

REUTERS

JANUARY 2012

THE VIEW FROM DAVOS

SIGNS OF ECONOMIC LIFE

PAGE 26

THE HAVES VS. THE HAVE LOTS

PAGE 48

THE 2011 MONEY SHOTS

PAGE 6



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Among the highlights: Each day Reuters produces roughly 1,500 picture images, so coming up with the top pictures illustrating the harrowing year in economic and financial news was no easy task. Check out the stunning port-

folio produced by Alexia Singh and Russell Boyce in Framing the Global Economy. Warning: some of the photos are not for the faint of heart—then again, 2011 was that kind of year.

Are drones a silver bullet? Pulitzer Prize-winning reporter David Rohde, who spent seven months as a prisoner of the Taliban, offers a unique personal perspective—he can vividly recall the incongruous buzz the pilotless fighters made as they hovered in the sky—and suggests the United States is paying a steep if hidden price for its reliance on this high-tech weaponry.

In What's Going Right, Reuters Chief Economics Correspondent Alan Wheatley interrupts our gloom-fest and shows that despite the debt crisis in Europe and sundry other financial problems, parts of the world economy, from Brazil to Zambia, are thriving.

What do the Tea Party and Occupy Wall Street have in common? To Nick Carey, both movements represent a return to old-school activism—as well as a threat to their professional counterparts: the often well-heeled NGOs of the world.

So shut off your gadgets for a few minutes, turn away from your screen (after setting your home page to Reuters.com) and dig in.

Warm regards,

STEPHEN ADLER, Editor in Chief

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PAGE.06
FRAMING THE GLOBAL ECONOMY

The Top Business Pictures of 2011

PAGE.16
THE ELEPHANTS IN THE SKI LODGE

The four issues that could ruin the view from Davos

PAGE.18
SPRINGTIME FOR EUROPE?

A return to the 1930s is not inevitable, provided leaders and the middle class don't waste the crisis

PAGE.21
HELL NO, I WON'T GO!

Even with Glock-packing security, an armada of private helicopters and \$20,000-a-night suites, talk is cheap. One man's problem with Davos

PAGE.22
FAITH-BASED ECONOMIC THEORY

America's Republican presidential candidates all agree on the root cause of the financial crisis, and they are all wrong

PAGE.24
THE GLOBAL MIDDLE

A surprising shift in income levels worldwide

PAGE.26
WHAT'S GOING RIGHT

Searching for signs of life in the global economy

PAGE.32
THE HASHTAG REVOLUTION

As politics and Twitter grow more intertwined there's a lot riding on a business model that is yet to be discovered

PAGE.38
THE DRONE WARS

Stepped-up strikes by America's pilotless fighters have been cost-efficient, though not without cost. I lived in their menacing shadow for seven months

PAGE.44
WIKILEAKS' 16TH MINUTE

His organization is in disarray, his sources have dried up, and Julian Assange is desperate for a second act. His leaks over the past five years have told us plenty, but have they changed anything?

PAGE.48
THE HAVES vs. THE HAVE LOTS

Millionaires of the world, unite!

PAGE.52
RETURN OF THE ACTIVIST

A new generation of protesters struggles to avoid the fate of its elders

PAGE.58 **DAVOS BY THE NUMBERS**

PAGE.60 **THE DEVIL IN THE CDS**

PAGE.62 **CONFESSIONS OF A DAVOS SPOUSE**

PAGE.64 **THE FIGHT OVER RUSSIA'S SOUL**

COVER ILLUSTRATION BY ZOHAR LAZAR



PORTRAIT ILLUSTRATION: ANDY FRIEDMAN

CONTRIBUTORS

Jack Shafer

In *Wikileaks' 16th Minute*, Reuters columnist and media critic Shafer takes on the task of explaining how Julian Assange's secrets clearinghouse went from feared to fangless, and why the mercurial Assange has found himself trapped in a relationship with the traditional media he professes to despise.

David Rohde

There are many people with opinions about the moral and military justifications for drones, but few have been on the ground when one is buzzing overhead. That's the illuminating—and chilling—perspective delivered by Rohde in *The Drone Wars*, which draws on his stellar reporting in Afghanistan, including the seven months he was held captive by the Taliban.

Jonathan Weber

The revolution will not only be televised, it will be covered exhaustively by Twitter. In *The Hashtag Revolution*, Weber, the West Coast Bureau Chief for Reuters, shows how the seemingly endless torrent of tweets is rapidly changing how we all get our news, and even how we select our leaders.



Chrystia Freeland

The world's plutocrats don't just have to worry about those surly members of the 99 percent, says Thomson Reuters Digital Editor Freeland. In *The One Percent War*, she surveys the coming class war between the "haves" and the "have lots," as millionaires everywhere shed their allegiance to the billionaire class.

Alan Wheatley

Global Economics correspondent Wheatley has reported for Reuters from more than 40 countries over the past 31 years, and that wealth of experience has given him a hard-earned skepticism about the current despair over the global economic forecast, which he lays out in *What's Going Right*.

Nick Carey

The reporting Carey has done in the past couple of years for Reuters has taken him from the front-lines of the Tea Party revolt to the streets of Tripoli, where he was called a CIA spy by the then-tottering Gaddafi regime. Both those battlegrounds inform his piece here, *Return of the Activist*.

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ILLUSTRATION: ANDY FRIEDMAN

FRAMING THE GLOBAL ECONOMY

The Top Business
Pictures of 2011



GERMANY

► **TRIPLE-A BOMB** A trader couldn't hide his dismay in August as the Frankfurt Exchange took a big plunge as markets worldwide reacted to Standard & Poor's downgrade of U.S. debt.



ORDINARILY, business news isn't much to look at. A behemoth hedge fund implodes, sucking billions into the ether, but even the Oliver Stone version of that scene would feature colorless quants in starched white shirts, pacing the trading floor or nervously staring at screens.

Last year, the money shot was different. Many images of the big financial stories of 2011

are horrifying. Amid Greece's spiraling crisis, a middle-aged man set himself ablaze after his bank refused to renegotiate his home and business loans. On the northeastern coast of Japan, a 33-foot-high tsunami—a Mothra from Mother Nature—unleashed its fury on the world's third-largest economy, disrupting the global industrial supply chain.

In Libya, Arab Spring met petrodollars, as rebels put a bullet in the forehead of the tyrant who'd been sitting on the world's eighth-biggest oil reserves. The blood and oil flowed.

As if the eurozone crisis, popular uprisings across the Middle East, and Occupy Wall Street and its offshoots weren't enough, business also had its R-rated moments. A spot quiz on a park

bench in any major city might show that most civilians don't know what IMF stands for, but they sure know who DSK is.

The following portfolio, culled by Reuters' Alexia Singh and Russell Boyce, shows a world in turmoil, and with each image reminds us that—for good or bad—we live in extraordinary economic times.

Photograph by Kai Pfaffenbach

Photograph by Nodas Stylianidis



GREECE

► **RE-FI MADNESS** A man in Thessaloniki was behind on his loans, so he asked his bank for help. They refused to renegotiate, so he stepped outside, doused himself with gasoline, and set himself ablaze. An alert cop saved his life, but who will save Greece? Its debts, along with those of the euro zone's other peripheral states, could yet sink the common currency.

JAPAN

► **SEA CHANGE** The 8.9 earthquake and tsunami that hit Japan in March destroyed roads, houses, and lives and temporarily stunned the nation's economy, which was already shaky. The quake also spawned a horrific man-made catastrophe: the largest nuclear disaster since Chernobyl, followed by the government's inept and dangerous coverup.



Photograph by Mainichi Shimbun



ENGLAND

TAPPED OUT Neither Rupert Murdoch nor his beloved editrix Rebekah Brooks broke into an abducted child's voicemail, but they were pilloried for fostering the scandalous excesses of British tabloid culture at the hastily shuttered News of the World.

Photograph by Olivia Harris

Photograph by Brian Nuygen



USA

ASSAULT AND PEPPER SPRAY The Occupy Wall Street movement spread across the country—and led to some ugly clashes. When a University of California Davis police officer pepper-sprayed students, the pundit class reacted with outrage (see Rachel Maddow's condemnation on MSNBC), but also provided some creative justifications—Fox News's Megyn Kelly said, "It's a food product, essentially."

LIBYA

THE NEW FACE OF FREEDOM As Arab Spring revolts spread in March, a Libyan rebel celebrated Mohammad Gaddafi's expulsion from Benghazi; Gaddafi was killed seven months later, and Libyans finally had some hope for prosperity. Oil production is now at 50% of the pre-conflict 1.6 million barrels per day and is rapidly rising.



Photograph by Goran Tomasevic

AFGHANISTAN

➤ **STICKER-SHOCK AND AWE** As the conflict in Afghanistan dragged into its 10th year, a howitzer in Kandahar sent a shell toward an elusive enemy. With the U.S. withdrawal in Iraq complete, President Obama vowed to draw down forces in Afghanistan, where the military campaign is costing the U.S. Treasury an estimated \$300 million a day.



Photograph by Baz Ratner



USA

➤ **ZUCKING UP** Mark Zuckerberg went to Harvard in November to recruit for Facebook, which leads a still-burgeoning U.S. tech boom, despite a recent string of mediocre IPOs. Top engineering talent is so scarce that even billionaire CEOs have to work the crowd to keep ahead of the competition.

Photograph by Brian Snyder

Photograph by Lucas Jackson



USA

➤ **END OF THE RAJ** Galleon hedge fund founder Raj Rajaratnam was swarmed in May as he left Manhattan Federal Court, where he'd just been found guilty of 14 counts of insider trading. Prosecutors also ensnared Goldman Sachs board member Rajat Gupta, who had leaked word of Warren Buffett's pending investment in the firm to Rajaratnam.



FRANCE

➤ **BLOODIED AND BOWED** U.S. Treasury Secretary Timothy Geithner went low at a meeting of the G20 in Paris. Geithner has tried to steer his counterparts in Europe toward a bailout, but the U.S.'s economic crisis—and lack of political will to orchestrate any sovereign bailouts—has diminished his Continental appeal.

Photograph by Benoit Tessier



FRANCE

➤ **DIRECTIONALLY CHALLENGED** Angela Merkel and Nicolas Sarkozy, who lead the two strongest economies in the euro zone, have found it hard to orchestrate a euro bailout. They often agree in public, but regularly undercut each other off-stage, leaving the markets grasping to understand how, when, and whether the euro zone can be saved.

Photograph by Christian Hartmann

Photograph by Denis Sinyakov



RUSSIA

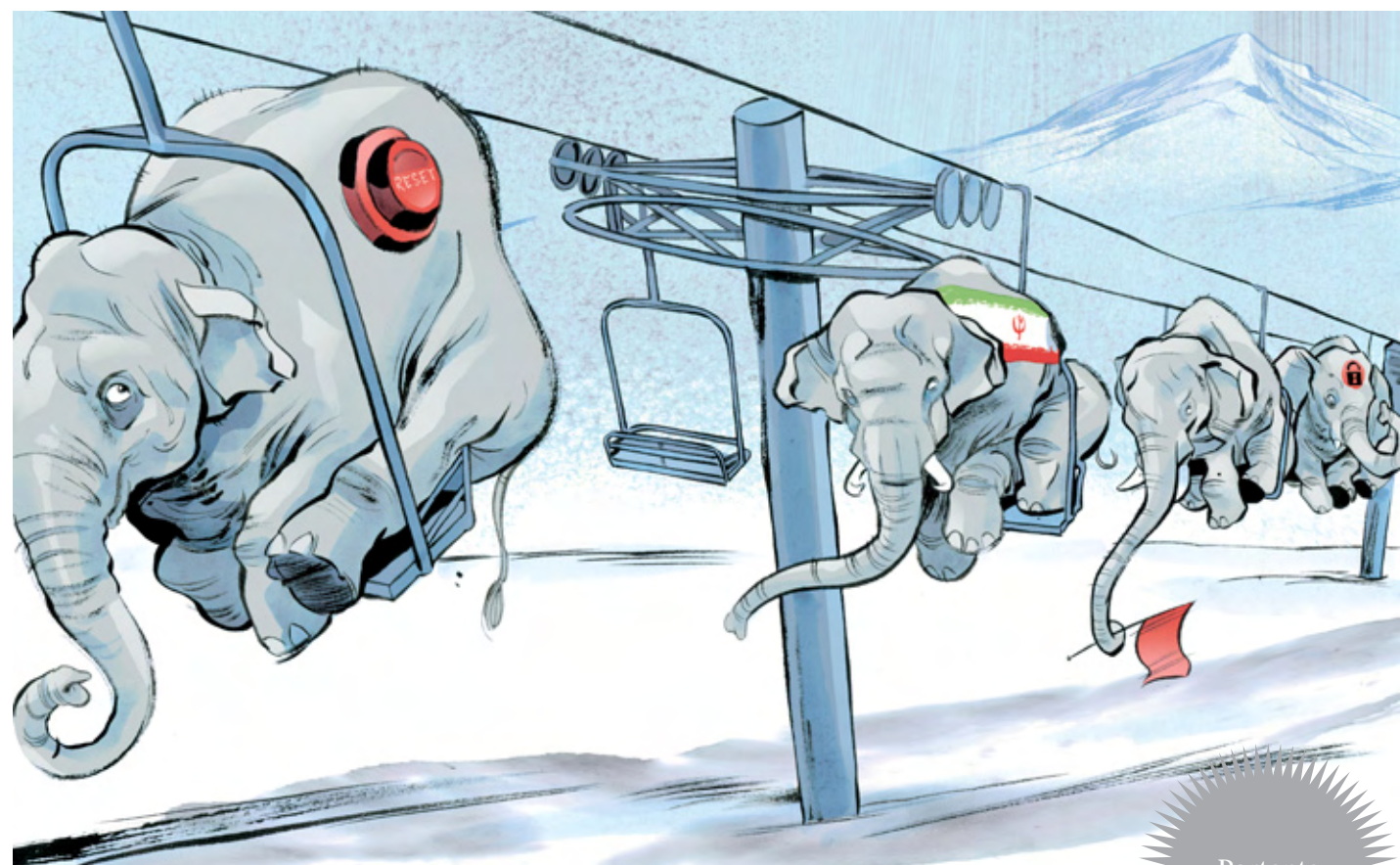
➤ **JOB'S ONE** Steve Jobs, who founded and a decade later re-birthed Apple (now the world's most valuable company), died from complications of pancreatic cancer in October. As this Moscow tribute suggests, rarely has a business leader stirred so much devotion in customers, envy from competitors, and contempt from the legions he lashed with his acerbic tongue.

Photograph by Richard Drew



USA

➤ **TSK, TSK, DSK** On a Sunday in May, IMF head Dominique Strauss-Kahn was preparing to check out of his Manhattan hotel when a maid entered his room. Three days later DSK resigned from the IMF, and was under house arrest while he contested rape charges that were dropped in August. *L'affaire* changed the course of the IMF and the next French presidential election.



Portents

THE ELEPHANTS IN THE SKI LODGE

The four issues that could ruin the view from Davos

by NADER MOUSAVIZADEH



THE EPIC global shifts of 2011 transformed the political, economic, and social landscape from Shanghai to Sao Paulo, Washington to Cairo. No leader (not even Vladimir Putin) is safe from the vagaries of social unrest; no economy (not even China's) is unaffected by contagion from an over-leveraged, under-managed euro zone. No country (not even the United States) is immune from the threat of asymmetric attacks—anything from a terrorist bomb to cyber-warfare.

Volatility will be the rule, not the exception in 2012. What I call the emerging Archipelago World of fragmenting power, capital, and ideas is inherently unstable—as vulnerable to old conflicts and new threats as it is open to the dynamic entre-

preneurship of rising powers and corporations remaking the map of the world.

A 20-year period of one-world, one-way globalization is being replaced by an era of competitive sovereignty. The walls are going back up. Developed and developing states alike are vertically integrating political and economic interests across public and private sectors in a global race for growth, employment and security. Having previously embraced interdependence as the motivation for horizontal integration across markets and regions, states as diverse as Canada, Finland, Saudi Arabia, Japan, Brazil, Turkey and the United Kingdom are now pursuing more national strategies for economic and political security.

For investors, corporations, and govern-

ments doing diligence on their global exposures, acknowledging this new reality is an essential starting point. Forget stability and predictability. Abandon the notion of global solutions to global problems. Instead, develop deep, granular understanding of the distinct political and economic context of new markets. Seek cooperation and alliances of interest, beginning with the discreet interests of these states and their economies. Embrace complexity, and understand that the successful management of political and economic discontinuities will be the essence of stability in the 21st century.

Four themes are likely to dominate the environment in which global investors, companies and institutions will seek to limit the downside to risk and capture the upside to volatility in 2012.

A Global Reset

A NEW strategic landscape will take form amid a global reset marked by leadership change in China and national elections in the United States, Russia, and a half-dozen other pivotal powers. The systemic banking crisis in the euro zone will force Berlin and the European Central Bank to pick their poison—and either become a sovereign lender of last resort or see the 27-member ECB's dreams of fiscal union evaporate. For the Middle East, the second year of the Arab Awakening will begin under a cloud of increasing peril and paranoia. The movement for more legitimate and accountable governments in the Arab world will be tested by the still-powerful forces of tyranny, corruption, and fundamentalism—a scenario that will further draw in Israel, Iran and Turkey as strategic arbiters of the region. For the global economy, 2012 will likely see continued disarray, with the gap between the debtor and creditor nations of the world likely widening.

War over a Nuclear Iran

THE MIDDLE East, more than any other region, gives validity to the old joke that even

Nader Mousavizadeh is CEO of Oxford Analytica, the global analysis and advisory firm. Previously, he was an investment banker at Goldman Sachs.

paranoid schizophrenics have enemies. Add to the very real perils arising from deeply divergent interests of Arabs, Turks, Persians, and Israelis heightened paranoia about Iran's nuclear program. Gulf countries are as concerned about Iran's meddling in their internal affairs as they are about its nuclear ambitions. Combine this with Israel's growing fear of Iran reaching a point of no return in its nuclear weapons program and the stage is set for a confrontation—whether planned or accidental—in 2012. Non-military options for halting Iran's nuclear weapons program have not yet succeeded, nor have they failed. However exasperating the diplomatic track may seem, growing talk of a military option risks creating a logic all its own.

