawbacks to consider. Even with the EFL test, some borrowers are still defaulting. There are still *hakuna matata* loans. And while the vast majority of borrowers pay back their loans on time, some complain about high interest rates. The EFL tool itself, while garnering impressive results across the board, is in the end just a questionnaire; one can imagine scenarios where entrepreneurs might try to cheat or get help on the questions from outside sources. If an entrepreneur is predicted by EFL to be too risky, he or she can be disqualified from further consideration by the bank.

But another way to look at it is that EFL has allowed Standard Bank to reach thousands of traders in Gikomba that it previously never had access to. Before EFL, a typical commercial bank never would have even looked at loan applications for SMEs like Leah. The EFL tool is giving banks unprecedented access to a portion of the market that has largely been ignored.

After fourteen months of operation, the results have been staggeringly positive. Business owners across Africa have benefited from more than \$60 million in loans that allow them to grow their businesses and contribute to their economies. Meanwhile, Standard Bank benefits from thousands of new customers in an untapped market, customers who also often sign up for other bank products, from home loans to credit cards.

Today, Leah is one of the most successful wholesale clothing suppliers in Gikomba. "Business is hard," she says while sitting on a bale of mutumba in her rusty warehouse, as rays of sunlight sneak through the walls. "Competition is fierce. Many have tried and failed. But business is good, so long as you are hardworking and honest. Honesty is better than having ten million in your pocket; without trust, your business will collapse."

Last year Leah built her own house, and she's putting her granddaughters Rosie

and Faith through private school in downtown Nairobi. She is a rising member of Kenya's growing middle class—a segment of society often overlooked by aid agencies, nongovernmental organizations, and microfinance institutions that focus on the very poor. While microfinance is sometimes seen as a trickle-up development strategy—addressing poverty as one of the causes of hunger, disease, or lack of education—SME finance is a driver for growth and economic development.

Leah's story is universal. Globally, there are an estimated 400 million unbanked SMEs that fall into the financing gap. These overlooked entrepreneurs represent a new market for a new type of development.

EFL aims to unleash entrepreneurial potential, helping small business owners like Leah demonstrate their best qualities and their capacity to grow. Starting in Gikomba and scaling globally, EFL's cheap and simple tool sets a mighty promise: to unlock chains of growth and to start filling the missing middle. ■



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Beginning the End of Slums

How Micro-Mortgages Serve the Poor

BY NISHANT LALWANI

It's a hot Saturday morning in Ahmedabad, India—the last before the monsoons start—and Leeladhar Bhatt Hall is packed with visitors. Hundreds of people have gathered here to attend a two-day customer evaluation session by the Micro Housing Finance Company (MHFC). MHFC has partnered with a builder that is constructing apartments on the outskirts of the city that will sell for as little as US \$7,000, and MHFC hopes to provide mortgages to these prospective first-time homebuyers.

Narendrabhai, MHFC's first customer of the day, is a rickshaw driver. He earns between \$150 and \$200 a month—just \$5 to \$6 a day—but he has no proof of this income. He has no income tax returns and certainly does not issue himself salary slips. In fact, he does not keep any accounts of his income or expenditure, and while he does have a bank account, he barely uses it. He has about \$1,000 of savings and is applying for a loan of \$5,000 but has no proof of his current address.

Most housing finance companies would have sent him back out to the street before you could say "bad asset," but MHFC is not one of those companies. MHFC has recognized the critical housing finance need among the urban poor and is attempting to serve it. Although the task is difficult, it is an important one; it holds the potential to change the structure of the mortgage finance industry while also transforming hundreds of millions of lives.

MORTGAGES FOR THE URBAN POOR

At first glance, Narendrabhai may seem like an unusual candidate for a loan. He is similar to hundreds of millions of urban slum dwellers across the world who live above the abject poverty line in that they earn enough to eat and pay for shelter but are still poor and have no feasible way

to leave the slum. But he is also a lot like the vast majority of middle-class homeowners who require outside financing to buy their first homes. Narendrabhai has a regular income that will more than cover the cost of his monthly mortgage, and he is ready to make a down payment worth 20 percent of the cost of the total loan. The only identifiable difference between him and his middle-class counterparts is the amount of money on the line. Yet time and time again, banks say yes to middle-income customers and no to people like Narendrabhai.

Peruvian economist Hernando de Soto has argued that securing property rights is a critical and foundational step for poor communities to fight their way out of poverty and get into the mainstream financial and legal systems of their respective nations. Without a legitimate address, it is nearly impossible to have a legal identity or gain access to the vital economic markets that are prerequisites for services like personal credit. It is ironic that those individuals who most need housing finance—the urban poor—are the very citizens who are excluded from mortgage markets, while those who need it least—the rich and upper-middle classes—often secure the lowest interest rates from lenders.

Historically, housing finance companies have been geared toward people with higher incomes. This is in part explained by transaction costs: it is more expensive to issue lots of small loans than a few larger ones. But since processing fees tend to cover these costs, this cannot explain the entire reason behind the high-income skew. A more important reason for why lower-income customers have remained underserved is that a significant proportion of people in this group do not have documentation of their financial income or assets. This documentation is a prerequisite for every conventional mortgage

It is ironic that those individuals who most need housing finance—the urban poor—are the very citizens who are excluded from mortgage markets, while those who need it least—the rich and upper-middle classes—often secure the lowest interest rates from lenders.



company's loan application process. As the chief managing director of a large Indian bank told me in a research interview, "my staff can only interact with paper, not people."

A NEW WAY OF MAKING LOANS

How does MHFC overcome these barriers?

Ashish Kothari, a loan officer at the company, begins his assessment of Narendrabhai's application by "storyboarding" his life. Kothari asks him questions about his family, living situation, income, previous loans, and assets, while taking copious notes. While the output of this process is always the same—focused on understanding the customer's ability to meet his or her monthly mortgage commitment—the process itself must be tailored to each applicant. But Kothari has interviewed rickshaw drivers like Narendrabhai before and asks all the right questions: How much are your fares on average? Do you work at night? Do you own your rickshaw or do you rent it?

Even more important than gathering this customer information is verifying that the information is true. Unlike most mortgage loan officers, who rarely leave their branches, Kothari will spend a full day on the street corroborating the data Narendrabhai has provided MHFC. He will visit Narendrabhai's house, speak to his family, and check the condition of his rickshaw. He will go to the road junction where Narendrabhai usually keeps his rickshaw parked and talk to his fellow drivers, investigating whether their average income is in the same ballpark. He will call up the three references that Narendrabhai has given him, including the auto-rickshaw garage where he has his vehicle repaired (to check whether Narendrabhai pays on time). Kothari has similar but distinct procedures to assess the loan applications of customers involved in trade (e.g., grocery stores), the service industry (e.g., tailors), and informal-sector jobs (e.g., domestic servants). MHFC employs many loan officers like Kothari who work in several different cities across India.