Nationalism, Populism, and Protectionism

A FRAGMENTING map of the world provides, in even the best of times, an opening for the forces of populism and nationalism, and those movements are coalescing now

based prosperity; they are making reforms to secure greater competitiveness and investment. Down this road lies a messier, more populist, more contingent phase of globalization with beggar-thy-neighbor policies—a spiral of currency wars, capital controls, and tariffs that could accelerate the current contraction through a wave of worldwide protectionism.

Cyber-attack on a Global Institution

DESPITE A dramatic increase in the capital and technology devoted to cyber-defense in the West, the threats from new sources of cyber-war are multiplying. The West reveled in the success of its Stuxnet and other forms of cyber-sabotage against the Iranian nuclear program, but it will soon have to face the consequences of the proliferation of these technologies. Governments, terrorists, and even solitary hackers are increasingly amassing the ability to launch a cyber-attack against a Western government or multinational. The real test of an effective cyber-defense

FORGET STABILITY AND PREDICTABILITY. ABANDON THE NOTION OF GLOBAL SOLUTIONS TO GLOBAL PROBLEMS.

—from China to the United States to South Africa. Factor in the cyclical deleveraging and austerity in the West, and it is only a matter of time before isolationist politics gain traction.

The best antidote to this lies not in another vacuous appeal to “global awareness,” but rather in setting out the case for why the national interest is best served through a mosaic of regional and global alliances. The countries and leaders now gaining stature on the national stages—from Turkey to Brazil—are those that understand that a sustainable economic strategy begins with delivering growth for the citizens of their own nation first. They see open markets and free trade not as ends in themselves, but as means to broad-

will not be “Can you prevent an attack?” It will be, “Can you survive one?”

2012: The World of the State

THE BURGEONING role of the state in an age of sovereign crises and solutions will be a defining feature of the strategic landscape. The locus of political legitimacy has returned to the nation-state, and as economic and political power shifts to emerging markets, no solution that isn't both global and national will be successful or sustainable. A new kind of Great Game will be played in 2012—winners will be those states and corporations seeking success irrespective of the traditional boundaries of geography, ideology, interest, or alliances.

SPRINGTIME FOR EUROPE?

A return to the 1930s is not inevitable, provided leaders and the middle class don't waste the crisis

by HUGO DIXON



POLITICAL CONVULSIONS in the euro zone have only just begun. Six prime ministers have been kicked out of office, protesters have occupied public spaces, nationalist parties have grown in popularity, and two countries have appointed technocratic leaders. And that was just 2011. The coming year is likely to prove even tougher on the economic front as the crisis continues to rage, austerity bites, and unemployment mounts. Euro zone countries are being forced to choose between fiscal discipline or the disintegration of their shared currency. Under pressure from Germany, governments have agreed to sign up for treaty changes that will require them to balance their budgets, pay down their debts, and give the European Commission in Brussels more power to interfere with national budgets. Such loss of sovereignty could provoke a backlash from the people—and boost the support of right-wing euro-skeptic parties such as France's National Front. It's possible that the treaty changes may not even get ratified.

The euro zone could start coming apart at the seams, not just economically but

politically. Populist parties in northern Europe—such as the True Finns and Holland's PVV—could gain traction by arguing that their citizens shouldn't have to bail out the Greeks, the Italians, and the Portuguese. Meanwhile, pretty much everybody could grow unhappy with the Germans for dictating how to run their countries. Anti-foreigner sentiment could rise across the board. In a nightmare scenario, protectionism would return while border checks and capital controls would be reimposed.

The conventional view is that economic crises are the breeding grounds of extremists, particularly right-wing ones. Such worries are legitimate, but the economic and political strains of the present do not have to play out like a repeat of the 1930s. Everything depends on the actions of political elites and the general population.

For politicians, the most important challenge will be to contain the crisis without getting too far ahead of what the people are prepared to tolerate—both in terms of

austerity and loss of sovereignty. The best bet is probably for the southern countries to emphasize structural reforms to boost long-term growth—such as pushing up pension ages, freeing up labor markets, and fighting corruption—rather than passing yet more short-term spending cuts and tax hikes that will drive their economies deeper into recession. For this strategy to be possible, the northern countries will have to cut the southerners some slack, which would require a significant change of mindset, especially from Angela Merkel, Germany's chancellor.

Whatever is done on the policy front, there will be political upheavals. In some respects—the defenestration of incumbent prime ministers or presidents—the politics will be “normal.” This year may

Right-wing demonstrators in Madrid wearing Falange uniforms from the Franco era give a fascist salute



PHOTOGRAPH: REUTERS/MANUEL SILVESTRI



Riot police in Venice fight with demonstrators during a protest against the right-wing Northern League party

not be quite as dramatic as 2011, when half a dozen leaders, including Italy's Silvio Berlusconi, Greece's George Papandreou, and Spain's José Luis Rodríguez Zapatero, bit the dust. But we will probably witness the biggest fall yet: that of France's Nicolas Sarkozy, who is fighting off a stiff challenge from François Hollande, the socialist candidate. Some countries could also see big shifts in the political landscape as old parties collapse and new ones take their place. This outcome is most likely in Italy and Greece, where corrupt political elites, known in each country as “castes,”

Hugo Dixon is the founder and editor of Reuters Breakingviews. Before founding Breakingviews in 1999, Hugo spent 13 years at the Financial Times, the last five as Head of Lex. He was named Business Journalist of the Year 2000 in the British Press Awards.

THE MOST IMPORTANT CHALLENGE WILL BE TO CONTAIN THE CRISIS WITHOUT GETTING TOO FAR AHEAD OF WHAT THE PEOPLE ARE PREPARED TO TOLERATE.

have for decades fed off the state rather than serving the public interest. Disaffection with traditional politics in both countries is high. When Berlusconi and Papandreou fell, it was telling that the opposition parties were not in a position to replace them. Instead, both countries turned to technocrats—Mario Monti, an economist and former European Commissioner, and Lucas Papademos, formerly vice president of the European Central Bank.

The crisis has created an opportunity for a break with the past. In Italy, Berlusconi's center-right PDL party could easily fall

apart. That might open the way for a stronger centrist group to emerge around the so-called Terzo Polo (or Third Pole) led by Pier Ferdinando Casini. There's even a possibility that the new technocrats will develop a taste and aptitude for politics and create a new centrist political force of their own. In Greece, both Papandreou's left-wing Pasok party and the right-wing New Democracy party are beset with internal rivalries. In each party, there are traditionalists, who tend to be euro-skeptics, as well as more centrist, pro-European modernizers. In one scenario, the modernizers



Police arrest an Occupy London protester on the roof of Panton House, a building used by the mining company Xstrata, in central London

on left and right could break away from their current colleagues and join with each other as well as some small center parties to create a new force.

But it won't just be the politicians who determine how the political landscape changes. How the people behave will also be critical. Last year saw the birth of a new phenomenon: the Indignados. Hundreds of thousands of mostly young, largely apolitical nonviolent Spaniards occupied city centers in Madrid and Barcelona. They were objecting to austerity, greedy bankers, and incompetent politicians.

The Indignados were copied in Greece and in Italy, where they were called the Aganaktismenoi and the Indignati respectively. They were partly inspired by the mass rallies in Egypt during the Arab Spring, and they shared some ideas with the Occupy movements in the United States and Britain. But despite creating a lot of noise, the Indignados have not coalesced into a political force. That's partly because they are diffuse, and partly because they haven't developed positive

programs. Their name gives it away: they are indignant about what is happening but tend not to have constructive ideas about what can be done better. In some cases, moreover, their protests were also hijacked by violent extremists. Such violence was mostly avoided in Spain, but in Athens protesters threw Molotov cocktails at the police, and in Rome the Black Bloc, an anarchist group, attacked banks, smashed windows, and set cars on fire. Although the Aganaktismenoi and the Indignati were not responsible, their cause suffered.

The slightly older educated middle classes, meanwhile, were largely silent in these southern countries. Sure, they were indignant, too, but they didn't take to the streets in large numbers. Instead, they fumed in the privacy of their homes. They blamed their politicians for mismanaging their economies and destroying their

wealth, but they have been largely passive. Admittedly, there have been a few attempts by this demographic to organize themselves. In Milan, for example, citizens campaigned via social media for Giuliano Pisapia, a non-traditional politician. He went on to defeat Berlusconi's candidate, Letizia Moratti, in the mayoral race in May. And in Greece a group mainly composed of intellectuals set up an organization called Koinonikos Syndesmos, a pro-European pressure group campaigning for a new type of politics to serve the national interest rather than vested interests.

What euro zone countries now need is the engagement of their liberal-minded middle classes on a much wider scale. These groups need to slough off their natural passivity and organize themselves as a counterweight to the potential growth of extremism in the years ahead. However the financial side of the crisis plays out, the active involvement of constructive citizens could be an important element in stopping European politics from taking a very nasty turn.

Travel

HELL NO, I WON'T GO!

Even with Glock-packing security, an armada of private helicopters, and \$20,000-a-night suites, talk is cheap. One man's problem with Davos

by MOHAMED EL-ERIAN



I'VE NEVER been to Davos, despite attempts by many over the years to persuade me to go. Don't get me wrong. I understand that it is a special event for many people, and for many reasons. It is anchored by wide-ranging and engaging agendas, and participants get to mingle with a global cornucopia of important people. It is also the place to see and be seen for heads of state, politicians, academics, thought-leaders, media pundits, CEOs, and movie stars.

The annual meeting of the World Economic Forum in that intimate setting remains one of the year's hottest tickets, but its organizers want their event to be much more than what it currently is—a big, prestigious talk-shop. They want it to influence policy at the national, regional, and global levels.

Yet, over the years, and in the context of an increasingly unsettled and uncertain world, Davos has not had much impact.

I get a range of responses when I ask attendees why so few, if any, of the interesting discussions that have taken place in those beautiful Swiss Alps have led to change that improves the lives of most people.

Some say the strength of the typical Davos agenda is also a weakness. The topics are overly ambitious. In trying to cover too much for too many, breadth trumps depth.

Others cite the inherent difficulty of distilling the opinions of such a varied group of people into specific action points. This is never an easy endeavor, and it becomes a virtually impossible one when it involves so much wealth and so many egos.

Then there are those who believe that too much time is spent arguing about what has happened—especially when things have gone horribly wrong—and too little

time is devoted to what lies around the next corner, and the one after that.

But most of the Davos devotees I talk to say the problem is more fundamental. They say that many of the attendees who truly matter are not interested in the organizers' higher ambitions, and some are even suspicious of them. In either case, these key players do not want to give up control of their narratives, and they certainly do not wish to delegate any meaningful part of their personal agenda to Davos.

It will be difficult to overcome these obstacles unless Davos organizers make major changes. Specifically, they need to do two things that no one who puts on such events has seemed willing or able to do.

First, they must revise how Davos's agendas and discussions are structured.

To be more productive, more useful, they need to be much less inclusive at some key moments. Very difficult (and highly delicate) decisions have to be made about who to involve in certain meetings and who to exclude. This would require additional (and closely monitored) status levels for participants, which could only be implemented by changing the World Economic Forum's current role of convener/facilitator into a much stronger one of super-conductor/enforcer.

Second, key participants must truly collaborate—something that has not happened. This lack of collaboration has been particularly costly at a time when the world teeters on the brink of an economic abyss.

Shared interests must come with a greater sense of shared responsibilities. Narrowly focused national agendas must develop greater peripheral vision, and mutual assurances must be supported by credible peer reviews. The probability of these things being done is small, if not de minimis.

I am not happy about this. Given the global changes in play today, there is an enormous need for better coordination and understanding among those who influence developments in critical areas. This world has lost many of its economic and socio-political anchors, and leaders are finding it impossible to keep up with developments on the ground. Suspicion too often displaces mutual trust, which is why this prestigious gathering will continue to fall short of its vast potential.

Even if nothing really consequential gets done there, Davos will remain a hot ticket, but I will not be going.

Mohamed El-Erian is CEO and co-CIO of PIMCO, and author of "When Markets Collide" (2008).

FAITH-BASED ECONOMIC THEORY

America's Republican presidential candidates all agree on the root cause of the financial crisis, and they are all wrong

by BETHANY McLEAN



THE REPUBLICAN candidates for president have some major differences in their policies and their personal lives. But they have one striking thing in common—they all say the federal government is responsible for the financial crisis. Even Newt Gingrich (pilloried for having been a Freddie Mac lobbyist) says: “The fix was put in by the federal government.”

The notion that the federal government, via the Community Reinvestment Act (CRA) and by pushing housing finance giants Fannie Mae and Freddie Mac to meet affordable housing goals, was responsible for the financial crisis has become Republican orthodoxy. This contention got a boost from a recent lawsuit the Securities and Exchange Commission (SEC) filed against six former executives at Fannie and Freddie, including two former CEOs. “Today’s announcement by the SEC proves what I have been saying all along—Fannie Mae and Freddie Mac played a leading role in the 2008 financial collapse that wreaked havoc on the U.S. economy,” said Congressman Scott Garrett, the New Jersey Republican who is chairman of the financial services subcommittee on capital markets and government-sponsored enterprises (GSEs).

But the SEC’s case doesn’t prove anything of the sort, and in fact, the theory that the GSEs are to blame for the crisis has been thoroughly discredited, again and again. The roots of this canard lie in an opposition—one that festered over decades—to the growing power of Fannie Mae, in particular, and its smaller sibling, Freddie Mac. This stance was both right and brave, and was mostly taken by a few Republicans and free-market economists—although even President Clinton’s Treasury Department took on Fannie and Freddie in the late 1990s. The funny thing, though, is that the complaint back then



All the Republican candidates for president, including Gingrich (top), Mitt Romney (middle), and Rick Perry, blame the financial crisis on the aggressive lending policies of Fannie Mae and Freddie Mac, despite overwhelming evidence that the story is much more complicated than that.

PHOTOGRAPHS: (GINGRICH) REUTERS/ADAM HUNGER; (ROMNEY) REUTERS/CHRIS KEANE; (PERRY) REUTERS/JIM YOUNG

wasn’t that Fannie and Freddie were making housing too affordable. It was that their government-subsidized profits were accruing to private shareholders (correct), that they had far too much leverage (correct), that they posed a risk to taxpayers (correct), and what they did to make housing affordable didn’t justify the massive benefits they got from the government (also correct!). Indeed, in a 2004 book that recommended privatizing Fannie and Freddie, one of its authors, Peter Wallison, wrote, “Study after study has shown that Fannie Mae and Freddie Mac, despite full-throated claims about trillion-dollar commitments and the like, have failed to lead the private market in assisting the development and financing of affordable housing.”

When the bubble burst in the fall of 2008, Republicans immediately pinned the blame on Fannie and Freddie. John McCain, then running for president, called the companies “the match that started this forest fire.” This narrative picked up momentum when Wallison joined forces with Ed Pinto, Fannie’s chief credit officer until the late 1980s. According to Pinto’s research, at the time the market cratered, 27 million loans—half of all U.S. mortgages—were subprime. Of these, Pinto calculated that over 70 percent were touched by Fannie and Freddie—which took on that risk in order to satisfy their government-imposed affordable housing goals—or by some other government agency, or had been made by a large bank that was subject to the CRA. “Thus it is clear where the demand for these deficient mortgages came from,” Wallison wrote in a recent op-ed in *The Wall Street Journal*, which has enthusiastically pushed this point of view in its editorial section since the crisis erupted.

But Pinto’s numbers don’t hold up. The Financial Crisis Inquiry Commission (FCIC)—Wallison was one of its 10 commissioners—met with Pinto and analyzed his numbers, and concluded that while Fannie and Freddie played a role in the crisis and were deeply problematic institutions, they “were not a primary cause.” (Wallison issued a dissent.) The FCIC argued that Pinto

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overstated the number of risky loans, and as David Min, the associate director for financial markets policy at the Center for American Progress, has noted, Pinto’s number is far bigger than that of others—the nonpartisan Government Accountability Office estimated that from 2000 to 2007, there were only 14.5 million total nonprime loans originated; by the end of 2009, there were just 4.59 million such loans outstanding.

The disparity stems from the fact that Pinto defines risky loans far more broadly than most experts do. Min points out that the delinquency rates on what Pinto calls subprime are actually closer to prime loans than to real subprime loans. For instance, Pinto assumes that all loans made to people with credit scores below 660 were risky. But Fannie- and Freddie-backed loans in this category performed far better than the loans securitized by Wall Street. Data compiled by the FCIC for a subset of borrowers with scores below 660 shows that by the end of 2008, 6.2 percent of those GSE mortgages were seriously delinquent, versus 28.3

business not to meet their goals, but rather to recapture market share—and they began to do so aggressively in 2006, when the market was already peaking. So while the GSEs played a huge role in blowing the bubble bigger than it otherwise would have been—and the numbers in the SEC complaint are huge—they followed, rather than led, the private market.

It’s also very hard to look at what happened in the crisis and conclude that nothing went wrong in the private sector. Note that the other Republican members of the FCIC refused to sign on to Wallison’s dissent. Instead, they issued their own dissent. “Single-source explanations,” they said, were “too simplistic.”

Yet despite all that, the one-note Republican refrain hasn’t changed. The explanation is obvious: The “government sucks” rant polls well with conservatives. Mix in an urge to counter the equally simplistic story from the left—that the crisis was entirely the fault of greedy, unscrupulous bankers—and you get a strong resistance to the facts. Maybe

THE “GOVERNMENT SUCKS” RANT POLLS WELL. MIX IN AN URGE TO COUNTER THE SIMPLISTIC STORY FROM THE LEFT AND YOU GET A STRONG RESISTANCE TO FACTS.

percent of non-GSE securitized mortgages.

To recap: If private-sector loans performed far worse than loans touched by the government, how could the GSEs have led the race to the bottom?

Another problematic aspect to Pinto’s research is that he assumes the GSEs guaranteed risky loans solely to satisfy affordable housing goals. But many of the guaranteed loans didn’t qualify for affordable housing credits. The GSEs did all this business because they were losing market share to Wall Street—their share went from 57 percent in 2003 to 37 percent by 2006. As the housing bubble grew larger, they wanted to recapture their share and boost their profits.

Indeed, the SEC lawsuit specifically says Fannie and Freddie began to do more risky

there’s a deeper reason, too. For many, belief in the all-knowing market was (and is) almost a religion. This financial crisis challenged that faith by showing the market would indeed allow loans to be made that could never be paid back, and by showing that highly paid financial services executives aren’t gods, and that many of them are stupid and venal and all too human.

So maybe the Republican orthodoxy is understandable, but that doesn’t mean it isn’t scary. Of course, there’s the great line from Edmund Burke: “Those who do not know history are destined to repeat it.” Our housing market is a mess that threatens to drag down the entire economy, and whoever is president in 2013 needs to have a plan. Denying the facts is not a good start. ☺

Infographic

THE SWELLING MIDDLE

FOR THE first time in history, a truly global middle class is emerging. By 2030, it will more than double in size, from 2 billion today to 4.9 billion. Brookings Institution scholar Homi Kharas estimates that the European and American middle classes will shrink from 50 percent of the total to just 22 percent. Rapid growth in China, India, Indonesia, Vietnam, Thailand, and Malaysia will cause Asia's share of the new middle to more than double from its current 30%. By 2030, Asia will host 64% of the global middle class and account for over 40% of global middle-class consumption. —David Rohde

World Population by Income Level

TOP

The ranks of the world's wealthy will continue to get bigger as the emerging market nations create more millionaires. The number of wealthy individuals will grow from 130 million today to 360 million in 2030, according to Kharas. Their percentage of the population will grow as well, jumping from 2% to 4%.

MIDDLE

The biggest surge in new members of the middle class over the next 20 years will come from hundreds of millions of Chinese and Indians—the percentage of people in India and China below the middle will drop by 70 percent by 2030.

BOTTOM

The percentage of poor people in the world has been on the rise for decades, but it will start to shrink as millions of Chinese and Indian citizens rise out of poverty. They will increase the demand for natural resources from Africa, spurring economic growth in Ethiopia, Kenya, Tanzania and Ghana.

1965
3,267,422,420
PEOPLE

TOP
5,558,825

MIDDLE
736,853,742

BOTTOM
2,525,009,853

2012
6,820,730,223
PEOPLE

2030
8,011,521,525
PEOPLE

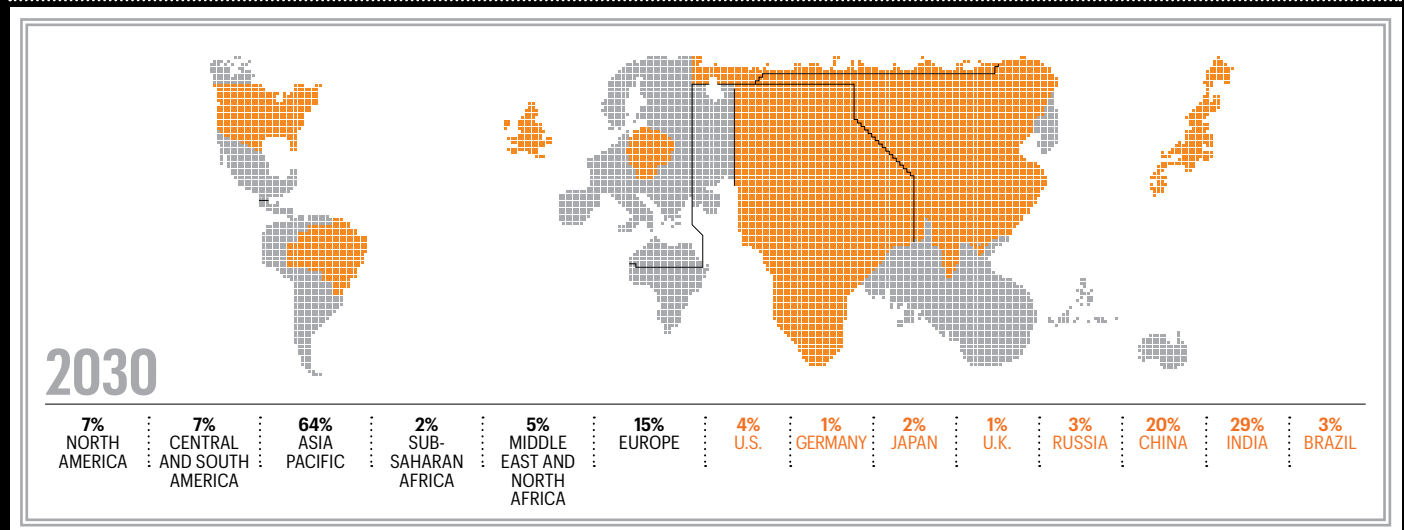
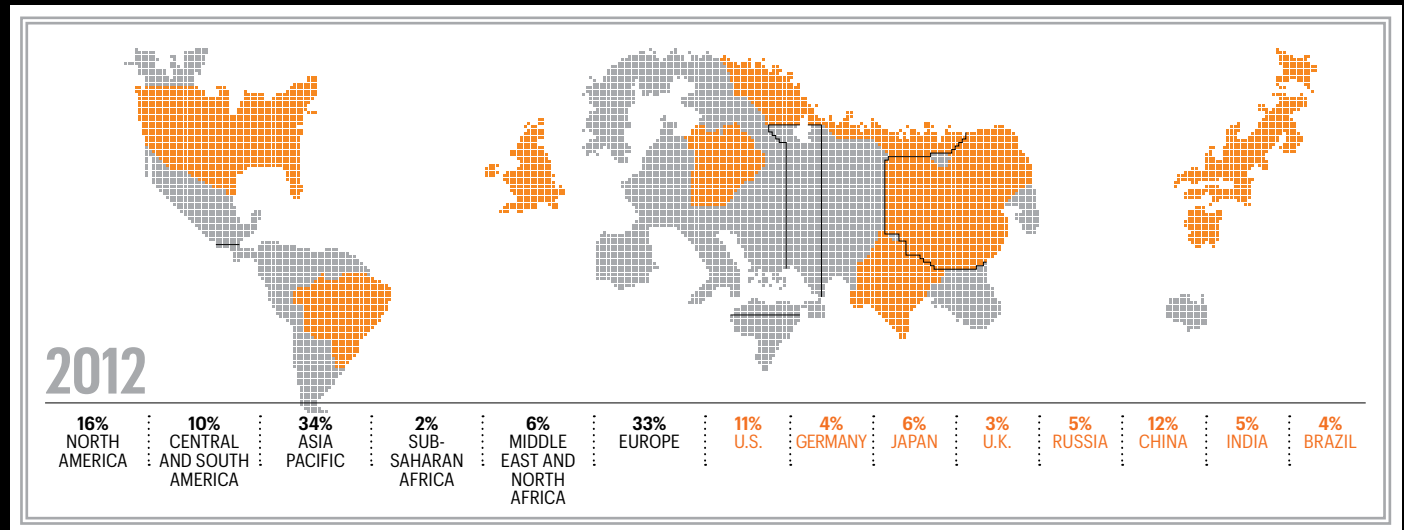
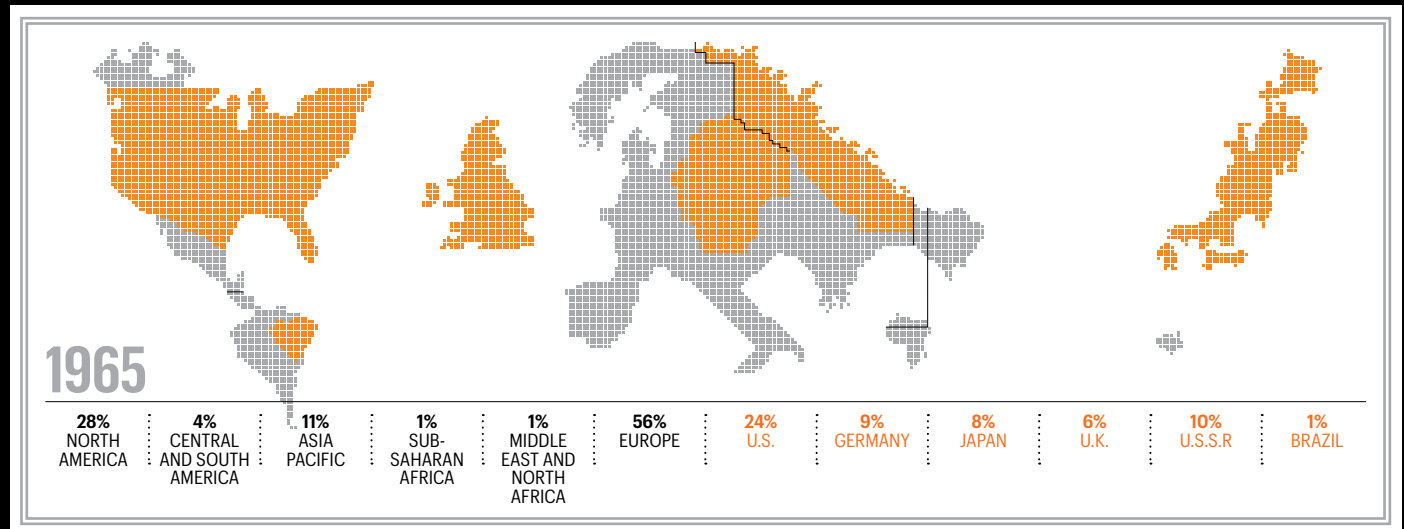
TOP
357,936,395

MIDDLE
4,871,161,044

BOTTOM
2,782,424,086

TOP: Annual per capita expenditure over US\$36,500 in 2005 prices
MIDDLE: Annual per capita expenditure between US\$3,650 and US\$36,500
BOTTOM: Annual per capita expenditure below US\$3,650

World Middle Class Percentage by Region



Note: In the 2012 and 2030 maps, some former Soviet republics are represented in the Middle East and North Africa region.

SOURCE: DR. HOMI KHARAS, The Brookings Institution



Economics

WHAT'S
GOING
RIGHT

► PHOTOGRAPH BY REUTERS

SEARCHING
FOR SIGNS
OF LIFE
IN THE
GLOBAL
ECONOMY

by Alan Wheatley



Giant Steps Construction workers at a commercial complex in the eastern Indian city of Bhubaneswar

WITH THE BRITISH ECONOMY

flat on its back, the Jaguar Land Rover (JLR) factory in Birmingham, the second largest city in England, is doing something unusual: hiring. The company is doing well. With exports to China and other big emerging economies rising strongly, Britain's largest automotive manufacturer recently said it would hire another thousand workers and build a new engine plant, creating a further 750 fifty jobs.

The Jaguar plant, which manufactured Spitfire fighter aircraft and Lancaster bombers during World War II, is an amalgam of state-of-the-art robots and old-fashioned craftsmen intent on their work. Electric carts laden with parts buzz across the factory floor, passing beneath big screens that flash the number of cars completed that shift. It takes 48 hours to process the top-of-the-line XJ model. As sedans roll off the assembly line, each customer's specifications are given a final check, and the cars are driven away to be shipped everywhere from Australia and Azerbaijan to the United States and China. The company, bought by India's Tata Motors from Ford Motor in 2008, exports 75 percent of its output. Britain and the United States remain JLR's biggest markets, but China has sped into the third spot and now accounts for 14 percent of the company's sales, which reached 232,704 vehicles last year.

That the luxury tastes of newly rich Chinese are generating employment in the birthplace of the industrial revolution is a powerful expression of Asia's rising clout and a reminder that the West's protracted debt crisis has not sucked all life out of the global economy. JLR's sales to China have risen by more than 750 percent in the past five years. "Nearly everybody's cutting back because of the recession, but China is still an expanding market," said Jim Kearns, an experienced assembly-line worker at JLR's Castle Bromwich plant in Birmingham. "They've got their heads screwed on over there."

Europe's debt malaise is prompting talk of a lost decade for the economy, like Japan in the 1990s. In the United States, deadlocked debt reduction talks, high unemployment, and long-stagnant incomes are sapping confidence. But many less affluent countries, though not immune to the West's woes, have displayed re-

markable resilience. While advanced economies are likely to expand just 1.6 percent this year, emerging and developing countries should notch up growth of 6.4 percent, according to the International Monetary Fund. For the past five years, developing countries have contributed as much as 65 percent of world growth and 70 percent of the growth in global imports, the World Bank estimates. Nor is this growth purely a function of final demand in the West. South-South trade—for instance between China and India or Brazil and Africa—now makes up 45 percent of developing country imports, up from about 23 percent in the early 1990s.

■ **THE BRIC COUNTRIES** are in the vanguard of this reordering of the world economy. Brazil, Russia, India, and China accounted for just 8.5 percent of global GDP at market exchange rates in the period between 2000 and 2004, according to the IMF. Between 2005 and 2009 that share rose to 13.1 percent, and by 2015 it will have overtaken that of the euro zone to reach 20.7 percent, just shy of the United States at 21.1 percent. "We're in the early days of the rise of the BRICs," said Jim O'Neill, the Goldman Sachs economist who coined the concept a decade ago. Trade tells a similar story. Over the past two decades, the share of world exports among the BRIC countries has nearly tripled, while their share of global imports has nearly doubled. At the same time, the gulf in productivity between industrial and developing economies—what economists call the "convergence gap"—remains very large. Hundreds of millions of people have been lifted out of dire poverty thanks to the 10 percent annual

growth China has enjoyed since the late 1970s, but an estimated 300 million Chinese still do not have access to clean water. Measured at purchasing power parity, annual income per head in China is just 16 percent of that in the United States. In India, the figure is just 7 percent. It's this catch-up potential that has businesses salivating.

"I'm still optimistic. We will continue to see hyper growth in these markets," said Yang Yuanqing, the chairman of Lenovo, the world's number two personal computer maker. In China, for example,

many people in the biggest cities already own a computer, Yang said, but the penetration rate in smaller cities and townships remains very low. His confidence is broadly shared by the man in the street in China even if there is resentment towards officials suspected of having acquired their wealth through connections or corruption. Zhu Lijun, a postgraduate student in Beijing, said he was satisfied with his standard of living. "As a college student, I feel optimistic about my future," Zhu said. "What matters is not whether other people get wealthy faster than me, but the way they get wealthy."

Economic growth in China is slowing but incomes are still rising fast; the government is committed to boosting household consumption's share of the economy so that growth relies less on investment and exports. HSBC reckons 40 percent of China's urban households now fall into the middle-class category, with annual income of 60,000 yuan to 500,000 yuan (\$9,450 to \$78,600). Five years ago the proportion was just 10 percent. "This group has both the capacity and the desire to buy branded products and more expensive consumer durables as well as spend money on travel and culture," said HSBC's chief China economist, Qu Hongbin. That's good news not only for Jaguar Land Rover, Lenovo, and the thousands of other companies currently flooding their wares in China, it also bodes well for other companies, and entire countries, that would like to feed China's voracious demand for components, energy, and minerals.

Australia owes much of its long economic expansion to sound policy-making, but credit is due as well to China's hunger for iron ore, coal, and other natural resources. China accounted for 27 percent of Australia's exports in the first nine months of 2011, up from just 5 percent in 2000. Because the price of natural resources has soared while the cost of manufactured goods has fallen, a shipload of iron ore from Australia in 2010 could buy about 22,000 flat-screen television sets, 10 times more than just five years earlier.

The commodity boom is also helping Africa. Excluding countries with fewer than 10 million people, six of the 10 fastest growing economies in the world between 2001 and 2010 were in Africa. Between 2010 and 2015, seven of the top 10 countries, the IMF reckons, will be African. One of them will be Zambia, the continent's largest producer of copper. The \$13 billion economy has grown at more than six percent annually over the last five years, and the benefits are slowly starting to trickle down. Kemmy Chaande, a reserved, soft-spoken man in his forties, has received a 3.2 billion kwacha (\$625,000) government loan to expand his roofing sheet plant in Kabwe, about 140 kilometers north of the capital, Lusaka. With the government planning to spend more on construction in 2012, Chaande is eyeing a bigger market and hopes gradually to increase his workforce to 150 from 28 today. "The future looks very bright," he said. "It is companies like this one which employ people, and if we can be supported then even poverty levels will come down." Foreign direct investment, especially from China, has also been a powerful driver of Africa's growth, contributing an additional one half of a percentage point or more to GDP growth, according to Aaron Weisbrod and

"WHAT MATTERS IS NOT WHETHER OTHER PEOPLE GET WEALTHY FASTER THAN ME, BUT THE WAY THEY GET WEALTHY"

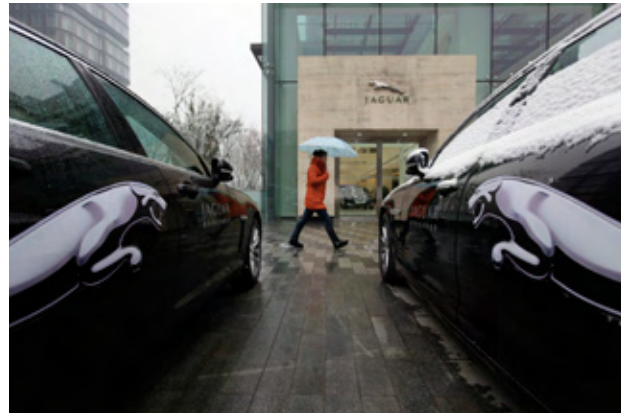
John Whalley of the University of Western Ontario. In the case of Zambia, which drew more Chinese investment relative to the size of its economy than any other country the researchers studied, the extra growth came to 1.9 percentage points in the years 2003 to 2009.