The risk associated with Narendrabhai has not decreased as a result of the storyboarding and verification process; it has simply been better understood. Although low-income individuals who work in the informal sector are usually considered "high risk" by conventional mortgage companies, it would be more accurate to consider them as "unknown risk." The process of documenting and quantifying facts about a low-income customer—as MHFC regularly does—helps fill in this information deficit and make it possible for financial companies and others to more accurately evaluate the risk of low-income individuals.

Documenting the incomes and financial status of this group takes time, of course. And it is true that low-income customers may be associated with greater risks in some areas. But usually any extra risk can be accounted for through appropriate pricing. Companies like MHFC often charge rates that are 2 percent to 4 percent higher than conventional mortgage companies that serve primarily higher-income and formal-sector customers.

ADDRESSING THE DIFFICULTIES

There are certainly some challenges associated with this model. The possibility of default is a long-term risk that is difficult to predict, and there will be little data to aid this assessment until ten or twelve years from now, when the first cohort of micro-mortgage recipients have completed their loan repayments. Another risk is that slum dwellers, unlike most members of the middle class, rarely have financial buffers. In the event of family illness or business problems, the urban poor are likely to be put under significantly greater stress than their middle-class counterparts. Additionally, much of the low-income population earns and saves its income in cash; consequently, converting these customers to the formal banking system and setting up electronic repayments are additional responsibilities for the mortgage company. Nevertheless, several innovative micro-mortgage companies in India have taken on these risks and have now signed

on tens of thousands of customers in cities like Mumbai and Ahmedabad for their first housing loans.

Despite the viability of the micro-mortgage model, relatively few established mainstream mortgage companies with operations in emerging markets have adopted it. This is largely due to the fact that in most sizable developing world cities, large financial institutions prefer to serve the large (and often growing) middle-class market rather than populations at the bottom of the economic pyramid.

HOW GOVERNMENTS CAN HELP

The role of policy makers in markets with high rates of urbanization (e.g., India, Brazil, Indonesia, the Philippines, Kenya, South Africa, and the like) should be to encourage the further development of specialized low-income housing mortgage companies while also enticing large financial institutions into the bottom end of the mortgage market through economic incentives. Of course, the unique political, social, and economic contexts of these countries may mean that the best way to foster the development of low-income housing will differ by region. But as a general rule, governments can help make micro-mortgage transactions less risky and more profitable for private companies. A variety of policies can help achieve this goal, including interest rate subsidies for customers, mortgage guarantee funds for lenders, and low-cost wholesale funds for loans that specifically target the poor.

Interest rate subsidies for low-income customers make loans cheaper to the end user and thus expand the proportion of the market that can afford them. Moreover, by attaching the subsidy directly to the mortgage, it can be assured that if the home is sold, the benefit of the subsidy is lost. This keeps the benefit from being lost through arbitration, which could otherwise happen if eligible homebuyers purchase and then sell their home to make a quick buck.

Establishing financial instruments like mortgage guarantee funds that pool the risk of engaging low-income borrowers is another positive intervention gov-



Photo by Brad Coy

ernments can make. Such policies may encourage mortgage companies that are worried about high default rates to experiment with lending to the poor. As lenders gain more data about this segment, their ability to gauge real risk will increase, eventually rendering mortgage guarantees unnecessary. If they go down this path, governments would need to structure the guarantee conditionally and share losses in a way that prevents risky or subprime lending.

Lastly, central banks in emerging economies should provide low and submarket cost loans to mortgage companies to use as capital for loans to low-income households. India's National Housing Bank has done this to good effect, and many mortgage companies rely on this source of funds in order to keep loan prices at an affordable level without having to sacrifice profits.

All of these measures will encourage mainstream mortgage companies—or

start-ups like MHFC—to enter the low-income market. This, in turn, will result in a large base of customers and a greater understanding of the risks and transaction costs associated with slum-dwelling borrowers. More information and more competition will lead to lower prices for customers, gradually making these loans more affordable.

As urbanization in emerging markets increases at near exponential rates, it will be critical for governments to support the private sector in housing the tens of thousands of low-income migrants who arrive in cities on a daily basis. Without housing finance, owning property is unaffordable, and without property, the poor remain marginalized and vulnerable. At a macro level, instigating and fueling local micro-mortgage markets should be a priority for policy makers who want to prevent the growth of slums while also promoting the growth of cities. For the low-income individual, the opportunity to move out of

a slum and own a home represents a rare opportunity to create wealth. Equally important, such a transition will also mean the end of shared toilets, illegal rentals, and constant anxiety about government intervention. Micro-mortgages from companies like MHFC do not lead to the eradication of slums, but they do provide a viable and permanent alternative. ■



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From Genocide to 3G *Innovations in Rwanda*

BY JOHN VRAKAS

Standing in the heart of a village in northwestern Rwanda, a farmer named Eusebe faces a dilemma. Traders have offered him 36,000 Rwandan francs (RWF), or about US \$60 per ton, for his plantains. He hesitates; the farmer knows this is a profitable price, but he has no idea if it's a good price. A few years ago, Eusebe would have been easily satisfied with an offer that provided even a modest profit. But today he is armed with a mobile phone and decides to send an SMS with the word "plantain" to a service called e-Soko. A moment later he gets an SMS showing the retail price of plantains approaching 50,000 RWF in the capital of Kigali and decides to haggle with the traders until they settle on 42,000 RWF.

The e-Soko project, launched by the Rwandan Ministry of Agriculture in early 2011, provides market price information to rural farmers and cooperatives. It was designed to serve the large swaths of farm-

ers who previously had to sell their goods for a pittance simply because they did not know what price the market would bear. But now farmers have access to a database covering more than sixty agricultural commodities in the country's forty-one markets, all of which are accessible through SMS (Melhem 2011).

Programs like e-Soko are heralded by techno-optimists as proof that mobile technology can make major strides in uplifting the world's poor. Their confidence is bolstered by the devices' rapid spread, which itself seems like a force of nature. Mobile phone penetration in Rwanda grew from less than 1 percent in 2005 to 27 percent in 2010, with three mobile operators competing for the local market (Melhem 2011). Rwanda's rapid technology adoption, unfortunately, is an exception among developing countries. Many developing nations have struggled to scale up effective government-backed programs