Research by IMF economists corroborates the notion that the BRICs are acting as a locomotive for poorer nations such as Zambia. Issouf Samake and Yongzheng Yang estimate that a 1 percentage point increase in BRIC demand and productivity leads to a cumulative 0.7 percentage point increase in low-income countries' output over three years. And that has translated, they argue, into a surprising economic resilience in the face of the worst recession for developed nations since World War II.

Not everyone in Zambia is prospering, of course. "It's just hand to mouth," said Gertrude Tembo, a 38 year old mother of five who sells vegetables on the streets of Lusaka. "I've been selling on this street for the past 10 years and I am still here the way I started." What is enthusing Africa optimists, though, is that governance is generally improving too. The number of conflicts has fallen and power is increasingly changing hands peacefully through the ballot box, as it did in Zambia in September. "Since the new government has introduced pro-poor policies, such as the decision to reduce taxes for thousands of workers, a lot of people should feel the benefit of Zambia's positive economic growth," said Gervas Malibata, a rural development worker.

The picture is roughly the same in Peru. A commodity boom fueled by demand from Asia has laid the foundations for a surge in domestic consumption. Per capita income more than doubled from \$2,000 in 2000 to \$5,000 in 2010 and it is set to reach \$6,700 in 2015, the IMF says. Peru has come a long way from the hyper-inflation and violence of leftist Shining Path insurgents that scarred the 1990s. "There are job opportunities now and, above all, there is stability," said Magra Trujillo, a fifty year old nurse outside a middle-class shopping mall in Lima, the capital. "I know there will be opportunities for my children and grandchildren." Many poor Peruvians who propelled the leftist former army officer Ollanta Humala to victory in elections last June are still waiting for growth to trickle down from the construction, shopping, and real estate bonanza under way in Lima. Still, optimism prevails. "It's an incredible turnaround from 10 years ago, and lots of Peruvians are moving back home," said Javier Ugarte, a restaurant owner who was visiting his native Lima from San Diego. "The American dream actually seems to be more real in Peru now."

■ **THIS ROSY PICTURE** of demand from China and other emerging powerhouses extending across the



It's Raining Cats Jaguars outside a dealer in Beijing (top); the interior of a textile mill in China's eastern Anhui province (below)



PHOTOGRAPHS: (TOP) REUTERS/JASON LEE; (BOTTOM) REUTERS/CHINA DAILY



**ERNST & YOUNG
EXPECTS
THE GLOBAL
MIDDLE
CLASS TO
EXPAND
FROM
AROUND
TWO BILLION
NOW TO
FIVE BILLION
BY 2030**

globe invites an obvious question: How long can these countries' strong demand last? Maria Pinelli, global vice chair of strategic growth markets at consultants Ernst & Young, expects that the global middle class—people with daily per capita incomes between \$10 and \$100, expressed at purchasing power parity—will expand from around two billion now to five billion by 2030. Annual spending in this group will leap to \$56 trillion from \$21 trillion, offering juicy opportunities to multinational companies if they can outrace fast-moving local rivals on their home turf. “Speed to market will be absolutely essential because people in those countries are too entrepreneurial to let an opportunity pass. They’ll figure it out before the multinationals do,” she said. “That’s a fundamental change.”

Not everyone is so optimistic. Dani Rodrik, a professor of international political economy at Harvard University, is skeptical of assumptions that developing countries will main-

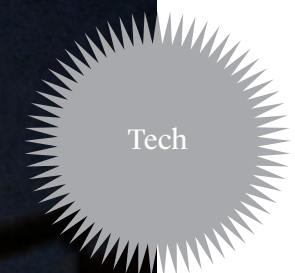
tain very high growth rates as they catch up with the West. Widespread convergence is a relatively recent phenomenon, he argues. “It would be nice if governments simply had to stabilize, liberalize and open up and markets would do the rest,” Rodrik wrote in a paper. “Alas, that is not how sustained convergence was achieved in the past.” Continued rapid expansion will require the kind of policies that advanced economies harnessed on the way to becoming rich, such as keeping currencies undervalued, controlling the financial sector, and favoring selected industries—in short, the Chinese recipe for growth. A Western backlash against the Beijing model, sparked perhaps by austerity fatigue, is a real risk. For now, though, people inside and outside China are making the most of the country’s economic rise.

“In China there are plenty of opportunities for everyone to increase their standard of living,” said David Zhang, who was born into a farming family and is now chief financial officer of a company listed in Hong Kong. “The Chinese will have cars and luxuries they haven’t dared to dream about for centuries,” said Zhang, who owns two BMWs.

Back in Birmingham, taxi driver Mohammed Iktias said the news that JLR’s profits were up and the firm was taking on more workers had put a smile on his face. “When I heard that, it made me genuinely feel happy. It was good news for a change,” Iktias said. “It didn’t bring a tear to my eye, but it was close.”



All Aboard
(Clockwise from top left) Subway commuters in downtown São Paulo; a subway tunnel under construction between the Jangpura and Lajpat Nagar stations in New Delhi; models pose next to a Russian Lada Niva vehicle in St. Petersburg; customers entering the new Apple Store at Pudong Lujiazui in Shanghai



Tech

THE HASHTAG

REVOLUTION

AS POLITICS AND TWITTER

GROW MORE INTERTWINED,

THERE'S A LOT RIDING

ON A BUSINESS MODEL

THAT IS YET TO BE DISCOVERED



IN JUST FIVE YEARS, Twitter has evolved from a 140-character punch line into a universal, all-purpose newswire, free and open to almost anyone, throbbing with the pulse of the planet in real time. It's where Newt Gingrich announced his presidential run, Prince William announced his engagement, and where the killing of Osama bin Laden was old news by the time President Obama announced it on television. If you're watching or taking part in a political protest—be it in Tahrir Square or downtown Manhattan—Twitter is where you have to be: faster than CNN, more credible than Fox News, and uniquely able to invite you to both follow the news and report it too.

Twitter is, of course, much more than a headline news wire. For many of its 100 million users around the world, it is primarily a source of diversion and occasional amusement. Nor is it alone as the

TWEET REVENGE Celebrants gather in Tahrir Square after the resignation of Mubarak, who had tried to choke off the Arab Spring protests by shutting down the internet.

by Jonathan Weber

creator of a new kind of global electronic conversation: Google and Facebook, Tumblr and Wordpress, and much of the rest of the global communications industry are among those reinventing the way the world communicates about its daily intrigues, be they prosaic or horrific.

But if the basic purpose (or “use case,” as techies like to say) for Facebook is sharing a picture of your kid or “friending” the cute girl in your chemistry class, the use case for Twitter is to get the word out: *I have a new job! The police are pepper-spraying us! The big rally is happening downtown at 10:00! Beyoncé is pregnant! Steve Jobs is dead!*

And you don’t even need a computer; just about any cell phone will do.

Like many Internet media companies, Twitter positions itself as a platform—a utility-like entity that provides a set of tools for people to use as they see fit.

Unlike Time Warner or *The New York Times* or Reuters, Twitter is not a “content creator,” to use the vernacular. Rather it is a proud democratizer of content creation, neutral as to the substance of digital bits of information but open to anyone who

has something to say. Twitter doesn’t report the news; rather, people report or retransmit the news on it.

As the reach of Twitter and the other Internet media companies extends across the globe, though, it’s becoming apparent that they are not just enablers of communication, they are publishers, wrestling with classic publishing problems. They make decisions about what types of words and pictures are suitable, they determine how to respond to would-be government censors, they struggle with how to organize information in a useful fashion, and they even worry about how to handle advertising in a way that doesn’t alienate customers.

While Google seems a bit *New York Times*-ian (smart, thorough, reliable, and a little arrogant) and Facebook tends toward *People* magazine or *USA Today* (something for everyone, clean and generic, more concerned with the softer side of life), Twitter is their tabloid cousin: loud and freewheeling, light on rules, heavy on sensational hard news, encouraging risk and experimentation.

In spite of that—or perhaps because of it—Twitter has become one of the most important news purveyors of the 21st century.

**IN MANY COUNTRIES,
YOU TWEET AT YOUR OWN RISK—
AND HOPE THAT IF THE GOVERNMENT
WANTS YOUR NAME SO THAT
IT CAN KICK DOWN YOUR DOOR,
TWITTER WILL PROTECT YOUR IDENTITY.**



THE DECEMBER Twitter messages from the Bahraini activist @Nezrad, translated by the website Global Voices, are painful to read: “because of some words I wrote on Twitter, I was arrested, shackled, blindfolded, and interrogated for five hours. I suffered a lot from being shackled, from thirst, insults and standing without getting to sit down.” In a series of 20 messages, he tweeted details of his imprisonment and the mistreatment of his fellow prisoners.

In Bahrain, as in many other countries, you tweet at your own risk—and hope that if the government wants your name so that it can kick down your door, Twitter will protect your identity and make sure your words get out to the world uncensored. Just as traditional Western journalism organizations defend their reporters and fight restrictions on press freedom, so Twitter finds itself on the front lines of a global battle over free speech on the Internet.

By positioning themselves as open platforms and, at least in the United States, not responsible for what people post on their services, Internet media companies have tried to avoid many of the knotty issues old-media editors and their lawyers deal with every

day. Is a given message or picture protected free speech, or does it fall into a category—defamation, for example, or copyright infringement, or shouting fire in a crowded theater—that enjoys no constitutional protection, or violates another country’s laws?

Yet social media services are far from being unregulated forums for free speech. Most ban many types of expression that are legally protected in the United States—pornography, hate speech, and various forms of advertising, for example—and generally reserve the right to block or delete a user’s account.

These companies do, however, have very different policies for how they handle different types of information. Facebook requires real names on its accounts, prohibits hate speech, harassment, and pornography, and often works with governments that want to block information that’s illegal locally. In Turkey, for example, it’s against the law to insult Ataturk, the founder of the country. Therefore, on Facebook in Turkey, you will not find any insults of Ataturk. The company employs hundreds of people to review terms of service violations, field complaints, and block or remove information deemed objectionable.

Twitter takes a more hands-off approach. Alex Macgillivray, the

**ONE EXECUTIVE RECALLS HEARING FRENCH
PRESIDENT NICOLAS SARKOZY
INSIST THAT ONLINE CONVERSATIONS
HAD TO BE REINED IN. “HE WAS MAINLY
CONCERNED WITH GOSSIP
ABOUT HIS WIFE.”**



A TEST OF 140-CHARACTERS
Protests around the globe, including recent ones in Russia (left) and Egypt, were fueled by tweets.

company's general counsel, declared last year that the company was "from the free speech wing of the free speech party," a stance that has been affirmed by the company's CEO, Dick Costolo. Real names are not required on Twitter, and even hate speech and pornography are not banned outright. (A U.S. judge ruled recently that a stream of hateful and threatening anonymous tweets did not constitute illegal cyber-stalking.) Partly because tweets are so brief (it's hard to violate a copyright in 140 characters) and partly because the company is so young and relatively small (no employees on the ground in countries where they could get arrested), Twitter is still able to flit over an international media landscape mined with onerous restrictions on electronic communication.

That's one reason Twitter has played such a prominent role as an organizing tool and source of information in recent political protests around the world. Repressive governments, caught off-guard by a free-form news channel they can't control, have been reduced to using blunt force. Egypt shut down its Internet almost entirely at the height of the Arab Spring protests (and Twitter, working with Google, responded by creating a system in which people could phone-in tweets). China has its "great firewall," which blocks Facebook, Twitter, and Google, among others. In December, Russian agents apparently flooded Twitter with "junk tweets" to drown out news and interfere with online organizing during that country's recent protests.

Industry officials (and their lawyers) say democratic governments can be as big a threat to online press freedom as iron-gloved dictators. One executive recalls hearing French President Nicolas Sarkozy insist that online conversations had to be reined in. "He was mainly concerned with gossip about his wife," said the official, who declined to be identified due to the sensitive nature of the issue.

In India, which prides itself on its democratic ways, the government summoned Internet executives in December and demanded they implement a censorship regime (they declined). The U.K. government toyed with shutting Twitter down during the London riots last year, though a recent analysis by the *Guardian* newspaper showed that other users quickly corrected inflammatory tweets during that tumult, and the service was an important channel for sharing safety and clean-up information.

The ugly truth is that no government—even that of the United States—likes a free speech free-for-all. Federal prosecutors frequently seek court orders demanding information on social media users, or insist that a specific bit of content be removed from the services. In many cases these court orders are secret, and the companies quietly turn over the information. Oftentimes, prosecutors are focused on cyber-crimes such as credit card theft, movie piracy or child pornography, but in the post-9/11 era, they increasingly deal with politics and national security.

Twitter, to the delight of free speech advocates, shed a bright light on these secret court orders last year when the government came hunting for information on people associated with WikiLeaks. Twitter got court permission to inform the subjects of the request and thus allow them to mount their own legal challenges. (The litigation is ongoing.) "This is a very important example of willingness to stand up to powerful interests when many others were willing to do the government's bidding" said David Ardia, a law professor at the University of North Carolina and a former attorney at the *Washington Post*. "That was a courageous stance."

Defending free speech on a global service subject to the laws of every country in which people use it is a daunting task. But even as it explores new ways of customizing and possibly filtering the service to meet the

@THE ARAB SPRING

REUTERS SOCIAL MEDIA EDITOR
ANTHONY DE ROSA FLAGS SEMINAL TWEETS
FROM THE MIDDLE EAST UPRISINGS:



Tunisian street vendor turned protester turned self-immolator Mohamed Bouazizi dies
@monaeltahawy Mona Eltahawy
Family of Mohamed Bouazizi, 26, of #Sidibouzi say he died on Tuesday night. His self-immolation inspired popular uprising in #Tunisia.
January 5th, 2011



Zine El Abidine Ben Ali resigns Tunisian Presidency
@jrug Jonathan Rugman
Ben Ali is gone. An extraordinary victory for people power in the Arab world.
January 14, 2011



Complete Internet blackout in Egypt
@HuffingtonPost Huffington Post
New analysis: #Egypt's Internet blackout "unprecedented in Internet history" <http://huff.to/gXfGjQ>
January 27, 2011



President Ali Abdullah Saleh declares he's staying, security forces open fire on protesters in Yemen
@SultanAlQassemi Sultan Al Qassemi
Ali Abdallah Saleh loses it. | Al Jazeera: 750 people injured after gunfire shots & teargas was used against protesters in Taiz, #Yemen.
April 3rd, 2011



Egypt's "Day of Rage"
@jrug Jonathan Rugman
Something changed today. This became a full blown uprising against Mubarak rule cutting across social divides #Cairo #Egypt #jan25
January 28, 2011



Pearl Roundabout in Manama, Bahrain destroyed by government forces
@martinchulov Martin Chulov
The hub of #Bahrain's uprising has been destroyed. Pearl Roundabout now a mess of soil & debri. Flags, tents—& maybe legacy—gone.
March 18, 2011



Egyptian President Hosni Mubarak steps down
@Reuters Reuters Top News
FLASH: Egypt's President Mubarak to transfer power as army chief to military—CNN
February 10, 2011



Col. Muammar Gaddafi killed
@Reuters Reuters Top News
FLASH: Libya's Gaddafi dies of wounds suffered in capture near Sirte—senior NTC military official
October 20, 2011

To see an archive of Reuters' real-time Arab Spring tweets, visit: reuters.com/ArabSpringTimeline

requirements of different countries, Twitter seems to understand that if you're not willing to publish without fear or favor, you're not going to be much of a news service.



PRESERVING ITS ability to do what it does—allow anyone, anywhere, to say just about anything to everyone—is one part of Twitter's news challenge. The other part, probably more difficult but decidedly less glamorous, has to do with categorization, navigation, and the reliability of information on the service.

In the old days of media—up till 10 years ago, say—anyone building a general-interest news service spent a lot of time dividing the world into categories. Politics, business, sports, lifestyle, and entertainment would be typical categories, and within those categories there would be subcategories. Interested in news about the San Francisco 49ers? Click on sports, then click on football, then click on pro football, and then find the 49ers.

Twitter, though, has no such hierarchy for organizing topics, and is only in the earliest stages of creating one. Its river of information is structured not around topics but around people: you see news posted by people you "follow," and send your news to people who follow you. Big news gets passed around—or retweeted—incredibly quickly, so if you are active on Twitter, it won't be long before someone you follow tweets about the death of bin Laden. The fact that you might see dozens of tweets about that can be information in itself, what Costolo calls "the roar of the crowd."

But the shortcomings of this structure are obvious, and often maddening. Most of the time, you're interested in some of the things an individual or organization is tweeting, but not all of them. Also, it can be hard to tell what the provenance of a bit of news is, and thus hard to judge its reliability—context is almost always absent, since a tweet is so brief. Nor is there a good way to access news your network does not happen to be tweeting about, or to delve deeper into a topic.

Twitter users took a stab at solving this problem with the hashtag, or # sign. If you mark your tweet with a # and a topic, anyone can find it—and others on the same topic—by searching for that hashtag. It's still a crude system, though. Search #moscow, and you'll get activists talking about demonstrations and news organizations talking about demonstration politics—as well as help-wanted ads, weather reports, and bad jokes. Twitter's search function is improving, but if you want only the latest substantive and authoritative updates on the political situation in Moscow, there isn't an easy way to find them.

Numerous companies hope to have a hand in making Twitter's millions of daily messages more useful—think of the third-party "apps" on Facebook or the iPhone—but Twitter is determined to address the core navigation and category issues itself. A recent redesign has made it much easier to get started, presenting a more Facebook-like home page and suggesting subjects you might be interested in. This latter concept could ultimately hold the key to

the service's utility—behind-the-scenes math wizardry that anticipates, based on a range of factors, what sorts of things an individual might find most relevant.

Instead of the old news structure of categories and subcategories, Twitter might have user-driven search and customized, real-time sorting of the information stream. For example, I signal that I'm interested in California politics. Based on my behavior and network connections, Twitter divines what sorts of things relating to California politics I might find most relevant.

Is a tweet a piece of news, a comment, an endorsement, or a call to action? Eventually Twitter will know, and attempt to treat it accordingly. In principle, it should be able to take its fire hose of tweets and filter it into a customizable, coherent news service. Sometimes, that news will be live reports from "citizen" journalists. More often, reports will come from traditional news organizations. Still other times they will come directly from the news subjects themselves.

People who don't give a fig about politics but love movies should be able to have their own movie wire. The same will be true for fans of sports, music, or food. Like a great newspaper, though, Twitter might also show the show-biz maven the occasional crime story, or highlight the political event so big that everyone should know about it. Those who just want to hear the roar of the global crowd could listen to that too.



THE TECHNICAL challenges in all of this are daunting, and until recently, the company could barely keep its core service working reliably, let alone solve giant computer science problems. Twitter's commercial challenges are massive too. It is not a public company, and says it has no intention of becoming one soon, but with a private market valuation of \$8 billion, it's under pressure to show that it can make money. (Investors include Saudi prince Al-Waleed bin Talal, who bought a \$300 million stake, and Russian internet mogul Yuri Milner, who put in \$400 million.) Advertising is the obvious solution, but too many ads could be a turn-off for users. As Twitter looks harder at the bottom line, it will be tempting for the company to avoid troublesome political activists and focus on, say, the many ad-friendly TV stars and sports celebrities who have become big users of the service.

Fortunately for Twitter, solving the relevance problem will also solve the advertising problem. As Internet media guru John Battelle wrote recently: "If Twitter can assign a rank, a bit of context, a 'place in the world' for every tweet as it relates to every other tweet and every account on Twitter, well, it can do the same for every possible advertiser on the planet, as they relate to those tweets, those accounts, and whatever messaging the advertiser might have to offer."

And fortunately for the world, solving the relevance problem could also reinforce Twitter's commitment to deliver real news. Virtually every study of what people are looking for on the Internet puts news at the top of the list. And nobody is better positioned to seize that opportunity than Twitter.



THE TWEET HEREAFTER Costolo insists that Twitter be an ardent defender of free speech, and is resisting Big Brothers all over the world.

THERE'S
SOMETHING
IN THE AIR
TONIGHT



THE DRONE

STEPED UP STRIKES BY AMERICA'S PILOTLESS FIGHTERS HAVE BEEN COST-EFFICIENT, THOUGH NOT WITHOUT COST. I LIVED IN THEIR MENACING SHADOW FOR SEVEN MONTHS

▲ PHOTOGRAPH BY REUTERS/CHRISTOPHER GRIFFIN

WARS

by David Rohde

• **BUZZ KILLER** An MQ-1B drone gets a pre-flight inspection in the rugged mountains of western Pakistan. Although that country's government gives tactical support to the U.S. drone program, it pretends to be outraged by the strikes for political reasons.

THEY KILL WITHOUT WARNING,

ARE COMPARATIVELY CHEAP, RISK NO AMERICAN LIVES, AND PRODUCE TRIUMPHANT headlines. Over the last three years, drone strikes have quietly become the Obama Administration's weapon of choice against terrorists.

Since taking office, President Barack Obama has unleashed five times as many drone strikes as George W. Bush authorized in his second term in the White House. He has transformed drone attacks from a rarely used tactic that killed dozens each year to a twice-weekly onslaught that killed more than 1,000 people in Pakistan in 2010. Last year, American drone strikes spread to Somalia and Libya as well.

In the wake of the troubled, trillion-dollar American invasions of Iraq and Afghanistan, drone strikes are a talisman in Washington. To cash-strapped officials, drones eliminate the United States' enemies at little human, political, or financial cost.

The sweeping use of drone strikes in Pakistan, though, has created unprecedented anti-American sentiment in that country. While U.S. intelligence officials claim that only a handful of civilians have died in drone attacks, the vast majority of Pakistanis believe thousands have perished. Last year, the Pakistani government apparently blocked American drone strikes after tensions escalated between the two governments.

After a CIA contractor killed two Pakistanis in January and American commandos killed Osama bin Laden in March, there were no drone strikes there for weeks at a time. In November, drone strikes stopped again after an American airstrike killed 26 Pakistani soldiers near the border with Afghanistan. As of late December, there had

been no strikes in Pakistan for six weeks, the longest pause since 2008, and a glaring example of the limitations of drone warfare.

My perspective on drones is an unusual one. In November 2008, the Afghan Taliban kidnapped two Afghan colleagues and me outside Kabul and ferried us to the tribal areas of Pakistan. For the next seven months, we were held captive in North and South Waziristan, the focus of the vast majority of American drone strikes during that period. In June 2009, we escaped. Several months later, I wrote about the experience in a series of articles for the *New York Times*, my employer at the time.

Throughout our captivity, American drones were a frequent presence in the skies above North and South Waziristan. Unmanned, propeller-driven aircraft, they sounded like a small plane—a Piper Cub or Cessna—circling overhead. Dark specks in a blue sky, they could be spotted and tracked with the naked eye. Our guards studied their flight patterns for indications of when they might strike. When two drones appeared overhead they thought an attack was imminent. Sometimes it was, sometimes it was not.

The drones were terrifying. From the ground, it is impossible to determine who or what they are tracking as they circle overhead. The buzz of a distant propeller is a constant reminder of imminent death. Drones fire missiles that travel faster than the speed of sound. A drone's victim never hears the missile that kills him.

Our Afghan and Pakistani Taliban guards despised the drones and disparaged them as a cowardly way for America to wage war. The 2009 surge in drone attacks in Pakistan prompted our guards to hate Obama even more than they hated Bush.

The most difficult day of our captivity was March 25, 2009. Late that afternoon, a drone attack occurred just outside our house in Makeen, South Waziristan. Missiles fired by an American drone had struck dozens of yards away. After chunks of mud and bits of shrapnel landed in our courtyard. Our guards hustled me down a hillside and ordered me to get inside a station wagon. They told me to lie down, place a scarf over my face, and say nothing. We all knew that if local militants enraged by the attack learned an American prisoner was in the area, I would be killed. As I lay in the car, I heard militants shout with fury as they collected their dead. A woman wailed somewhere in the distance. I silently recited the Lord's Prayer.

After 15 minutes, the guards took me back to our house and explained what had happened. Missiles from American drones had struck two cars, they said, killing seven Arab militants and local Taliban fighters. Later, I learned that one of our guards suggested I be taken to the site of the attack and ritually beheaded. The chief guard overruled him.

The strikes fueled a vicious paranoia among the Taliban. For months, our guards told us of civilians be-



FROM THE GROUND, IT IS IMPOSSIBLE TO DETERMINE WHO OR WHAT THEY ARE TRACKING AS THEY CIRCLE OVERHEAD HOUR AFTER HOUR. THE BUZZ OF A DISTANT PROPELLER IS A CONSTANT REMINDER OF IMMINENT DEATH.

ing rounded up, accused of working as American spies and hung in local markets. Immediately after that attack in South Waziristan, a feverish hunt began for a local spy who the Taliban were convinced had somehow secretly guided the Americans to the two cars.

Several days after the strike, our guards told us foreign militants had arrested a local man and accused him of guiding the drones. After the jihadists disemboweled the villager and chopped off his leg, he "confessed" to being an American spy, they said. Then the militants decapitated the man and hung his corpse in the local bazaar as a warning.

MY TIME in captivity filled me with enormous sympathy for the Pakistani civilians trapped between the deranged Taliban and ruthless American technology. They inhabit a hell on earth in the tribal areas. Both sides abuse them. I am convinced Taliban claims

• **JOYSTICK WAR** The Air Force is developing drones as small as birds and insects, which is bad news for protesters in Peshawar, who charge that U.S. drones are indiscriminately killing civilians.

PHOTOGRAPHS: REUTERS/SMP PETERSON; K. PERVEZ

that only civilians die in drone strikes are false, as are American claims that only militants do. Drone strikes are not a silver bullet against militancy, nor are they a wanton practice that fells only civilians. They weaken militant groups without eliminating them.

During my time in the tribal areas, it was clear that drone strikes disrupted militant operations. Taliban commanders frequently changed vehicles and moved with few bodyguards to mask their identities. Afghan, Pakistani, and foreign Taliban avoided gathering in large numbers. The training of suicide bombers and roadside bomb makers was carried out in small groups to avoid detection.

Altogether, 22 drone strikes killed at least 76 militants and 41 civilians in North and South Waziristan during our seven months in captivity, according to news reports. Some strikes clearly succeeded. Our guards reacted with fury, for example, when Uzbek bomb makers they knew were killed in a drone

strike. They also showed my Afghan colleagues the graves of children they said died in strikes.

It is impossible for journalists, human rights groups, or outside investigators to definitively determine the ratio of civilians to militants killed by American drones. The United States refuses to release details or publicly acknowledge the attacks, which they insist are classified. Militants, meanwhile, refuse to allow unfettered access to the area.

The strikes kill senior leaders and weaken Al Qaeda, the Pakistani Taliban, and the Afghan Taliban, but militants use exaggerated reports of civilian deaths to recruit volunteers and stoke anti-Americanism. I believe the drones create a stalemate between militant groups and U.S. intelligence agencies.

While drones are seen as a triumph of American technology in the United States, they provoke intense public anger in Pakistan. Exaggerated Taliban claims of civilian deaths are widely believed by the Pakistanis, who see the strikes as a flagrant violation of the United States' purported support for human rights. Analysts believe that killing a senior militant in a drone strike is a tactical victory but a loss over the long term because it weakens public support for an American-backed crackdown on militancy in Pakistan, which many analysts think is essential.

"In the short term, it puts [the militants] on the back foot," a former United Nations official in the region who spoke on condition of anonymity told me. "In the overall community, it's devastating."

Worsening the problem, the U.S. has allowed the Pakistani military to falsely claim that it has no control over the drone strikes. American drones operate out of Pakistani air force bases with the permission of Pakistani forces, yet the Pakistani public is told that a foreign power is carrying out unilateral attacks inside their country and violating their sovereignty.

Pakistan is not the only country experiencing drone attacks. Since 2001, the United States has carried out drone strikes in five other countries—Afghanistan, Yemen, Iraq, Libya and Somalia. In Libya, the American military carried out 146 drone strikes during NATO's seven-month bombing campaign against the Gaddafi regime. In Afghanistan and Iraq, the CIA and the American military do not disclose the number of attacks but a senior American military official put the number at "dozens" since 2001.

The most alarming pattern has emerged in Yemen and Somalia. The exact number of strikes in both countries is unknown. Local media in Yemen report strikes as often as once a week, but American officials decline to confirm that.

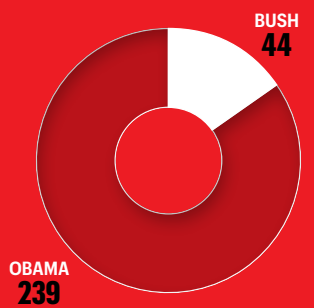
On September 30, 2011, a drone flying over Yemen set a new precedent. Without a trial or any public court proceeding, the United States government killed two American citizens, Anwar Al Awlaki and Samir Khan. The target of the attack was Awlaki, a New Mexico-born Yemeni-American whose charis-

• **SMASH LANDING** Two missiles thought to be fired by a U.S. drone killed 18 people, including foreign militants, in this house near the border of Pakistan and Afghanistan in 2008. That same year, a drone washed up on an island in the Outer Hebrides.

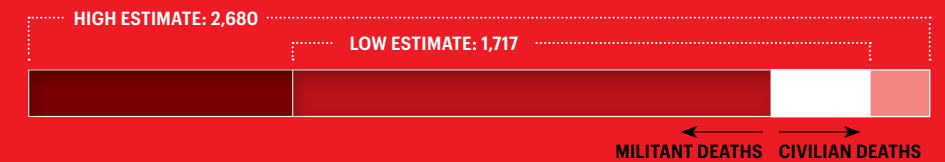


U.S. DRONE STRIKE TARGETS*

STRIKES IN PAKISTAN UNDER EACH ADMINISTRATION



ESTIMATED DEATHS FROM U.S. DRONE STRIKES IN PAKISTAN 2004-2011*



SOURCE: New American Foundation; news reports
* Through Nov. 16

matic preaching inspired terrorist attacks around the world, including the 2009 killing of thirteen soldiers in Fort Hood, Texas. Civil liberties groups argued that a dangerous new threshold had been crossed. For the first time in American history, the United States had executed two of its citizens without trial.

The Obama Administration cited a secret Justice Department memorandum as justification for the attack. Its authors contended that Awlaki's killing was legal due to his role in attacks on the United States and his presence in an area where American forces could not easily capture him. The administration declined to publicly release the full document.

MANY EXPERTS insist a new approach to drones is desperately needed. Strikes should continue, they say, but in a vastly different manner. Among the changes they suggest: The U.S. must end its absurd practice of refusing to publicly acknowledge attacks. Many analysts also believe Washington should accede to long-standing demands from the Pakistani, Afghan, and other local governments for more control over the use of drones. Their reasoning is simple: Along with the United States, local officials will then bear the burden of building local public support for drone strikes.

"They have asked for sharing the responsibility, but also means sharing the technology," Vali Nasr, a

Tufts University professor and former senior Obama Administration adviser on Pakistan, told me. "We have resisted that, but the benefit is that you give the local government ownership."

For all their shortcomings, drones do present a tempting though far from perfect martial option. Drones can reach jihadists in remote mountains and deserts inaccessible to American and local troops. They have taken out top militants, such as the Pakistani Taliban commander Baitullah Mehsud, who was responsible for the killing of thousands of Pakistani

MISSILES FROM AMERICAN DRONES HAD STRUCK TWO CARS. ONE OF OUR GUARDS SUGGESTED I BE TAKEN TO THE SITE OF THE ATTACK AND RITUALLY BEHEADED.

civilians in suicide bombings. And they have slowed the training of suicide bombers and roadside bomb makers, most of whose victims are innocent Afghan and Pakistani bystanders, not American troops.

But drones alone are not the answer. Over the long term, it will be moderate Muslims who defeat militancy, not technology. 🌟



• **What Have You Leaked For Me Lately?**
As Assange scrambles to save WikiLeaks, he is shackled with several problems: he's fighting extradition to Sweden, has alienated supporters with his imperious manner, and his best source is in a military jail.

Media

WikiLeaks'

16th

HIS ORGANIZATION IS IN DISARRAY, HIS SOURCES HAVE DRIED UP, AND JULIAN ASSANGE IS DESPERATE FOR A SECOND ACT. HIS LEAKS OVER THE PAST FIVE YEARS HAVE TOLD US PLENTY, BUT HAVE THEY CHANGED ANYTHING?

by
Jack Shafer

Minute

In

LATE OCTOBER, a deflated Julian Assange called a press conference in London to announce he may have to mothball WikiLeaks. The reason, he said, was money. Visa, MasterCard, Western Union, and Paypal were preventing supporters from donating to the organization, Assange explained. He warned that unless the bankers' blockade was lifted at once, the cash-strapped organization would soon die.

By then, however, the biggest problem WikiLeaks faced wasn't financial. After all, the group had always operated on a shoestring, its leader famously sleeping somewhere other than at home or in a hotel most nights. The main concern was productivity: WikiLeaks and Assange, its 40-year-old provocateur, were out of scoops.

And oh, what a string of scoops it had run off in the previous 18 months. WikiLeaks' 2010 posting of a classified video showing civilian casualties during an Apache helicopter attack in Baghdad, which Assange titled "Collateral Murder," drew debate and viewers around the world. Then came its distribution of classified documents from the wars in Afghanistan and Iraq, the Guantánamo Bay prison camp files, and the classified U.S. State Department diplomatic cables to the *Guardian*, the *New York Times*, *Der Spiegel*, and other news outlets.

But after the diplomatic cable stories petered out in September, so too did WikiLeaks. Its slide into irrelevance after months of dominating the headlines should have been enough to humble even Assange. His five-year-old supranational group, with its hardened computer infrastructure and sophisticated encryption algorithms, was supposedly immune to government crackdowns and corporate retaliation. But instead of flourishing, as Assange had predicted, WikiLeaks all but vaporized in its 16th minute of fame: Its

auteur was shackled with a security bracelet, fighting extradition to Sweden, where authorities want to question him regarding charges of sexual assault; WikiLeaks members and allies, alienated by the dictatorial Assange, had abandoned him; and leakers were no longer making their substantial deposits in WikiLeaks computers.

You can date the beginning of this decline to mid-2010, when Assange's alleged super-source, U.S. Army Pfc. Bradley Manning—suspected of having leaked the Afghanistan, Iraq, Gitmo, and diplomatic cable files—was jailed. Assange was still boasting to *Forbes* in November 2010 that WikiLeaks was receiving so many leaks that it had to turn off the submission form on its site and that "about 50 percent" of the documents in its hoard were from the private sector (banking, oil, pharmaceuticals). But despite those boasts, he never delivered those corporate exposés. The Manning trove was his last big data dump, a reminder that journalists are only as good as their sources. Last year, after teasing *60 Minutes* about explosive documents he hinted could take down a bank (Bank of America?) he reportedly backpedaled in private. Was he overselling his material or was he holding back the bank documents for maximum impact later? Only Julian Assange, international man of mystery, knew for sure.

● **THE WIKILEAKS** fade-out demonstrates the advantage established news institutions have over wildcatters like Assange. He may have found the oil but he had no way of making it useful to the masses. The established press—love them or hate them—had the means to quickly figure out what the Manning files meant and the skill to present them in readable form, something Assange appears to be incapable of doing. The pressies also had lawyers who knew how to beat back the legal threats of governments, namely the United States, that did not want the files published. Of course, Assange mocked attempts by the *Times* and the *Guardian* to discuss the leaks with the governments involved prior to publication as selling out. In a new documentary, *True Stories: WikiLeaks*, Assange snarls that the mainstream media "cannot be trusted" because they are "part of the social network of the elite." Even if he's right, that elite is not a static entity with a single set of interests. That governments around the globe recoiled at the *Times* and *Guardian* stories

based on WikiLeaks material puts the lie to Assange's sweeping condemnation.