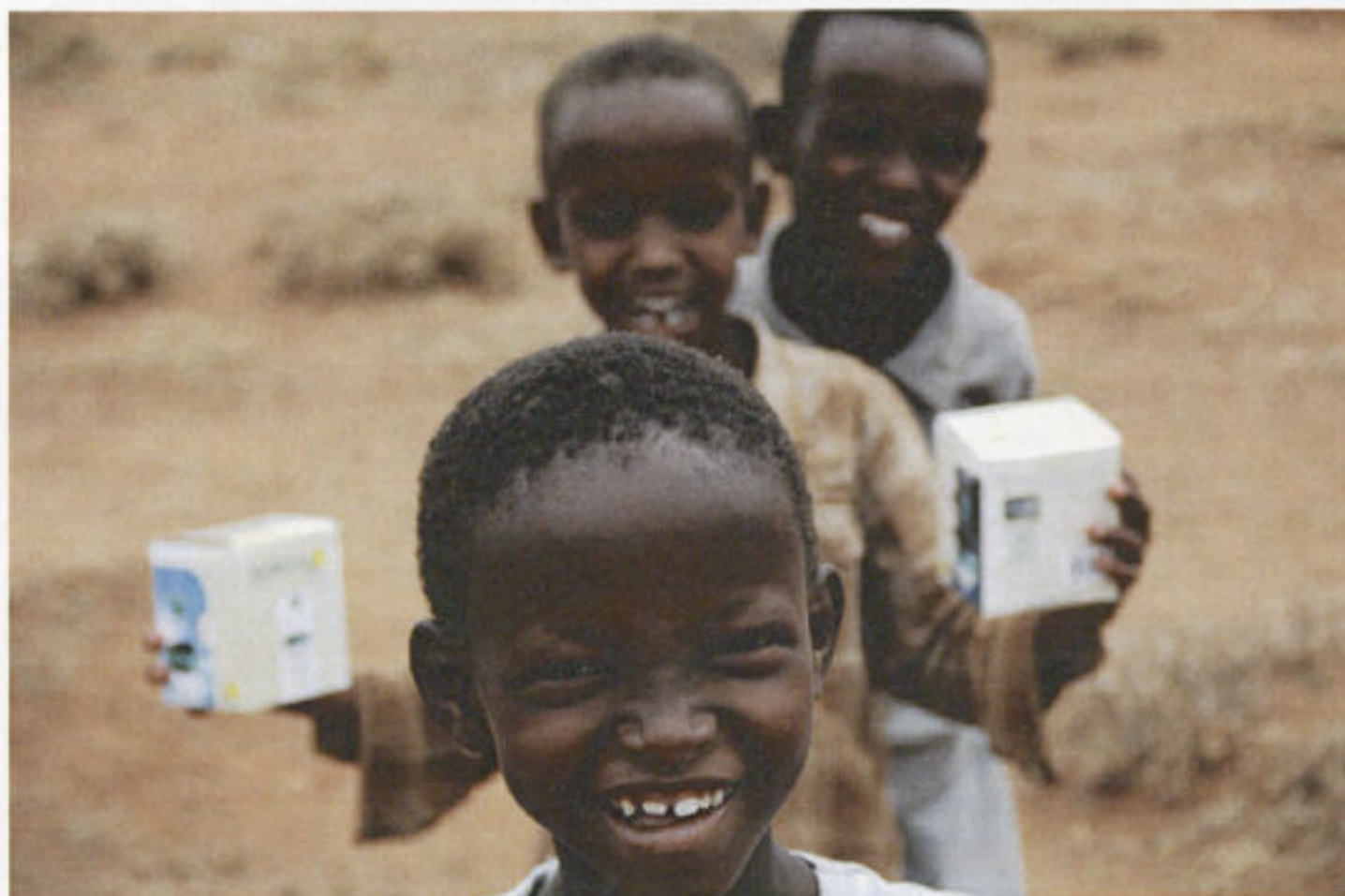
that tap into technology's promise. Often, these countries lack the capacity for innovation and grow programs slowly, if at all.

BARRIERS TO SCALING UP

How does Rwanda succeed in technology-based development where so many other countries have failed? Lant Pritchett, a professor at the Harvard Kennedy School, thinks that the answer might have something to do with what he calls a "capability trap" (Pritchett et al. 2012). He thinks that many developing countries get trapped in processes where they make creeping, paltry gains while failing to make real gains. Pritchett believes development efforts fall into this trap due to incentives for what economists call "isomorphic mimicry" and "premature load bearing." Put more clearly, this means they take a cookie-cutter approach to development by copying the policies, regulations, and institutional structures of economically successful countries and pasting them unaltered into countries that are unable to support them. The result is that many poor countries appear to be working toward the promise of a better future by looking more and more like prosperous Western nations, while in reality their governmental systems remain functional only on the surface. "At the current rate of progress," Pritchett said in an interview with *Foreign Policy* magazine, "it will take literally thousands of years for many developing countries to reach Singapore's level of capability" (*Foreign Policy* 2011).

This tendency of aid agencies pushing developing countries to mimic Western institutions is often referred to pejoratively as "Big Development." By contrast, Rwanda has been able to escape the institutional black hole of Big Development by searching for the most effective ways to meet the specific needs of Rwanda itself.

Rwandan boys play with new solar lights. Photo by Steve Katsaros.



The nation hasn't held back when those ways diverge from the best practices of Western institutions, even when it also means diverging from their good graces. This approach to development, referred to here as "Smart Development," illustrates how countries can generate a novel solution to a specific problem through institutionalizing the practice of genuine innovation. This stands in sharp contrast to Big Development, where predetermined solutions are imported with the assumption that applying them will solve essentially all existing problems. The e-Soko program can be seen as a type of Smart Development because it provides a unique solution to a specific problem faced by Rwandan farmers that would have never been encountered in the West.

DEFYING CAPABILITY TRAPS THROUGH INNOVATION

The Ministry of Agriculture is not the only agency to buck the cookie-cutter trend of isomorphic mimicry and instead become an engine for innovation. The Rwandan Ministry of Health has also rolled out impressive technology-based programs to meet Rwanda's unique needs. The health ministry is faced with the unenviable challenge of providing HIV treatment to approximately 500,000 patients in isolated, rural areas on a budget that is nowhere near sufficient for the task.

But rather than implode from these health problems, Rwanda took innovative action. It launched a program called TRACnet, which is an HIV-focused information technology system designed to collect and disseminate critical details about patients and drug distribution. Created by the Treatment and Research AIDS Centre (TRAC) arm of Rwanda's Ministry of Health in 2005, TRACnet addresses the lack of technological infrastructure in rural areas. It does so by using solar-powered mobile phones to enable practitioners involved in antiretroviral (ARV) treatment programs to submit reports electronically and to have timely access to vital information.

The results have been striking. At the end of 2007, the system covered the 168

The health ministry is faced with the unenviable challenge of providing HIV treatment to approximately **500,000** patients in isolated, rural areas on a budget that is nowhere near sufficient.

health facilities that offer ARV therapy in Rwanda, reaching 100 percent of the 43,000 ARV patients in Rwanda (United Nations 2008). In the long run, 400 health facilities will be part of the network. More than 90 percent of users are able to access the system conveniently and cheaply via the toll-free telephone interface with interactive voice response (IVR) technology (United Nations 2008). Physicians are now able to easily and quickly discuss with highly qualified specialists the details of difficult cases from all over the country. This technology has been easily adopted, as most users are accustomed to text messaging from phones after fifteen to thirty minutes of training. As a result of the TRACnet deployment, the number of days between obtaining a blood specimen for a CD4 analysis and physicians receiving results has been significantly reduced (United Nations 2008).

Here is yet another example of a Rwandan institution eschewing isomorphic mimicry and supporting a scalable, truly innovative solution. But it begs the question, how does this happen in a world where so many countries have failed to do the same?