I mean no disrespect to Assange by calling him a wildcatter—or by calling him a journalist! (If digging up state secrets and revealing them to the public isn't an act of journalism, what is?) The wildcatter label captures the entrepreneurial qualities he brought to his work. Charlie Beckett, of the London School of Economics and Political Science, notes that Assange drew on his skills as a programmer and hacker to spot "a new business model and a novel kind of platform." As Beckett points out, there are plenty of programmers and hackers out there, so "what made WikiLeaks work was Assange's ideological drive and his all-consuming desire to use digital communications as a political weapon."

Although it's difficult to think of Assange without imagining gigabytes of classified data coursing around the Web, this cyber-centric view denies him his proper status in the pantheon of secrecy hackers. He's never been a leaker; instead, he positioned himself as a broker of leaks. At first, he believed WikiLeaks could be a passive platform, dispersing anonymous leaks to an interested world. Assange had moderate success early on interesting journalists in his files—mainstream outlets generated numerous stories from WikiLeaks documents that outraged governments (the Chinese and the British), religions (Scientologists and Mormons), banks, and other power centers. But it wasn't until Assange started working with the mainstream media on the Afghanistan and Iraq files—aping the traditional source-journalist relationship—that he started maximizing the "yield" from his files.

Assange's current intimacy with editors and reporters places him closer to the tradition of the all-star leakers of the 1970s—Daniel Ellsberg (the Pentagon Papers), Philip Agee (outing CIA officers), Navy Yeoman Charles Radford (the Indo-Pakistan conflict)—who teamed with journalists or publishers to get their secrets out. Like them, Assange was (and is) on a suicide mission to destabilize the system.

But unlike Assange, the aforementioned focused their outrage on a single issue: Ellsberg exposed the lies at the heart of the United States' Vietnam policy; Agee, a born-again Marxist, opposed what he considered to be U.S. imperialism; Radford (who served his Mormon mission in India) objected to the Nixon Administration's favoritism to-

ward Pakistan. These lone wolves understood they had booked one-way trips—that having unloaded their stash of secrets, their next stops were jail, exile, or obscurity.

Assange's self-defined role as go-between rather than leaker, and his ambition to build a perpetual secret-exposing machine, further differentiates him from the all-stars. Steven Aftergood, who runs the Federation of American Scientist's Project on Government Secrecy, says, "The WikiLeaks disclosures were presented—above all—as a challenge to official secrecy rather than as a focused revelation of any particular scandal or misdeed or an effort to redirect U.S. foreign policy."

● **DESPITE HIS** many troubles, Assange is still swinging. In December, he gave *The Washington Post* sales brochures from which the paper fashioned a page-one story about the worldwide market for invasive surveillance technology. (Not exactly groundbreaking, but worthy enough.)

Whatever WikiLeaks' current status, it's fair to ask what it has accomplished. Can we identify any significant changes in politics or policy prompted by its revelations? (To be fair, that's a tough question to ask of any news organization.) Its most tangible accomplishment must be that it has given the world a better look at how the United States prosecutes its wars and conducts its diplomacy. "The [WikiLeak] releases included quite a few records of enduring interest, but many others of only passing curiosity, and perhaps a majority that are of no particular significance at all," says Aftergood. "We probably need more time and perspective to reach a final judgment on WikiLeaks' lasting impact... The Pentagon Papers were a phenomenon, but what was their impact, really? Did anyone actually read them? Or did their significance arise from the over-reaction of the Nixon Administration?"

But who can deny the impact of the leakers of the 1970s? A new breed of national security reporter, inspired by the revelations of those whistleblowers, began filing tough dispatches. The Freedom of Information Act, established in the late 1960s, was strengthened, giving reporters additional leverage in their investigations. And Senate hearings exposed the multi-decade excesses of the CIA, the FBI, and the military intelligence agencies.

WikiLeaks hasn't inspired much in the

way of official government investigations, open-government legislation, or even successful imitators. Governments and corporations have proved how good they are at stifling leakers and their depositories. The most direct effect, Aftergood notes, is a tightening of U.S. government computer security: Security had been loosened after 9/11 to make dot-connecting easier in the hope of preventing another attack. Aftergood also notes that the diplomatic cable leaks caused the U.S. to transfer some personnel and curtail diplomacy, and that the revelations strained U.S. diplomatic relations with some nations. In this case, WikiLeaks may have shaken the earth, but Assange's organization did not really change it.

Or maybe it did. Gideon Rachman gave a wonderfully perverse reading of the impact of the publication of the diplomatic cables last December in the *Financial Times*, declaring that Assange and WikiLeaks had done America "a massive favour" by "inadvertently debunking decades-old con-

HE'S NEVER BEEN A LEAKER; INSTEAD, HE POSITIONED HIMSELF AS A BROKER OF LEAKS.

spiracy theories about its foreign policy... Where WikiLeaks does reveal a gap between America's public statements and private discussions, it tends to be because U.S. representatives are being diplomatic rather than duplicitous." Although the candor in many of those cables embarrassed the United States, the complete dump flattered it because it showed the public positions of the United States are nearly identical to the private positions expressed in the cables. This consistency, Rachman argues, dispels the "idea that something sinister is going on behind the walls of the U.S. embassy."

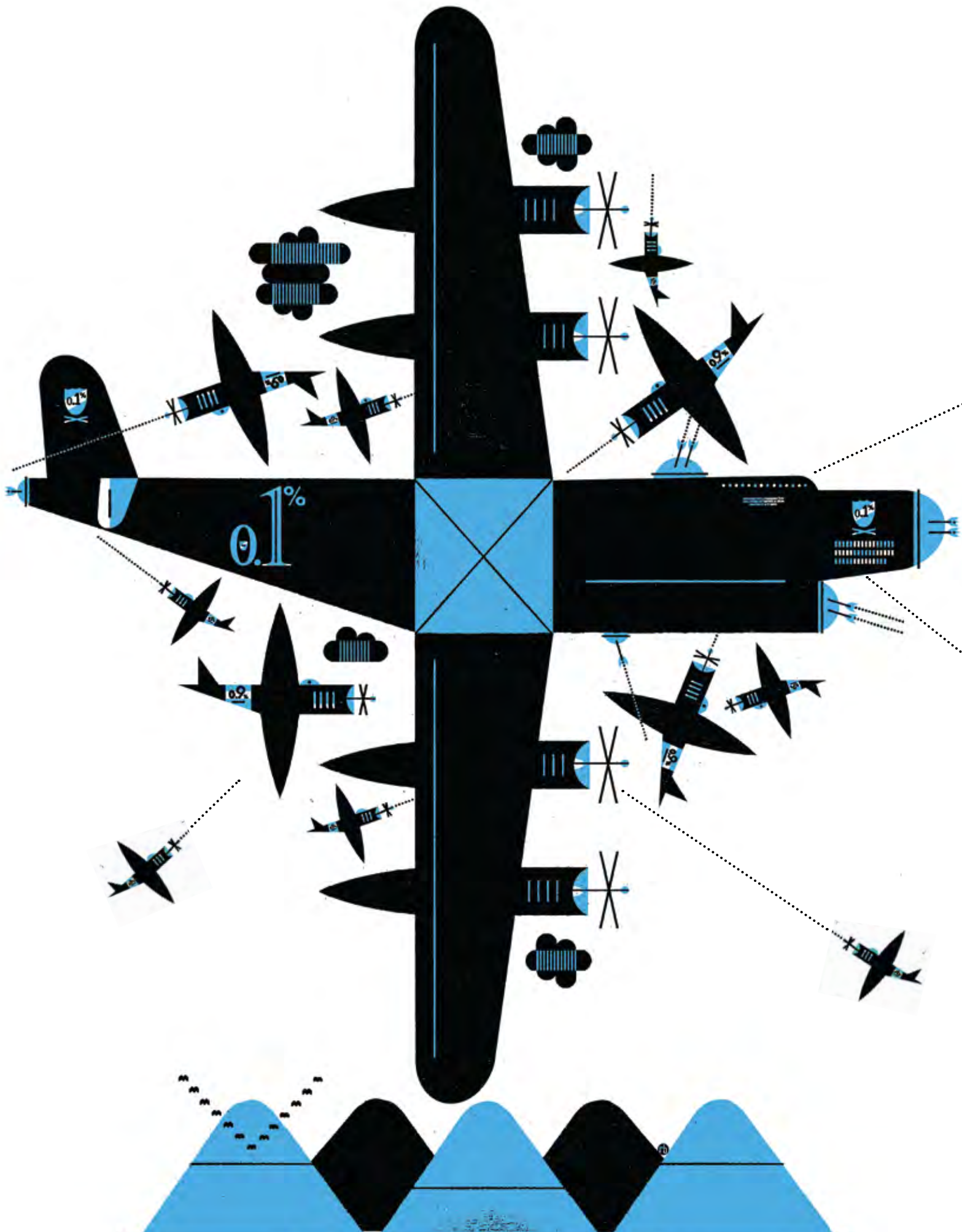
Rachman's formulation sounds flip, but it isn't. Obviously, some of those cables and action reports embarrassed the U.S. government or did damage to its coveted "sources and methods" of information collection and diplomacy. But when Secretary of State Hillary Rodham Clinton ripped the leak of the diplomatic cables as "an attack on the international community," she gave hyperbole a bad name. Secretary Clinton's claim that the confidential conversations

between governments of the sort that WikiLeaks exposed "safeguard global security and advance economic prosperity" reads like a hack passage out of a civics textbook. The reason governments, totalitarian and democratic, labor to keep their diplomatic works—trivial and important—wrapped in secrecy has less to do with ensuring world peace and prosperity than with avoiding scrutiny by their citizens. If international diplomacy can be redefined as politics by other means, what governments most object to is not the leak of cables but a full public discussion of what governments do in private in the public's name.

Setting aside for a moment Assange's bad manners, his megalomania, and his supreme skills as a bridge-burner, we are in his debt for reigniting debate over the prosecution of the wars in Iraq and Afghanistan. Better than any leaker—or broker of leaks—before him, Assange figured out a new mechanism for the many to monitor the powerful few.

"The dominant message conveyed by WikiLeaks was, 'You cannot keep your secrets from us,'" says Aftergood. "But the gathering official response is, 'Oh, yes we can.'" Aftergood is right. The careers of leakers are traditionally short-lived. Even if they aren't caught and prosecuted, the Ellsbergs and Mannings who leak get evicted from the secrets trove. The dependency of the press and other institutions, including governments, on leakers is well documented. Journalists, of course, need leaks to perform their watchdog function. But governments depend on them, too, to check and balance the bureaucracy that has grown unaccountable.

What WikiLeaks demonstrated in its 16th minute of fame is the extreme dependency of leakers on strong institutions. It may be too late to rescue WikiLeaks by sending Assange to the Emily Post Institute for remedial studies in good manners. But his example stands for any news organization or pirate outfit bold enough to follow his lead. ☺



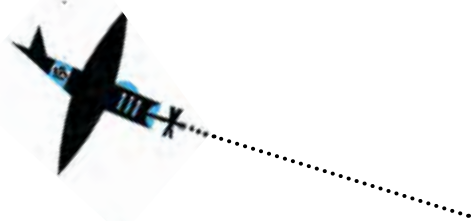
Class

THE ONE PERCENT WAR

A conflict is brewing between the ultra-wealthy and the merely rich

◀ ILLUSTRATION BY RAYMOND BIESINGER

by **Chrystia Freeland**



WHEN ANDERS ASLUND, a Swedish economist who has studied and advised most of the leaders in the former Soviet Union, visited Kiev in late 2004, at the height of the Orange Revolution, he returned to his office in Washington, DC, with a surprising observation. Most reports depicted the Orange Revolutionaries, with their determined, sub-zero encampment of the capital city's central square, either as western Ukrainians rebelling against the government's pro-Russian stance, or as idealistic students who were unwilling to stomach political repression. Both characterizations were true, but Aslund saw a third dynamic at play. The Orange Revolution, he told me, was the rebellion of the millionaires against the billionaires. Ukraine's crony capitalism worked extremely well for the small, well-connected group of oligarchs at the very top, but it was stifling the emerging business class. This ambitious haute bourgeoisie was finally fed up and it was fighting for more equitable rules of the game.

A version of that battle of the millionaires versus the billionaires has been playing out around the world over the past twelve months. It was a decisive factor in the Tahrir Square uprising, whose most visible organizer was Wael Ghonim, a Google executive based in Dubai with an MBA degree; the protests also quickly won the support of the country's well-heeled military elite. The same class struggle was on display in India, where veteran social activist Anna Hazare's anti-corruption hunger strike was hailed as the political awakening of the prospering Indian urban middle class. And it could be seen last month in Moscow, where the unexpected revolt against Vladimir Putin's "party of crooks and thieves" was catalyzed by a blogging lawyer and drew fur-clad professionals into the streets—it is being called the "Mink Revolution." In the United States, Occupy Wall Street has drawn the political battle lines somewhat differently—between the 99 percent and the one percent. But when you drill down into the data, you can see another, even steeper division inside the one percent itself. The ultra-rich of the 0.1 percent have pulled far ahead of the merely rich who make up the other 0.9 percent at the tip of the income pyramid. The divide is cultural and it is economic—and if it becomes political it could transform the national debate.

The wider public discussion about income inequality hasn't much touched on the divisions

WITHIN THE ONE PERCENT, THE AWARENESS OF THE DIFFERENT TIERS OF WEALTH IS AS KEEN AS AN INDIAN MATCH-MAKER'S SENSITIVITY TO THE FINER DIVISIONS OF CASTE.

within the one percent. That is partly because it can be a little stomach-churning to consider the gradations of wealth at the very top at a time when unemployment is close to nine percent and middle-class families are being hammered. Nor is this queasiness about studying what's happening on Olympus confined to liberal do-gooders. Branko Milanovic, a World Bank economist who is one of the leading students of global income distribution, writes in his latest book, *The Haves and the Have-Nots*, that it is far easier to secure funding for research about poverty than about income inequality. The reason for that is "rather simple even if often wisely ignored," Milanovic says. "Inequality studies are not particularly appreciated by the rich." Indeed, Milanovic says he was "once told by the head of a prestigious think tank in Washington, DC, that the institution's board was very unlikely to fund any work that had income or wealth inequality in its title. Yes, they would finance anything to do with poverty alleviation, but inequality was an altogether different matter. Why? Because 'my' concern with the poverty of some people actually projects me in a very nice, warm glow: I am ready to use my money to help them... But inequality is different. Every mention of it raises in fact the issue of the appropriateness or legitimacy of my income."

Within the one percent, awareness of the different tiers of wealth is as keen as an Indian match-maker's sensitivity to the finer divisions of caste. And thanks to the wire-tapping authority of the Manhattan federal prosecutor, the hoi polloi were recently able to eavesdrop on one conversation within the one percent that revealed some of these internal distinctions. The dialogue was between Raj Rajaratnam, the hedge fund investor convicted of insider trading last summer, and Anil Kumar, who was at the time a partner at McKinsey, the management consultant. The two were discussing their mutual friend, Rajat Gupta, the former managing director of McKinsey. At the time of the conversation—August 2008—Gupta was considering a move from the blue-chip board of Goldman Sachs to serve as an advisor to KKR, the legendary private equity group. "I think he wants to be in that circle," Mr. Rajaratnam says to Mr. Kumar. "That's a billionaire circle, right? Goldman is like the hundreds of millions circle, right?"

Holly Peterson, the daughter of private equity billionaire Pete Peterson—and herself a rather sly and eloquent chronicler of the one percent in her essays and fiction—tells a similar story of the tension at the very top. "I think people making five million dollars to ten million dollars definitely don't think they are making enough money," she told me. "Wouldn't it be nice to fly private? There are so many things you can aspire to, even making five million dollars a year. For the lower rung of this crowd, these people

set up lives for themselves they can't afford. They are broke and maxed out on their credit cards in December, just like middle class couples living on one hundred thousand dollars. I don't think they feel that rich. They are trying to play with the high rollers, and there are things they can't do, and they feel deprived, which is completely sick and absurd, but that's the truth of the matter."

Although the insecurities and petty jealousies of the rich are revealing, the best way to understand what's happening at the top of the income distribution is simply to look at the numbers. Brian Bell and John van Reenan, two economists at the Centre for Economic Performance at the London School of Economics, have done a careful study of Britain's super-rich. Peering inside the top one percent, they found a distribution almost as skewed as that within the economy as a whole—the top two percent of the one percent captured 11 percent of the wage share of this top slice overall in 1998 and thirteen percent in 2008. Among financiers, who are disproportionately represented within the British and American one percent, the tilt towards the very top is even more pronounced.

Jeffrey Winters, an American political scientist, has devised another way to appreciate the difference between the merely rich and the super-rich. His "Material Power Index" (MPI) measures the income of the top 10 percent of Americans as a multiple of the average income of the bottom ninety percent. The index shows that, like a mountain whose slopes become steeper as you ascend to the peak, income polarization in America gets sharper the richer you are: the top 10 percent have a MPI of four (meaning their average income is four times that of the bottom 90 percent), the top one percent have an MPI of 15. But when you get to the top 0.1 percent, the MPI jumps to 124. That is the line, in Winters' view, which separates the affluent from the plutocrats. "There were about 150,000 Americans whose average annual incomes were \$4 million and above in 2007," Winters writes of the 0.1 percent. "This is the threshold at which oligarchs dominate the landscape."

Winters has more bad news for the merely rich. In a study of US tax policy over the past century he concludes that the ultra-wealthy have outfoxed their less affluent neighbors in the top percentile. When a federal income tax was first levied in the United States in 1913 it was targeted solely above Winters' oligarch threshold, at the 0.1 percent. Over the next hundred years that burden has shifted down the income ladder. Within the one percent, the richer you are, the lower your effective tax rate: in 2009, the top one percent paid more than 23 percent of their income in tax; the top 0.1 percent paid about 21 percent; and the top 400 taxpayers paid less than 17 percent.

THE SPLIT BETWEEN PRO-BUSINESS AMERICANS AND THE 0.1 PERCENT IS POTENTIALLY MUCH MORE IMPORTANT THAN THE ANTI-ESTABLISHMENT IDEALISM OF OCCUPY WALL STREET.

The gap between the one percent and the 0.1 percent could have serious political consequences. Even in the United States, there are just 412 billionaires, and 134,888 taxpayers fall in the 0.1 percent. The one percent is bigger, containing 749,375 taxpayers. With an annual income of \$486,395, the one percent is also not that far away from the 7.5 million taxpayers who occupy the wider 10 percent and earn an average \$128,560. These people at the bottom of the top income distribution are financially essential to the country and politically vital to those at the very top. If the super-elite loses their loyalty, it could become very isolated indeed.

Historically in America the merely rich have strongly identified with the very rich. The strivers at the bottom of the one percent were just one big idea or one big job away from the summit. But there are a few indications that the sub-millionaires are beginning to suspect that the billionaires are getting an unfair deal. One sign is how "crony capitalism" has become the battle cry not only of Occupy Wall Street, but also of Tea Party darling Sarah Palin and conservative intellectual Paul Ryan. This emerging split between pro-business, pro-money Americans and the 0.1 percent is potentially much more important than the patchouli-scented, anti-establishment idealism of Occupy Wall Street. We always knew the left was suspicious of high finance. What is surprising is that Wall Street's yeomen have become suspicious of their bosses.

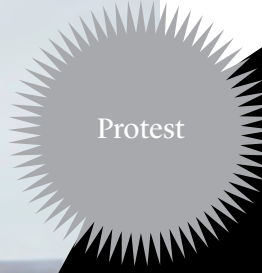
Here's how Joshua Brown, a self-described New York-based investment advisor to high net worth individuals, charitable foundations, and retirement plans responded to complaints by a number of Wall Street chiefs that they were being unjustly vilified. Brown's tirade, which he posted on his blog, *The Reformed Broker*, quickly went viral: "Not only do we not 'hate the rich' as you and other em-bubbled plutocrats have postulated, in point of fact, we love them," Brown wrote. "We love the success stories in our midst and it is a distinctly American trait to believe that we can all follow in the footsteps of the elite, even though so few of us ever actually do. So, no, we don't hate the rich. What we hate are the predators. America hates unjustified privilege, it hates an unfair playing field and crony capitalism without the threat of bankruptcy, it hates privatized gains and socialized losses, it hates rule changes that benefit the few at the expense of the many and it hates people who have been bailed out and don't display even the slightest bit of remorse or humbleness in the presence of so much suffering in the aftermath."

In a populist age, the super-elite can survive if every millionaire is convinced he has a billionaire's baton in his knapsack. If that conviction breaks down, the battle of the millionaires versus the billionaires could move west. ☺

by Nick Carey

PHOTOGRAPH BY REUTERS/JOSHUA LOTT

→ **Signs Matter** Tea Party protesters in Flagstaff, Arizona, demonstrate against President Obama, Congress, and the corruption of Washington politics.



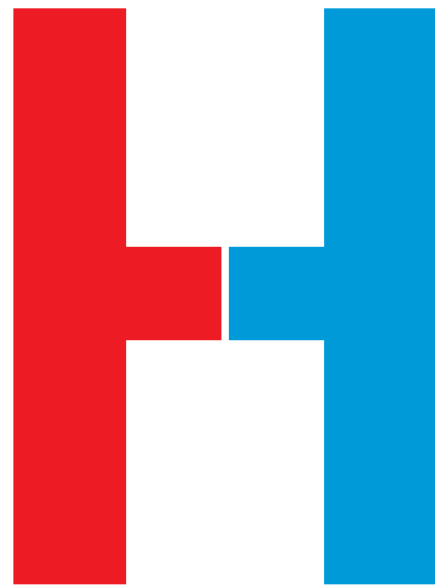
RETURN

of the

A

ACTIVIST

A new generation of protesters struggles to avoid the fate of its elders



undreds of miles and a vast

ideological divide separate Cecily Friday from Tim Dake. But what they share is a passionate dislike and distrust of the American political elite. I caught up with Friday on a bitterly cold, rainy October night in Nashville. That same night state troopers had arrested twenty-nine members of Occupy Nashville for violating a new curfew designed to end the occupation of Legislative Plaza. They were there, the occupiers said, to protest income inequality, bank bailouts, and corporate involvement in American politics. "I have been waiting and waiting for years for people to come out onto the streets," said Friday, a former left-wing blogger, now a stay-at-home mom who has become a spokeswoman for the local Occupy movement. Slender, brown-haired, and efficient, Friday did not waste many words—she was needed elsewhere. "Now we're doing something and we're not going to stop."

When I asked why protestors felt compelled to occupy this public space instead of relying on civil society and nongovernmental organizations to make their case, Friday paused to warm her bright red fingers on a polystyrene cup of hot liquid that looked, but didn't taste, like coffee. "They have been around for a while, but apparently they haven't done enough," she said matter-of-factly. "Otherwise we wouldn't be here."

Two weeks later and some 500 miles north of Nashville in the Milwaukee suburb of Franklin, Tim Dake and Larry Gamble of the Wisconsin Grandsons of Liberty described a visit from a national conservative nonprofit group seeking to open an office in the state. Dake, an engineer, said the preliminary \$7.5 million budget proposed by the nonprofit, which he declined to name, included a six-figure salary for the state director, plus \$3.5 million for a new building. "I looked at that budget and I thought about how much havoc I could wreak with that money," he said, slapping his forehead as he spoke. "A lot of groups go to Washington with good ideas, but over time it all becomes about raising money from donors," said Gamble, a former Air Force colonel. "After a while all they're doing is feeding the beast and trying to justify their budgets."



AMERICA'S LEFT-WING Occupy movement and right-wing Tea Party are just two examples of the world's new wave of activists, a diverse and dispersed collection of movements that also includes Spain's Indignados (the "Indignant") and the rebellious youth of the Arab Spring. What these disparate groups have in common is a desire to challenge a system that favors a wealthy and powerful elite, often at their expense, whether that takes the form of opposing bailouts for the banking giants or attempting to take down longtime despots like Libya's Muammar Gaddafi. Many in this new wave of activists feel left behind by globalization. Coming of age in the Great Recession era of rising inequality and high unemployment, they seem determined to remain outside the system—or in the case of the Tea Party activists, to take over the system but remain as unpaid outsiders. Many look upon mainstream NGOs as part of the establishment and therefore part of the problem. They have a point. Over the past few decades, NGOs founded by the activists of decades past have become increasingly domesticated. The chief executives of these highly respectable groups receive invitations to attend the World Economic Forum's annual meeting in Davos alongside the world's powerful and wealthy elite, and the hefty salaries of some top nonprofit executives put them in the top 1 percent of American earners targeted by the Occupy movement.

But can this new generation of activists avoid the lure of institutionalization that has apparently befallen the large mainstream NGOs? And will these new activists have any staying power? Some academics like Larry Jacobs, a politics professor at the University



→ Add It Up Tea Party protesters in Florida (top right) and Iowa (bottom right); Occupy Berlin protesters in front of the Reichstag.



A LOT OF GROUPS GO TO WASHINGTON WITH GOOD IDEAS, BUT OVER TIME IT ALL BECOMES ABOUT RAISING MONEY.

of Minnesota, see the Occupiers and others like them eventually succumbing to the enticements of professional activism. "A small number of people will see a career opportunity, the rest will fade back into the scenery," he told me. "To sustain something like this you need money and organization."

But Mark Thoma, an economist at the University of Oregon, says this is just the beginning. The middle class in the developed world and the young everywhere have borne the brunt of the global slowdown, he argued, and will suffer more from high long-term unemployment. "What we're seeing now may just be the first wave of protests," Thoma said. "The middle class has aspirations and taught their children that if they studied for a degree they would get a job. Suddenly that's not happening and we're seeing anger and protests as a result. I don't know if this first wave

PHOTOGRAPHS: (CLOCKWISE FROM TOP RIGHT) REUTERS/JOE SKIPPER; JIM YOUNG; PAMEL KOPCZYNSKI

is the big one yet, but if the system doesn't provide good jobs for the middle class, there will be others."



OVER THE past decade or so there have been protests and demonstrations against globalization and the institutions that represent it, though nothing on the scale seen since 2009. Thomas Ratliff, an assistant professor of sociology at Tennessee Tech University, has been studying protest movements going back to the 1970s. He argues that the world has been in a "new cycle of mobilization" since the "Battle of Seattle" in 1999, when anti-globalization protesters clashed with police outside a World Trade Organization meeting. Subsequently, thousands of protesters made the trip to Prague in September 2000 for the annual meeting of the International Monetary Fund and the World Bank. These included a cheerful bunch of Italian anarchists who donned homemade body armor (consisting of foam pads, varied sports helmets, and trash-can lids as shields) and battled riot police on the city's Nusselsky Bridge, taking turns sitting in the warm autumnal sun with their eyes streaming when the tear gas became too much. But this remained a largely fringe movement.

The United States saw protests against the Iraq War in 2003 and immigration reform demonstrations in more than 100 cities in 2006, but these soon petered out. By contrast, the protests since 2009 have been more frequent, in more places, and attended by growing numbers of people. In 2010, students in the United Kingdom took to the streets to protest against rising university fees;



→ **Take Back the Streets**
After being evicted from their encampment in lower Manhattan, Occupy Wall Street protesters must find their way through an uncertain political landscape.

they were followed in May by the predominantly young Indignados of Spain. Along with the Arab Spring, these vigorous protests have served as the inspiration for the Occupy movement. “The issues raised by these movements are not new issues,” Ratliff said. “But they do involve people who are new to protesting.”

Fifty-six-year-old Dorsey Malina is just such a newcomer. She was laid off two years ago from her job as a counselor at an alcohol and drug abuse center. I met her in late October in the crowd at Occupy Nashville. “This movement is full of people like me who feel like they have a boot across their necks,” she said. “Many of

feared militia, and indeed all the protesters were arrested. “We just wanted the things a normal country should have,” he told me when I visited Misrata in July. This wave of new activists also includes Julianne Thompson, a mother of two and a co-organizer of the Atlanta Tea Party. “For years conservatives in America were disappointed by the leaders we elected because they did not fix everything we wanted them to,” she said. “But then we realized we had to look no further than ourselves if we wanted to fix it.”

ON NOVEMBER 8, 2011, in a special ballot, voters in Ohio heavily rejected a bill passed by the state’s Republican-controlled legislature to limit collective bargaining by public sector unions. In the same special ballot, Ohio residents backed the Healthcare Freedom Amendment, a challenge to President Barack Obama’s signature healthcare reform law. Backed by Tea Party activists who went door-to-door statewide, the amendment is intended to be part of the case against “Obamacare” that the U.S. Supreme Court will hear in 2012. On the same day, FreedomWorks, a conservative nonprofit that has frequently associated itself with the Tea Party movement, touted its role in the campaign for the amendment, which included producing more than 18,000 yard signs and 145,000 door hangers.

Yet Chris Littleton of the Ohio Liberty Council was dismissive of the nonprofit’s role. “FreedomWorks needs to show its donors that it’s doing something substantive when it’s not really doing anything at all,” said Littleton, whose background is in healthcare management. “It’s nice of them to help, but if real people are not out there doing it, it’s not going to happen. FreedomWorks does

OVER THE PAST FEW DECADES, NGOS FOUNDED BY THE ACTIVISTS OF YEARS PAST HAVE BECOME INCREASINGLY DOMESTICATED.

just enough for recognition, but not enough to make a difference.” Grassroots Tea Party activists often criticize FreedomWorks and its chairman, Dick Arme, a former Republican Majority Leader in the U.S. House of Representatives who makes a combined annual salary of \$500,000 from both FreedomWorks Inc. and FreedomWorks Foundation Inc. But this is nothing compared to the criticism reserved for the Republican Party’s old guard establishment. Although the Tea Party is occasionally portrayed as an adjunct of the Republican Party, almost all of the activists in this middle-class grassroots movement are unpaid and they often pick fights with the establishment. Tea Party groups in Georgia, for example, are also working with the liberal group Common Cause on ethics reform. “Our ethics reform proposal has not been well received in the state legislature,” said Debbie Dooley, co-organizer of the Atlanta Tea Party. “But politicians on both sides need to understand we are here to clean house.”



UNLIKE THE Tea Party, the Occupy movement has only been around since September, and it is still working out what to do after being ejected from the public spaces that it occupied early on. Beyond a dislike of corporate bailouts and a sense that a moneyed elite dominates American politics, the Tea Party and the Occupy movement are poles apart politically. So far Occupy Wall Street has resisted the urge to become involved in the political process. “It is hard to say where the Occupy movement will go from here,” said Robert Liebman, an associate sociology professor at Portland State University. “But even if they fade away their contribution to history thus far is they have changed the political debate in America from being about deficit reduction to being about income inequality and jobs.”



MANY OF today’s large mainstream NGOs started out as scrappy, confrontational groups of activists. Greenpeace, to take just one example, rose out of antinuclear protests in 1971. Today the group maintains offices in 40 countries. “If you look at any protest movement in the last 50 years, they have started off as challengers,” said Brayden King, an assistant professor of management and organizations at Northwestern University’s Kellogg School of Management. “But with success they have all become more institutionalized,” he added. “Now they are no longer really a movement anymore, but professional advocacy groups.”

That institutionalization entails compromise and inevitably requires professional staff, many of whom come from the private sector. King says that students in his MBA classes often say their

goal is to make a lot of money and then pursue their passion by working for an NGO. “While that is great and noble, they don’t have the same background in activism and have little in common with the activists they end up working with,” King said. A perfect illustration of his point can be seen at Davos, where leading executives of mainstream NGOs have become fixtures. Last year, for instance, executives from Mercy Corps, Greenpeace, and World Vision International—a Christian humanitarian organization—were all in attendance.

And like their Ivy League classmates who entered the financial sector, such well-meaning executives pull down excellent salaries. According to tax filings, Mercy Corps CEO Neal Keny-Guyer received \$303,419 in compensation in 2010. Richard Stearns, president of World Vision International, received \$439,155. The most recent data available from the Internal Revenue Service show that the top 1 percent of U.S. taxpayers earned a minimum of \$343,927. Data provided by Guidestar, which collects information on nonprofit organizations, shows that the median compensation for the CEO or executive director of nonprofits—which includes museums, some universities, and hospitals—with budgets of more than \$50 million rose 60 percent to \$422,000 between 2000 and 2009.



ARE THESE new movements destined to go the same way as the activists of yesteryear? Some argue that it’s inevitable, especially for Tea Party members, many of whom have worked hard to take over the Republican Party from the ground up. In many cases that means learning how to raise money for campaigns. “The system is rigged and unless you learn the rules and how to get around them, you’re never going to win the game,” said Dawn Wildman, president of the SoCal Tax Revolt Coalition in San Diego. “We are learning how to play the game.”

But whether or not groups like Occupy, the Tea Party, or the Indignados falter or become indistinguishable from the establishment may be irrelevant; the underlying problems these groups are targeting will persist and are expected to fuel further activism. In Spain, for instance, unemployment among those age 25 and under stands at more than 45 percent. In America, the rates for those age 16 to 19 and 20 to 24 were 23.7 percent and 14.2 percent respectively. Robert Liebman warns that what we have seen so far is “just the beginning” and that it would be unwise of the elite who turn up at Davos—which he described as an “old people’s club”—to ignore the developed world’s disenfranchised youth. “There is no certainty as to whether the democratic institutions of the past few decades are going to hold,” Liebman said. “This is potentially a very dangerous time.”

WHAT THE PROTEST GROUPS HAVE IN COMMON IS A DESIRE TO CHALLENGE A SYSTEM THAT FAVORS A WEALTHY AND POWERFUL ELITE.

us are working people who have done all the right things but are still stuck.” The same might be said of Jamal Sibai, age 25, an art student who was among the 75 attendees at the first protest for greater freedoms in the Libyan city of Misrata on February 17. Sibai had come despite the risk of arrest by the Gaddafi regime’s

PHOTOGRAPH: REUTERS/JIM SEGAR

DAVOS

— by the —

NUMB3RS

Reported attacks on the WEF since 1971:

1

Number of **GLOBAL ECONOMIC RECESSIONS** since the World Economic Forum was first held at Davos:

4

RECESSIONS IN THE UNITED STATES in the last forty years

6

Revenue of the World Economic Forum in 2010-2011:

\$157 MILLION

Expenses that year:

\$156 MILLION

THAT'S 0.3% OF WARREN BUFFETT'S NET WORTH



Year in which the Swiss defense minister was given permission to shoot down unauthorized aircraft flying over Davos:

2003

Number of references to Davos in U.S. diplomatic cables published by WIKILEAKS:

571



Minutes, during the 2005 WEF, in which

SHARON STONE

raised \$1 MILLION to help prevent malaria:

5



Number of **igloos** the Socialist Youth Group of Switzerland plans to build in Davos this year:

15



Year in which Thomas Mann described Davos's "**DELUXE TUBERCULOSIS SANATORIUMS**" in *The Magic Mountain*:

1924

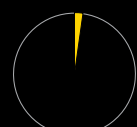
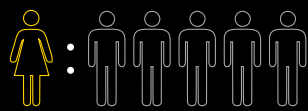
866

Average number of Swiss troops deployed each day in 2010.

4,712

Troops deployed during the World Economic Forum

Minimum ratio of **WOMEN** to **MEN** prescribed by the WEF for Strategic Partner attendees: **1:5**



Percentage of Fortune 500 CEOs who are **WOMEN**: **2.4**

Cost, in Swiss Francs, of an annual pass to the **EAU-LÀ-LÀ DAVOS WELLNESS AND PLEASURE POOL CENTRE**: **750**

Year-round population of Davos

11,254

Minimum cost of one **NON-VIP INVITATION** to the World Economic Forum:

\$71,000

Cost of one ticket at the "**INDUSTRY ASSOCIATE**" level of membership, which guarantees access to private sessions:

\$156,000

\$15,973

Estimated cost of the **WINE SERVED** at one World Economic Forum party in 2011.

750

The number of people employed full-time by the WEF.