LEADERSHIP DRIVES INNOVATION

Indeed, Rwanda is famous—or, more likely, infamous—in the eyes of development agencies and donors for taking only partial advice from the international aid community and developing the rest on its own. Crystallizing this ethos is Rwanda's President Paul Kagame, who argues that traditional development aid "dehumanizes" recipients, robbing people of their

dignity. "If that [genocide, violence-ridden] past is never going to happen again, we must grow our economy," Kagame told *Fast Company* magazine in 2009 (Chu 2009).

Under Kagame's leadership, Rwanda is evaluating its own needs, setting its own priorities, and avoiding the prescriptive reform regimes of Western donors. "We do appreciate support from the outside, but it should be support for what we intend to achieve ourselves," Kagame (2009) writes in an essay in the book *In the River They Swim*. "No one can assume that he or she knows better than we what is good for us." This mentality is clearly manifest in successful programs like e-Soko and TRACnet, which follow directly in that path.

In November 2011, Kagame warned the Organisation for Economic Co-operation and Development (OECD), which hosted the 4th High Level Forum on Aid Effectiveness in Busan, South Korea, that developing countries could become dependent on aid: "There is real danger that the huge industry that has been built around aid can become a permanent feature of our development process and perpetuate dependency, thereby directly undermining the very national systems that should instead be strengthened" (Office of the President 2011). Kagame emphasized his concern, chiding a development regime where "developing countries spend more time and energy agreeing on procedures and accounting to donors and an ever-increasing number of related non-state actors than in actual development work, often responding to endless questioning that no answers can fully satisfy" (Office of the President 2011; Tran 2011).



The sad irony is that these programs would have been unlikely to emerge if Rwanda had followed the full recommendations of those intuitions providing the most resources to help the country: the Western aid regime.

Kagame's warnings on donor dependency are coupled with his calls for a shift in the aid regime to include emerging economies. Kagame believes countries like China and India, which have recently achieved prosperity, have a unique grasp on what it takes to get out of poverty and could potentially provide valuable lessons to both developing countries and donors. Accordingly, he has called for strengthening "South-South cooperation" to help facilitate the transfer of these lessons and know-how.

In January 2012, Kagame told the International Reporting Project that his goal is to receive no foreign aid. "There will always be strings attached to aid," Kagame explained. "These strings tie people and deny them their freedom. In time, we will be able to provide for ourselves and stand on our own. We will be free to be who we should be, rather than who we are dictated to be, because that will always come with aid" (IRP staff 2012). The Rwandan story should give pause to donor institutions practicing a one-size-fits-all development program. Rwanda's innovative programs in agriculture and health have helped farmers like Eusebe receive a better price for their crop and HIV positive patients in rural areas receive better and timelier treatment. The sad irony is that these programs would have been unlikely to emerge if Rwanda had followed the full recommendations of those intuitions providing the most resources to help the country: the Western aid regime. Rwanda's example highlights the need for a paradigm shift in Western aid implementation, away from the generic prescriptions of Big Development. Rather, Western aid should move toward recognizing that each country has unique challenges and these challenges are best addressed through the contextual innovation embedded in a Smart Development approach. This requires giving a huge part of development work back to local people and their government while challenging them to see donor support less as the answer to their problems and more as a resource for finding their own solutions. ■

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Your Black Muslim Bakery

A Review of Killing the Messenger: A Story of Radical Faith, Racism's Backlash, and the Assassination of a Journalist

BY THOMAS PEELE

(CROWN PUBLISHERS, 2012)

REVIEWED BY ALEX REMINGTON

Five years ago, a radical Black Muslim sect in Oakland, CA, gunned down the journalist Chauncey Bailey to prevent him from writing a story about them. Bailey's death exposed the shocking, four-decade history of Your Black Muslim Bakery, a brick compound that housed a cult-like splinter from the Nation of Islam. The Nation had long fed on the festering racism of America's inner cities, and Oakland was one of the last strongholds for its viciously violent rhetoric. Thomas Peele's nonfiction narrative in *Killing the Messenger* explores the Black Muslim movement, including the circumstances surrounding Bailey's death.

Oakland liked to call itself "The Detroit of the West," and the comparison was painfully apt, as both were industrial cities marked by major African American immigration and extreme racism, not to mention significant Black Muslim populations. The Nation of Islam was founded in Detroit amid the Great Migration in the early twentieth century, when African Americans left the South in search of better lives in the North only to find that the colder region had institutionalized its own version of the South's racism and segregation. They were forced into ghettos, then confronted by Southern police officers who had been imported to keep them in line. Typically, factory owners would only hire African Americans for low-paying, menial, or dangerous jobs.

Amid the poverty, unemployment, and despair, an immigrant Afghan named Wallace Fard founded the Nation around 1930. Fard preached African American self-sufficiency while profiting off his indigent proselytes, selling his flock their

signature suits and preaching hatred: "Slay four, stab them through the heart, and rewards will be yours."

Ultimately, tens of thousands would convert to Fard's new religion, including Elijah Muhammad, who became the leader of the movement after Fard disappeared in 1934. Muhammad backed his authority with deadly force, but the Nation was publicly discredited after the 1965 assassination of its most public critic, Malcolm X, and Muhammad died a decade later. Few continued to listen to the Nation's hate-filled rhetoric once Fard and Muhammad were gone.

In the decades since, few White Americans have heard much about the history of the Nation of Islam beyond Malcolm's autobiography. That may stem from the same ignorance of the inner-city Black community that created the environment in which the Nation was originally created. Bailey's death is a tragic reminder of the toll of ignorance, and Peele is an engaging historian, though his use of the epithet "fictive Islam" to describe Fard and Yusuf Bey's religious rhetoric is practically a verbal tic. The first half of the book, dealing with the origins of the Nation and the Bakery, is also better written than the more recent history, much of which emerged during the court trial of Bailey's killers that only concluded in the summer of 2011.

That recent history all took place in Oakland, where grinding poverty and toxic race relations enabled Your Black Muslim Bakery to maintain Fard's message for decades after its leader had split with Elijah Muhammad in a power struggle. Beginning in the early 1970s, Bey, a former hairdresser originally named Joseph

Because the police had no interest in expending resources on Black-on-Black crimes, and the local daily newspaper had no interest in covering the poor African American community, Bey's crimes went unpunished and unreported.



Oakland, CA: Your Black Muslim Bakery, a brick compound that housed a cult-like splinter from the Nation of Islam. Photo courtesy of Evan P. Cordes.

Stephens, carved out a religious domain in the East Bay.

It was centered on a bakery that Bey opened to sell food to members of the Nation, who were prohibited not only from eating pork but many other foods as well. Bey, like Fard and Muhammed before him, preached Black self-sufficiency through business ownership and seemed to support it by hiring people whom no one else would, especially criminals. Dressed in suits and bow ties, former felons baked bread. Bey preached in a makeshift mosque in the back and broadcast his sermons on local television.

It was a cult of personality. Bey used his power and his prophecies to intimidate all his charges into servitude and to abuse and rape the women, girls, and boys in the compound, some as young as ten years old. The women bore him at least forty-two children.

Because the Bakery's inhabitants—particularly the women—had been trained to regard Bey as a prophet of God's message, and because they justifiably feared that he would kill them for betraying him, they would not report any of his crimes, even when they involved fraud, murder, and sexual assault. Had the police bothered to check, they would have found a questionable paper trail that followed the various scams he used to prop up his finances. But no one did, and Bey remained a free man.

Bey ran the Bakery for thirty years as

a personal fiefdom and harem and was mostly untroubled by indifferent White Oakland politicians, law enforcers, and journalists who stayed away due to cowardice and racism. Because the police had no interest in expending resources on Black-on-Black crimes, and the local daily newspaper had no interest in covering the poor African American community, Bey's crimes went unpunished and unreported. What little attention Bey did receive in the White community was positive, such as when the former and current governor of California, Jerry Brown, came on multiple occasions to the Bakery to obtain Bey's endorsement.

Neither the Bakery's continued existence nor Bailey's murder would have been possible without the noxious mixture of oppression, poverty, and crime in the African American community in Oakland. The prisons produced a continued stream of new recruits and emboldened Bey and his sons to act with impunity, so certain they were that they would never be held to account.

That finally began to change toward the end of Bey's life. Newspapers reported a sexual assault accusation that had been made against him. Then, Chauncey Bailey, an African American and Oakland native who had long been sympathetic to the Bakery's stated goal of Black empowerment, revealed that Bey had been diagnosed with HIV. Bailey's stories were not

especially hard-hitting, but they landed him on the family's radar.

At that point, Bailey's career was in serious decline. After a decade at the *Detroit News*, he had come to the *Oakland Tribune* but was fired over a series of ethical breaches, most involving his attempts to supplement his low reporter's income. He eventually landed at the *Oakland Post*, a free weekly targeted at the African American community. Four years after Bey's death in 2003, his son and namesake Yusuf Bey IV sent an assassin to kill Bailey in preemptive retaliation for a story he was writing about the Bakery.

Few could have been better positioned to write this history than Peele. As the leader of the Chauncey Bailey Project, a group of reporters that gathered after Bailey's death to try to tell the comprehensive story, Peele had access to a great deal of information, some of it leaked during the trial of Bailey's killers. The author is also clearly passionate about the need to protect the First Amendment against intimidation.

But Peele can't always keep himself from condescending when referring to Yusuf Bey and his family. He writes that a burial spot for one of the Beys' victims was "moronic" (206); at another point, Peele describes a botched kidnapping by Yusuf Bey IV as "a combination of hubris and brazen idiocy" (237). He occasionally descends to moral righteousness as well. After de-

scribing an assault committed by Bailey's eventual killer, Devaughndre Broussard, who had grown up with a drug-addicted single mother, Peele writes: "Broussard deserved time in jail for the beating; it should have been longer. No one, though, deserved a story like his" (34). Such editorial comments detract from the story itself.


But these are minor complaints. Bailey's killing is a remarkable story, and while Peele's prose has occasional flaws, it is still first-rate journalism. The urban decay and virulent racism that empowered Your Black Muslim Bakery for half a century finally erupted in a hail of shotgun blasts just five years ago.

It is remarkable to consider that a Black Muslim cult operated openly in one of the largest metropolitan areas in the country, the San Francisco Bay Area, until just a few years ago. But it happened because a large population was both economically and politically disenfranchised, and Your Black Muslim Bakery arose to fill the power vacuum. In doing so, it was not much different from an ethnic organized crime syndicate, a street gang, a protection racket, or a tribal *caudillo*. The form it took was bizarre—a bakery cult—but the reasons it lasted for forty-five years were commonplace: racism, poverty, ignorance, and silence.

A book like this cannot counteract racism and poverty, but it can fight silence and ignorance. Though this book comes too late for Chauncey Bailey, this story urgently needs to be told. ■



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Photo by Trey Ratcliff

Dishing with Andrew Sullivan

A Blogging Pioneer on the Future of Journalism

INTERVIEWED BY SACHA FEINMAN

KSR: *The political influence of blogs is on the decline right now. How do you respond to that?*

SULLIVAN: I don't really know, because, to be honest with you, I don't really think about that when I'm doing what I'm doing. . . . As a writer, I've always just written what I write and never worried about who it will influence; in fact, I've always been slightly terrified it might influence somebody because I don't really write in order to exercise power. I write to make myself feel better and to try and get at the truth. . . . I don't write to influence anybody, and I think that I've succeeded in that regard. . . . What I can tell you is that our growth in readership is continuing; we're up 20 percent over last year. We're at 1.4 million people, which blows my mind.

I do think that some of the things that have resonated online—the scandals, the moments, the YouTubes—well, twenty years ago, [former Republican presidential candidate] Herman Cain's answer on Libya would first of all not be televised and second would not have been disseminated within minutes and be available for people to look at, so I disagree in that sense. Blogs play an important role; they're a huge portal for a lot of people on the Web.

KSR: *When I think about the 2008 election cycle, I think about you driving so much of the conversation about Sarah Palin. And I don't necessarily see anyone in the blogosphere today doing what you were doing then.*

SULLIVAN: I would like to think that not

just [about] Palin, but [Barack] Obama [as well]. . . . The October 2007 cover story with the Atlantic and then my basic argument in favor of Obama . . . that's where we got this huge boost in readership. [Obama adviser David] Axelrod actually said that we were critical to Obama's breakthrough against [then Senator Hillary] Clinton. So that's a lot of influence, I guess, but I don't think about that. And I think that keeping the pressure up on Palin, getting right in her face with that whole thing . . . now, the reason I did that is because there was no vetting, and we had two months and she could be vice president. That's very rare. I eventually found out, via various sources, that she read it every day just as you were reading it, and my own suspicion is that she's not running because she knows there is more shit out there she does not want to handle and couldn't handle, so finally she's acting rationally.

But, this year . . . you may well be right. I think [this] is a slightly different and disparate period. I think we're not involved in this sudden, amazing movement with Obama. Also, blogs have been so co-opted by the mainstream media that you think that blogs themselves are not so influential. But if you look at Nate Silver, if you look at Greg Sargent, there are a lot of embedded bloggers now. And I'm, of course, within the Daily Beast umbrella, even though my own blog is its own sort of fiefdom. So it may be an aspect of blogs being more integrated into the general media, which makes them seem less influential because they've fused.