WATER CANNONS loaned by Germany in 2003 to use on protesters:



"Strategic Partners," such as **GOLDMAN SACHS** and **BANK OF AMERICA**, pay

\$527,000

— PLUS —

\$19,000

per invitation (up to a maximum of 5)

People who showed up at last year's **ANTI-HEGEMONIC WORLD SOCIAL FORUM IN DAKAR**, where all badges were created equal:

70,000

GLOBAL PUBLIC DEBT in 2000: **\$18 TRILLION**

The **PROJECTED FIGURE** for 2012: **\$47 TRILLION**

JAMES QUIGLEY, CEO of Deloitte, claims the WEF saves him **50 DAYS** of travel time each year.

2,488

"white badge" holders, who receive full access to conferences and parties, attended the WEF in 2011.

G-ZERO: What the economist Nouriel Roubini, a.k.a. Dr. Doom, dubbed the G-20 at Davos last year.

Year in which Giulio Tremonti, Italy's Finance Minister, yelled at Roubini to "**GO BACK TO TURKEY**" following his dire economic predictions:

2006

Years after **SAIF AL ISLAM GADDAFI** was named a WEF Global Young Leader that he was suspended: **6**

69 **BILLIONAIRES** were among them, or **5.7 PERCENT** of the world's billionaire population.

It costs \$689 to take a **LIMOUSINE** from Zurich to Davos.

Price of a return trip by **HELICOPTER**: **\$9,000**

Minimum number of onetime Davos attendees who have served time in **PRISON**: **3**

THE DEVIL IN THE CDS

by FELIX SALMON



• **THE WORLD** of international finance is largely incomprehensible, even to its practitioners. Consequently, a whole industry, of which I am personally part, has sprung up to “explain finance” to the public. This makes the public think that understanding finance is something that is possible.

On top of that, finance is particularly susceptible to the kind of hubris that one finds in people who think that if they’ve made millions of dollars, they must be the “smart money,” with an edge not only over the public but even over their fellow bankers and financiers. That, in turn, sets up some very easy morality plays. When the inevitable nemesis arrives, the weaknesses of the erstwhile Masters of the Universe are exposed for all to see, and those of us whose job it is to Explain Finance take every opportunity to spell out exactly what these prideful men got wrong. They weren’t smart, they were stupid!

If very intelligent, successful, and aggressive men like Robert Rubin, John Thain, or Jon Corzine could be so stupid, then, realistically speaking, everybody was stupid. And if everybody was stupid, then, in reality, nobody was quite as stupid as we now think they were.

IN THE immediate aftermath of the financial crisis, a lot of books came out pointing

fingers and assigning blame. We wanted to know why the crisis happened, how it happened, and whose fault it was. Inevitably, these books took on a political tinge—none more so than the final report of the Financial Crisis Inquiry Commission, which was disowned by all the Republicans on the commission for reasons that were intellectually dishonest but politically expedient. As the FCIC concluded, the crisis was avoidable. But the problem with assigning blame is that everybody tends to exonerate themselves and their friends: it’s much easier to just blame others. As a result, no one ever learns any lessons. What we really need, in the wake of the Great Recession, is less finger-pointing and more insight. Happily, there is a surplus of insight in two recent books on subjects that have left the smartest people in the room looking dumb.

NICHOLAS DUNBAR, author of *The Devil’s Derivatives*, is that rarest of animals: a genu-

ine expert on the structured products at the heart of the crisis who is not afraid to tell the truth about just how harmful they were. Dunbar has spent his career in the structured-finance trade journals, which sets him apart from all the authors who had to try to work out what on earth was going on only after the world started falling apart. More importantly, Dunbar was one of the best-sourced journalists in the field long before the financial crisis hit.

Street banks. But getting people to talk to you honestly after the world has blown up is pretty much impossible. To know what people were thinking in the years when the sector was booming, when the seeds of disaster were being planted, you needed to be talking to them at the time. And that’s exactly what Dunbar was doing.

Dunbar’s also special in that he wasn’t just talking to the senior Wall Street executives who tend to get wheeled out in front of the press on a regular basis. That’s lucky, because those executives, as we now know, didn’t really have a clue about what was going on. Instead, Dunbar was talking to mid-level traders and brokers and investors and regulators—the full apparatus of market participants who collectively managed to get everything so spectacularly wrong.

Dunbar’s great at taking the long view of things, and you won’t find a better explanation, anywhere, of why banks shouldn’t mark their assets to market. This isn’t an

WE WANTED TO KNOW WHY THE CRISIS HAPPENED, HOW IT HAPPENED, AND WHOSE FAULT IT WAS.

easy book to read, but it’s a necessary book to read, because it reveals the deep structure of the crisis as no one else has managed to do, using real-world examples to explain, for instance, how ultra-safe credit ratings and massive yet unpredictable market volatility were two sides of the same coin. And if you want to understand credit default swaps (CDS), this is the first and last book you should read. Dunbar explains with ease how the CDS became the perfect instrument for banks looking to engage in regulatory arbitrage: they es-

Felix Salmon is the Reuters finance blogger.

entially allowed banks to turn credit risk, which required lots of capital, into counterparty risk, which didn’t.

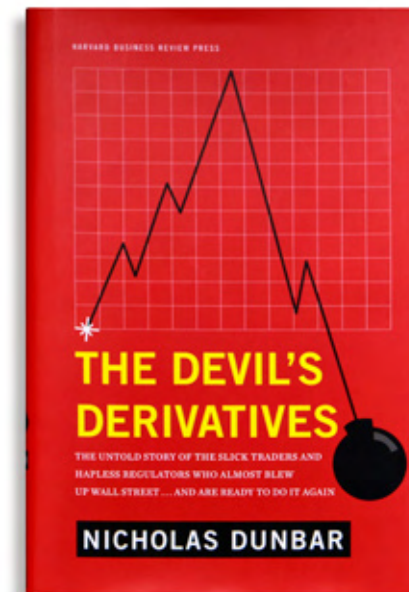
DUNBAR PROVIDES old-fashioned shoe-leather reporting here, too, especially in the portions covering the New York Fed and the way it treated banks like Citigroup (regulated with a feather touch) and Goldman Sachs (which officials insisted should get back one hundred cents on the dollar in the contracts it took out with AIG). Supine regulation was a huge part of the reason why the crisis was so bad in the United States and much less severe in places like India and Canada. Dunbar names names. And he ends with a perfect epigram, from *The Master and Margarita*, by Mikhail Bulgakov:

“During your act you made bank notes float down from the ceiling... Today, when I came to check the till, there was nothing in it but a lot of strips of paper.”

“Oh dear, dear, dear!” exclaimed the professor. “Don’t tell me people thought those notes were real?”

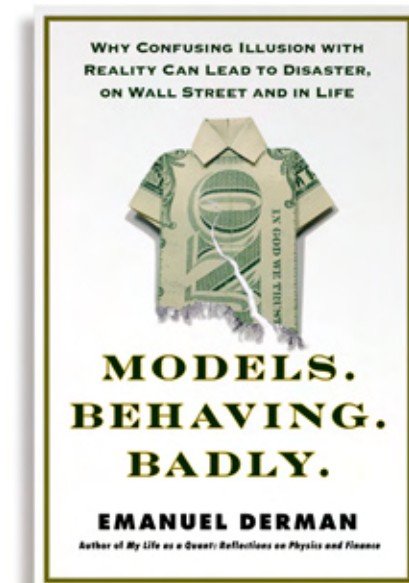
IF DUNBAR’S focus is on highly complex financial inventions, Emanuel Derman’s *Models.Behaving.Badly.* is more concerned with the nature of reality, and how the question of what is real, and what isn’t, relates to the financial crisis. Derman used to be a “quant,” one of the nerdy rocket scientists who built models of how markets work and how they can be arbitrated. Today, however, Derman is more of a philosopher, and though this book was written to explain what went wrong during the financial crisis, it’s actually quite different: a heartfelt philosophical volume about models, their uses, and their misuses.

Derman’s book opens with a memoir of his youth in apartheid South Africa, a touching passage that immediately puts you on notice that you’re not reading a dry tome about mathematics. Apartheid was, of course, a model of the world, and it’s easy to see how Derman ended up with a lifelong mistrust of models after being forced to live with that particular one for so long. The rest of the first section of the book is a fascinating explanation of the many different types of models there are and how they can be used. It is followed



THE DEVIL’S DERIVATIVES:
THE UNTOLD STORY OF THE SLICK TRADERS AND HAPLESS REGULATORS WHO ALMOST BLEW UP WALL STREET... AND ARE READY TO DO IT AGAIN

by **Nicholas Dunbar**
Harvard Business Press



MODELS.BEHAVING.BADLY.
WHY CONFUSING ILLUSION WITH REALITY CAN LEAD TO DISASTER, ON WALL STREET AND IN LIFE

by **Emanuel Derman**
Free Press

by “Models Behaving,” a love letter to physics and physicists. (Like many quants, Derman is a physicist by training—as is Dunbar, curiously enough.) This section shows the awesome power of what can be done with a model when it gets things absolutely right.

By the time we come to the properly financial portion of the book, we’ve learned what models are good for and the ways in which they can fail, and Derman makes it easy to see just how stretched past their breaking point models tend to become when they’re used on Wall Street. There’s no real specificity here: Derman goes into no detail at all about the models that caused the crisis. For that kind of analysis, you’re better off with Dunbar. At times, Derman can be a bit too enamored with the elegance of pure physics, which has a tendency to take anything it can’t calculate with accuracy and simply define it as not-physics, and thus as something fundamentally uninteresting, like chemistry, perhaps, or engineering. But Derman, a quant himself, understands only too well how finance types think, and when he describes the beautiful discoveries of Newton or Maxwell or Feynman, you can begin to see the attraction of the super-precise quantitative mindset that is so very dangerous on Wall Street.

Human complexity is always best approached modestly, without the kind of certainty that is common to financiers and scientists. The lesson of these books is that we got too cocky, too sure of ourselves, and paid a terrible price for doing so. But cockiness, too, is a fundamental human trait, which is why I’m deeply pessimistic that anything will really change in the future. Just as a long history of rogue traders never seems to prevent another one from popping up somewhere, it’s equally certain that our long history of financial crises won’t be slowed down or stopped by the magnitude of the one that began in 2007-8. There will be more such crises, and they will probably be even worse than the one we just lived through. And although they might not be caused by credit default swaps or models designed by physicists, they will certainly be caused by people who are very sure indeed of what they’re doing. 🌟

CONFESSIONS OF A DAVOS SPOUSE

by ANYA SCHIFFRIN



• What is the pre-Davos season like in your household?

Planning for Davos starts quite early in the year. Months before it actually begins there is the inevitable jockeying for spots on desirable panels with important people, a frantic glance every day at the email to see if any interesting dinner invitations have come in, and a hunt for a hotel room in a location not too far from the conference venue. Wives like me don't have to do any work at Davos so I just think about packing. Moisturizer is crucial, since the mountain air is so dry, and I will try to rustle up a couple of respectable outfits that I can wear by day and at the evening dinners as well. Then there is footwear. You can carbon date Davos Wives by their shoes. Newcomers tend to wear attractively dainty heels. Veterans like me have given up. I don sturdy shoes and try not to slip on the ice.

• What are likely to be the main themes at Davos this year?

Davos tends to be more interesting during periods of social upheaval. Confronted with facts that threaten his worldview, Davos Man loses some of his smugness and becomes a bit more confused. Founder Klaus Schwab is always interested in the zeitgeist,

so there will doubtless be many panels about the global protests, the euro crisis, the Arab Spring, and Occupy Wall Street. How Davos Man will respond I don't know. My favorite comment during a panel on global warming a few years ago came from a businessman who reminded his audience that one upside to global warming is the ease of drilling for oil under glaciers. This year there will be more security, plenty of gloomy observations about the state of the world economy, questions about whether China can maintain its expansion, and so on. We'll also see a lot more conservative heads of state at Davos this year, since so few social democratic governments survived the elections and turmoil of 2011.

• How do Davos Wives occupy themselves while Davos Man works?

We go to any panels we can actually get into. Usually that means the ones about art and science, which Davos Man tends to skip. Last year's panel on the pollution of the world's seas was packed with wives. When we can't get into a panel we may repair to a local café for hot chocolate or sign up for the perennial horse-drawn carriage

role as trailing spice. They don't join Davos Wives in their traditional activities. I suspect they are on the ski slopes or watching panels. I hope to meet one this year.

• What do people talk about at the dinner parties?

The men discuss economics and the women discuss how they feel about being Davos Wives. Some swear they won't come back but they usually do. We trade stories of snubs and panels we couldn't get into. Davos is a competitive place; there is always much comparing of notes so people can learn which events they didn't get invited to. Gossip is a valuable currency—as it is everywhere—so any juicy examples of drunken midnight misdeeds are passed around pretty quickly. A lot of untoward groping goes on after hours and that is discussed quietly rather than openly.

• How's the nightlife?

Davos encourages bad behavior. It comes from the hot-house atmosphere of high-powered egos, the high altitudes combined with too much drink. All sorts of

YOU CAN CARBON DATE DAVOS WIVES BY THEIR SHOES.

ride to a fondue restaurant up in the hills. If all else fails, we can always prowl the halls of the conference center, hoping for a sighting of Bono or Tony Blair.

• Are there any Davos Husbands lurking about?

Every now and then one spots a Davos Husband, gay or straight, but he's a rare species. They are often mistaken for Davos Man and tend to be good sports about their

people who would never stay up late can be found—cocktail in hand—at the Google party, the Time Warner reception, and the gala dinner on Saturday night. It's usually too loud to have a conversation but they try. Last year one businessman held forth about his travails in Russia and kept the crowd entertained with a lengthy description of how he lost his company to

Anya Schiffrin is the author of Bad News: How America's Business Press Missed the Story of the Century. She is married to the economist Joseph Stiglitz.

PORTRAIT ILLUSTRATION: ANDY FRIEDMAN

ILLUSTRATION BY ISTVAN BANYAI



the tax authorities. That passes for a gripping evening at Davos. There are always a lot of men who become “geographically single” when they arrive, and even the

nerdiest expert in anti-malarial bed nets or obscure financial instruments fancies himself a player the moment he steps foot in the Zurich airport. Late at night, these

men can be found eyeing the local talent, and there are rumors of at least one baby being born nine months after a night of passion at Davos. ☺

THE FIGHT OVER RUSSIA'S SOUL

A conversation between Sir Harold Evans and Condoleezza Rice

• **LET'S GO back to that first encounter with Putin in 2001 when President Bush said, "I looked the man in the eye. I was able to get a sense of his soul." What shall we make of Mr. Putin's soul now?**

I don't know what his soul is, but his behavior is appalling. Things were different at the time of Slovenia. It was a different Russia, he was a less confident figure, and frankly they were very helpful to us immediately after 9/11. But this is a regime that has gotten more authoritarian in the last 10 years, that has trampled on independent institutions and freedoms, and I think it's coming back to haunt them.

Historian Niall Ferguson argues that Russia has been horribly and perhaps incurably deformed by 70 years of Communist rule. Twenty years after the end of the Soviet Union, he says it's headed to global irrelevance with a declining population and per capita GDP ten times smaller than the US.

Post-Soviet Russia is a mixed picture. People have more personal freedom than at any other time in their history; prosperity is more widespread than ever. There is a viable middle class, which is one of the explanations for the reaction to Putin's attempt to come back. All that is for the better. But the underlying power structures are not really transformed. It is still an oil and gas economy that does not take advantage of its tremendous human potential. So it is absolutely true that their influence is waning, but I wouldn't say it's irrelevant. It's a permanent member of the Security Council with a veto; it has tens of thousands of nuclear weapons, a large army still, a network of world relationships and important regional influence in Central Asia. It's still a powerful state, but it's no longer one of the two most powerful states.

Is Putin on Mubarak's track? John McCa-



in tweeted, "Vlad, the Arab spring is coming soon to a neighborhood near you."

I hesitate to say that it's an Arab Spring because the regime in Moscow is more resilient, but Putinism won't ever be the same. Now that people are not so fearful, I think it's going to be very difficult for Putin to rule Russia. The Russians are rising up against what, I think from their point of view, was a tremendous affront in the way that he tried to simply trade jobs with Medvedev. It was a terrible miscalculation on his part.

Was Secretary Clinton wise to feed the Kremlin paranoia by criticizing fraud and ballot-rigging?

She was absolutely right to speak up for our values. I've many times criticized them, and they don't like it. I think the anti-western rhetoric is part desperation on Putin's part; but also I do believe that suspicion of the west is deeply ingrained in him.

Do the disturbances make the former parts of the Soviet Union—the Ukraine and Georgia—more vulnerable or less?

Less vulnerable, because the Georgian

war showed that the Russians can't simply behave like the Soviet Union. They're too integrated into the international system to do that. But it wouldn't surprise me if the disturbances in Moscow make them try to be more aggressive against the neighbors. I just don't think they can pull it off.

Are bloggers like Alexei Navalny, who has just been jailed, influential throughout Russia? Is it really a Moscow/Petersburg thing?

Oh, I don't think it's just Moscow and Petersburg. There was a very interesting development, which many people didn't notice: when the Russian Orthodox Church—through its most prominent spokesman, Archpriest Vsevolod Chaplin—said people were clearly upset, and there had to be answers about the election.

It's the first time the Church been so critical. It has tentacles all over Russia and I suspect they're hearing from priests throughout the country that there is considerable unhappiness.

And remember, while the action may be in the cities, poverty in the rural areas is still quite dire. So you have several elements to the revolt, not one. Yes, in the cities demands for civil liberties come from young people who don't have a memory, really, of the repression of communism, and therefore are not fearful. But it's not clear to me that liberal forces would be popular in the rural areas. We have to be a little careful not to assume that this revolution is all a liberal revolution. In fact, the discontent in the rural areas could take the form of more support for Mother Russia nationalism—and remember the Communist party still has significant support there and could gain from a kind of anti-Putin revolt. 🌐

Evans's full interview with Secretary Rice is at Reuters.com/Condoleezza.

PHOTOGRAPH: REUTERS/JASON REED

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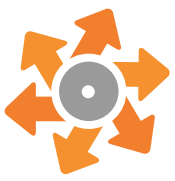
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