And I think the mainstream media, having observed the '08 cycle, said, "shit, well, the blogs drove the story, which is our job, so one way we'll reclaim that is to acquire them." . . . When we did the Iran stuff, which I think was intensely influential,

not just in what we were doing in terms of the subject matter but also the way we did it—the innovation of a live blog of a revolution with video, tweets, and really being on the ground there—we were just making it all up as we went along. We just realized that we had this tool that we can innovate in a minute, and we could try shit. Because there was nobody above us saying, "Oh don't do that; let's get it past this editor and that editor. . . ." Instead, I was just like, "fuck it, let's do it, let's try it out," and [we] did that. Three of us on twelve-hour shifts through the day and night because in Tehran we didn't want to miss what was happening the next day. So within seconds of Neda being shot in the head, we had her video on the blog, and we were the number 1 item on the Farsi dig.com, which was a pretty wonderful thing to feel. That's why we've also made a commitment right now to Syria.

KSR: *How much of what we're talking about has to do with the rise of microblogging via Twitter and Facebook? Are they stealing some of the thunder of traditional blogs—long-form blogs like yours or Nate Silver's?*

SULLIVAN: You keep thinking about this as if it's zero-sum; as if it's we lose influence and they gain it. That is not how I understand the Internet, to be honest with you. I understand it as a non-zero sum phenomenon in which I'm not losing any readers and yet the communication between me and Facebook is critical. I think that on Facebook in particular, everyone will soon have their own blog.

As for Twitter I do think that there are conversations going on on Twitter that have supplanted what used to be the blogosphere because it's on the air.

KSR: *Coverage of the Arab Spring and Occupy*

Wall Street is occurring on Twitter and Facebook so blogs like yours don't seem to be what's driving the political dialogue.

SULLIVAN: No, the blogs like mine were a transitional form before everybody had a blog. However, not everybody's blog is that interesting. And what you try and do is what we tried to do. For example, with the Republican debates: we specialized in live blogging it, and then made sure to give you live analysis from all the best minds on the Web within an hour. And we had massive traffic for that.

I'm constantly trying to make our blog the best it can be, and I've had to reinvent the economics of journalism. For six years I did it for nothing because no one thought it was worth anything. I did, but I knew it would take time.

KSR: *You're saying you've had to reinvent the economics of journalism?*

SULLIVAN: [The Dish was previously hosted] at the Atlantic. . . . When we arrived they really hadn't had a Web site before. I was asked to go there precisely to kick-start it, and when I got there my blog's traffic was something like four to five times their traffic, which begs the question: "What is the Atlantic and what is Andrew Sullivan?" This also causes a sort of branding problem for the Atlantic, though they successfully added a lot of other content to the site. But my last year there, the Dish brought in almost two million dollars worth of advertising, which is partly a credit to the advertising abilities of the Atlantic.

So the question then becomes: Well, I'm on a salary. That pay is entirely generated by me. The Atlantic really has no control over it, as they're essentially a server and a platform. So is that fair? We're trying to get into a position where it's fairer.

I don't do any of that SEO {search engine optimization} crap. I don't care about it.

KSR: *Do you pay attention at all to what drives traffic?*

SULLIVAN: I do it intuitively. I don't do any of that SEO [search engine optimization] crap. I don't care about it. I do this because I've been a mainstream writer/editor of a magazine, and this was an opportunity to reach readers with no intermediary, with no publisher to suck up to, no editor to persuade. All the stuff that you have to go through, from the moment of first conception to getting a piece into a publication, is a fucking nightmare. Now I don't have to do anything at all; I can just press "publish" and be done with it. That's the joy of it. It's too much fun to be doing SEO.

KSR: *You've said running a blog requires a diverse skill set. What are some of the newest abilities that you're now trying to master?*

SULLIVAN: TV. I'm hoping to launch a TV component of the blog soon. TV and blogs are not separate; TV is over and everything is online now. I was looking online at YouTube clips of Bill Buckley's old Firing Line shows. They're amazing, half-hour discussions with somebody he disagrees with. They weren't always civil; he called Gore Vidal a "faggot" and threatened to punch Noam Chomsky in the face. But the idea of Buckley and Chomsky debating on TV just isn't present anymore. So my idea is to do this online. The questions would be crowdsourced in advance. I'd be representing my readers, and we'd post them in three-minute segments throughout the week. But if you wanted to sit down on a Sunday and watch the whole thirty minutes, then that would work.

KSR: *Are you becoming more interested in classic long form and expressing yourself in that way?*

SULLIVAN: No. My friends tell me that they miss my essays and books, and I've even tried to quit blogging a few times. I did declare the blog over in 2005, and then Benedict [XVI] became Pope, and I couldn't help myself! I nearly had a heart attack! I knew what that meant, having followed [Cardinal Joseph] Ratzinger for years. But I do want to write a book [on] Christianity, as I do believe that religion is in a crisis in the world right now. What is represented as Christianity to this generation is so alien to the spirit of the gospels. The corruption and the dysfunction in the Catholic church is at such crisis levels that it's making it difficult to hang in there with the institution. But I want to prove that a thoroughly modern person can believe in the same power of Jesus. ■



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Andrew Sullivan is a journalist and political commentator. A former editor of the New Republic, he is a widely published author known for his irreverent and fiery political commentary, showcased in his blog, the Dish. He is a graduate of the John F. Kennedy School of Government at Harvard University.

Inequality, Occupy Wall Street, and the New Economic Paradigm

A Conversation with Larry Summers

INTERVIEWED BY CHASE FOSTER

**Editor's Note:*

What follows is the full transcript of an interview with Larry Summers conducted by the KSR on February 28, 2012 in Summers' office at the John F. Kennedy School of Government. After completing the interview, Summers requested to have the right to edit the interview transcript, explaining that his standard arrangement with news organizations, including the New York Times and the Wall Street Journal, was to be allowed to edit quotes before publication. What follows is arguably one of the only unedited interviews with Larry Summers that has been published in some time.

KSR: Two of our authors in this volume have written about the need for further economic stimulus. One of our authors, Jason Rowe, argues that additional government spending is the best way to get the U.S. out of its current economic doldrums. He also argues that the original stimulus was too small from an economic perspective. Do you think we do need to see some additional fiscal stimulus or is the economy recovering well enough on its own?

SUMMERS: I think the dangers of too much fiscal stimulus are substantially less than too little stimulus as long as measures are being taken over the medium to long term to control the growth of federal debt. A time when interest rates are in real terms negative even over periods of ten or more years, a time when unemployment is at very high levels—when non-employment is at very high levels—is a time when the country ought to be investing, for example, in maintaining and renewing its infrastructure. So I think the preponderance of risk is on the side of doing too little as long as the long run is being addressed.

With the benefit of hindsight, it likely would have been desirable to have had more fiscal stimulus, though as the Congressional cutbacks in the Administration's proposals by 20-25% demonstrate, in the context of passage by a single vote in the Senate, I think it's unlikely that more fiscal stimulus could have been legislated in early 2009. And I think the risks of delay in getting fiscal stimulus going could have been quite catastrophic. I also think it's worth emphasizing that if one adds up the various measures including the extension of unemployment insurance, the repeated extensions of tax credits for working families, there's been nearly an additional \$500 billion of fiscal stimulus legislated beyond what was in the original proposal.

KSR: Do you think that as far as our long-term fiscal health is concerned that we need to find new ways to finance government? Do we need to increase the percentage of GDP that comes from taxation and government spending? We spend, for instance, about 10 or 15 points less than most Western European countries.

SUMMERS: I don't think we're likely to have the kind of total takeover of health care that a number of Western European countries have. I think the Western European countries are running into various kinds of severe affordability problems with respect to how their welfare states function. That said, the combination of secularly rising health care costs, an aging society, differential productivity growth in dominant private-sector activity—think of TV sets—and [the rising need for] more inherently public activities, such as education, an increasingly dangerous world, rising debt service costs—as in when interest rates normalize—all suggest to me that unfortunately there are likely to be increasing rather than decreasing pressures for government spending as a share of GDP.

KSR: One of our authors suggests that given the political difficulty of passing fiscal stimulus through Congress that we should find private-sector equivalents. Bill Werkmeister says that we can create something called "future-flow tax credits" that essentially offer tax credit matches to investors today that are paid out to companies or individuals over 10-15 years.

SUMMERS: I haven't studied his proposals.

KSR: Okay, but what do you think about finding new ways to stimulate private-sector investment?

SUMMERS: One has to be in favor of innovation, so I'm all for looking for new ways. I think one has to be rather careful about attempting to gain leverage through the government provision of guarantees. That was an important part of the strategy behind government-sponsored enterprises. That has been an important part of the strategy in student loans, and in neither context have the results been terribly successful.

KSR: Can you clarify what you mean by student loans?

SUMMERS: [Shakes his head]

KSR: Some of our authors have proposed even more unorthodox solutions to the economic crisis. Melissa Sandgren argues in a piece that we should create incentives for companies to put more women in corporate leadership positions.

SUMMERS: You know, I don't want to get into just dumping on students. I don't want to get in on just reacting. I thought we were going to do an interview on my views. I don't want to do reactions to student papers that I haven't read.

KSR: Do you mind if I just put out their ideas then?

SUMMERS: Let's see, but I'm unlikely to want to react to a one-sentence description of ideas.

KSR: That makes sense. What do you think of reforming [our systems of] infrastructure and taxation? Are these kinds of reform needed to get the economy going again?

SUMMERS: I think that everything needs to be reviewed periodically. Certainly if one looks at the way our infrastructure is allocated there's too little cost-benefit analysis, there's too little emphasis on incentives, there's too much allocation by formula, or allocation to those with particularly close political connections. And certainly the tax code is a monument to the power of rent seeking. There are too many shelters, too many ways to avoid taxation. That's made manifest in the very high marginal tax rate applied to corporations and the record low share of GDP in corporate tax revenues, even as the profit rate as a share of GDP rises.

KSR: Do you think we need another tax reform overhaul like we saw in 1986?

SUMMERS: I think there's a strong case for tax reform and that there will be enormous political pressures coming from the expiration of the Bush tax cuts, the debt limit, and the sequester on Congressional spending, all of which are likely to drive policy at the end of 2012 and the beginning of 2013.

KSR: What about the Arab Spring? Does that offer any opportunities for economic growth—new investment opportunities or new free trade agreements?

SUMMERS: I think the Arab Spring is obviously a profoundly important geopolitical development. I am hopeful that it will usher in a period of greater prosperity and opportunity in the Middle East, though the process of... the path is not going to be a linear one from darkness into light, and we've already seen a variety of kinds of serious problems in Egypt. Given the scale of the Arab countries, relative to the scale of the United States, I think that it's unlikely that developments associated with the Arab Spring will have a material positive impact on the U.S. economy. The largest issues for the U.S. economy will involve what happens to the price of oil, and there we have to hope for the absence of problems in the Middle East, and obviously recently developments in the oil market are a cause for concern.

KSR: So it's too soon to tell what impact [the Arab Spring] will have on the economic future of the United States?

SUMMERS: Let's leave it with what I said.

KSR: There's been a lot of [recent] attention to the subject of inequality with the rise of Occupy Wall Street protests and other political movements. Was this predictable in a certain sense?

SUMMERS: Inequality has been rising. The top 1 percent have been pulling away from the remainder of the population. The top 1/10th of a percent have been pulling away from the top 1 percent, and the top 1/100th of a percent have been pulling away from the top 1/10th of a percent, so the idea that this will generate over time resentment can't be surprising. Precise place and precise time is not something social science is ever able to predict. It is clearly going to be a matter of substantial concern.

I think one needs to be careful about framing increased inequality as necessarily an adverse development. I would argue that if America had more people like Steve Jobs, it would be a good thing rather than

I think there's less confidence in the complete rationality of economic agents than there might have been some years ago. So I think that on a variety of fronts you're seeing a more realistic, pragmatic, and less ideological approach to public policy.

a bad thing, even though it probably would mean a higher level of inequality.

On the other hand, I think that clearly a time of rising inequality is not a time when we should see erosion of the progressivity of the tax code as some advocate. Clearly a time of increased inequality is a time when there should be more and not less emphasis on equality of opportunity. That's why I worked so hard to establish the principle that anyone with a family income of under \$60,000 could come to Harvard College without paying anything. That's why I'm proud to have been part of the Obama administration's largest ever increase in federal financial aid for higher education.

KSR: *Do you think there are economic costs to inequality, besides the political and social costs? Does it in some ways make our economy less competitive?*

SUMMERS: I don't find that a helpful... I'm against inequality, but I don't find that [to be] a particularly helpful formulation. Inequality is what economists call an endogenous variable. There are things that cause inequality, and you have to ask which of the things [are causing it] before you can make a judgment. If there were more Steve Jobs that would increase inequality and make our economy more competitive. If we had more people who were successful at rent seeking in various ways that would make our economy less competitive and increase inequality. So I think that efforts to ask what the effect of inequality is leave aside the question of the causes of inequality and therefore aren't really very meaningful.

KSR: *Were you ever tempted to get out there with the Occupy Wall Street people?*

SUMMERS: No, I didn't find the orientation especially constructive. It seemed to me that while they were pointing out legitimate problems—very legitimate prob-

lems—they weren't going very far towards suggesting solutions. And some of the things that seemed to be major areas of advocacy—forgiveness of student loans for example—would in the context of overall income distribution have actually increased inequality, since those who went to college and got student loans are, on average, more fortunate than those who didn't. So my preferred ways are to contribute by doing economic research, teaching, and focusing on constructive solutions.

KSR: *Given the research that you've done, what would be a meaningful demand that Occupy could make?*

SUMMERS: I'm not interested in... It's not for me to prescribe what the Occupy protests should do. I've emphasized the importance of progressivity in the tax code. I've emphasized the importance of strengthening equality of opportunity in a variety of ways. I think a focus on equality of opportunity so that we are making sure that inequality is not transmitted from generation to generation needs to be a much larger priority in public policy.

KSR: *One way to do that, for instance, would be to increase the estate tax.*

SUMMERS: I think that certainly the substantial erosion of the estate tax that has taken place—that has led some to call it a voluntary tax—is quite problematic, and there are a variety of loopholes that have enabled very substantial estates to pass with essentially no tax, and I think that those are surely inappropriate.

KSR: *You mentioned student debt earlier. Even though erasing student debt would increase inequality, is there a way that the high cost of education discourages people from investing in the skills that would be beneficial for the economy?*

SUMMERS: I think there's a lot that needs to be done to increase productivity and efficiency. For example, at Harvard I found, while I was president, that getting the university to do things that would be standard for any other large institution, like harmonizing its purchases of goods and services so we all get a quantity discount, by all agreeing to buy the same type of computer or all agreeing on whether we're going to take the US Air Shuttle or Delta Shuttle—even relatively straightforward things, proved to be very difficult because individuals wanted to act autonomously. And I think that over time there's going to be a need for a stronger, more productivity-focused management in higher education if we're going to control costs. At the same time, I think we have to remember that ultimately productivity in education is about the teacher-student ratios and calling for more productivity is in a sense calling for higher teacher-student ratios, which is the opposite of what many of us want to see to make education more effective. I do think, as I wrote in the *New York Times*, that there needs to be much more effective use of information technology.

KSR: *Do you think that the current financial crisis was conditioned at all by any of these secular trends in inequality. Do you think that if we had had less inequality that it might not have happened in the same way?*

SUMMERS: Again you really have to speak of causes of inequality and then ask whether they are causes of the financial crisis. I don't think the success of Apple, for example, contributed [to the financial crisis] but it was part of creating a substantial fortune. Has there been too much rent-seeking in the financial sector? Absolutely. Has that been a contributor to inequality and the bubbles that preceded the financial crisis? Absolutely.

KSR: *So you think that rent-seeking...*

SUMMERS: Every time you try to re-characterize me, I don't take it.

KSR: *Oh, I apologize. What could be reformed as far as rent-seeking? How could we discourage..*

SUMMERS: I think that there's a great deal that we're working to do through the implementation and enforcement of Dodd-Frank [the Wall Street Reform and Consumer Protection Act]: higher capital standards and institutions that are dependent on their own capital rather than government support. Pressures in a variety of ways to reduce leverage and limit risky activities are all, I think, constructive in contributing to a safer financial system.

KSR: *Do you think we need to see campaign finance reform or public campaign financing?*

SUMMERS: It's not my field. I am troubled by the extent of lobbying by strong financial interests. The financial industry had four lobbyists per member of Congress and was spending close to a million dollars per member of Congress lobbying on Dodd-Frank. That seemed to me rather excessive.

KSR: *Do you think that other countries have done a better job at stopping the financial industry from having undue influence?*

SUMMERS: I think it's hard to say. Japan had a financial crisis that has been much more costly than ours. European financial institutions are being kept afloat by public subsidies vastly larger than anything that took place in the United States. Canada is pointed to as a success example, I think with considerable validity, though there are many signs of an emerging housing and real estate bubble in Canada, so I would want to come back and look over time. I think this is a problem all over the world.

KSR: *To end, I was hoping to do something a little more humorous. I have a list of words that are included in our articles and I was hoping that you could just respond...*

SUMMERS: [Shakes his head]

KSR: *No, you don't want to do that? I respect that.*

SUMMERS: What kind of words?

KSR: *Things like "Andrew Sullivan"... we have an interview with him and I just wanted to see what the first thing that came to your mind was...*

SUMMERS: [Shakes his head]

KSR: *No? Okay, I understand. Here's another question for you. One theory for the cause of the credit bubble is that stagnating median wages prompted politicians to want to increase constituents' welfare but were unable to do so through more traditional means like redistribution or creating public goods. Do you think [the desire to increase constituents' welfare] might have driven some of the impulse for making it easier for people who would not otherwise have access to loans to get loans?*

SUMMERS: There may have been some elements of that, but far and away the largest decisions around making credit more available were private-sector decisions made in response to what had been favorable credit experiences over time and looking for profits. So, if you look, the greater extension of credit card debt was not driven by politicians. The greater extension of automobile debt was not driven by politicians. No politician invented the practices of Countrywide or Washington Mutual. So there quite likely were some misjudgments at the margin having to do with support in some areas for subprime lending, but I think that if you look at the overall growth in credit you would judge that it had to do with decisions by private-sector borrowers and private-sector lenders.

KSR: *Do you think we're entering a new paradigm as far as dominant thinking about economics? Are we possibly entering a more pro-regulatory moment or a neo-Keynesian moment?*

SUMMERS: I think you are certainly seeing, appropriately, more emphasis on regulation. I think the kinds of extraordinary actions we've seen have led to more recognition of the need for discretionary mac-

roeconomic stabilization policies. I think our policies are going to be more sensitive to issues of equity as well as efficiency. I think there's less confidence in the complete rationality of economic agents than there might have been some years ago. So I think that on a variety of fronts you're seeing a more realistic, pragmatic, and less ideological approach to public policy. ■



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Larry Summers is the head of Harvard Kennedy School's Mossavar-Rahmani Center for Business and Government. Previously, he served as Secretary of the Treasury under President Bill Clinton, Director of the National Economic Council under President Barack Obama, and as President of Harvard University.

Ten Careers Every Policy Student Wishes Existed

BY CHRIS GUSTAFSON

FREELANCE SOCIAL CHANGER: Hey World Changers, how about sparking social change movements in your spare time? Start out transforming education in Newark and then when you get bored or just irritated with the hard work that it takes—usually sometime around three or four days later—move on to founding health clinics in New Orleans!

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Chris Gustafson is a 2012 Master in Public Policy candidate at the John F. Kennedy School of Government at Harvard University, where he is focusing on health care policy and sarcasm.



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M-RCBG Director Lawrence Summers (far right) fields questions from students at a Forum event.



M-RCBG Co-Director John Haigh (right), Frank Plumpton Ramsey Professor of Political Economy Richard Zeckhauser (left), and the center's Dunlop Scholars.



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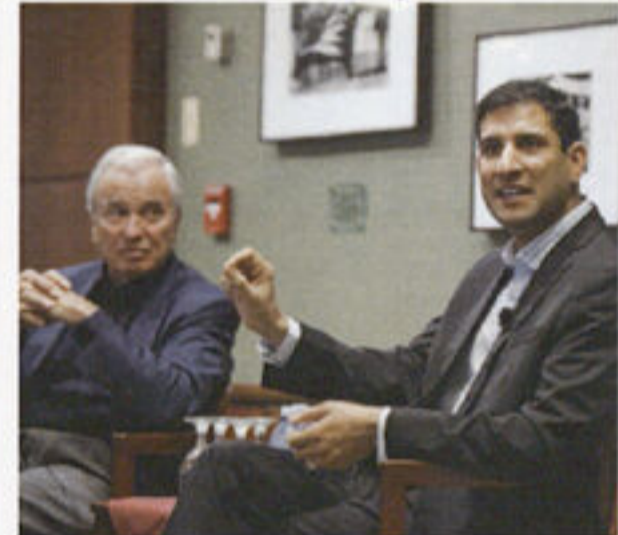
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