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Inside a U.S. Embassy

DIPLOMACY AT WORK

Shawn Dorman, EDITOR

AMERICAN FOREIGN SERVICE ASSOCIATION

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Cover illustration by Jeff Lau

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President's Views

Essential Ingredients for a Professional Career Foreign Service

By Susan R. Johnson

My November 2010 column centered on the question of professional ethics and codes of conduct for diplomats. In it, I suggested that it was past time for diplomacy and development professionals to do what other professions, including the military, have already done: namely, to develop standards of professional conduct and codes of conduct specific to our profession and organizational culture.

Last month's column touched on the strong esprit de corps that characterizes the Marine Corps and contributes to its ability to "bat well above its weight" in terms of a significant voice in national security affairs. I suggested there might be lessons there for our diplomatic and development services.

It seems clear that codes of professional conduct and esprit de corps are related issues, in that they are both essential ingredients for the promotion of professionalism in public service, in general, and diplomatic service, in particular. There seems to be growing awareness that ethics is not as well understood as many assume, and that it is therefore incumbent on professions and organizations to make clear how the ethical practitioner is expected to act.

While exploring this issue for my initial column on the subject, I cited a 1958 congressional resolution outlining a "Code of Ethics for U.S. Government Service" and summarized its main points. Recently, I came across the United Kingdom Civil Service Code, last updated in 2006.

The points in the 1958 document are succinctly articulated in the U.K. code. They define the four core values of the Civil Service as integrity (putting the obligations of public service above personal interests), honesty (being truthful and open), objectivity (basing your advice and decisions on rigorous analysis of the evidence) and impartiality (acting solely according to the merits of the case and serving equally well governments of different political persuasions). The U.K. code explains clearly how these four core values are to guide the conduct of British civil servants, specifying in plain English how they must and must not behave, with relevant examples.

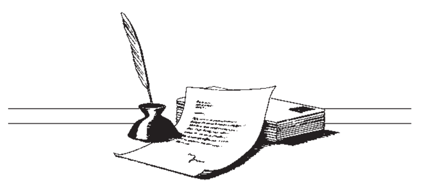
The question is whether the U.S. Foreign Service can apply these values to formulate clear "do's and don'ts" for professional diplomats and development experts, or whether we need different or more elaborate criteria. Our foreign affairs agencies seem to have notional values that we espouse from time to time, but these have not been set down in specific codes of ethical and professional conduct.

Ethics is more than simple compliance with rules. Taken seriously, it engenders values-based thought and behavior, as the Institute for Global Ethics explains in its promotional and training materials. First and foremost, a code of professional ethics defines the behavior expected of each person working in that profession. It guides individuals in doing their jobs, protects them from undue outside pressure, helps explain the function of the work, enables the employee to interact with others, establishes the expectations for members of the career, and enhances the professionalism of the institution.

With this in mind, corporations, federal, state and local governments, the military, professional associations and nonprofits, both here and abroad, are all developing programs and tools to guide their employees in making values-based choices.

Moreover, global changes are bringing new ethical issues into play, affecting diplomacy and development like all other professions. Today, numerous professional organizations offer advisory services to address ethical questions and expertise on developing effective codes of ethics and training to apply values-based decision-making.

I would like to see AFSA begin a process of developing a code of ethics for the Foreign Service, taking advantage of such outside expertise. Please let me know what you think by writing me at Johnson@afsa.org. ■



LETTERS

Final Communications out of the USSR

The December issue of the *Foreign Service Journal* was truly superb. The articles by Ambassador Jack Matlock and former political officer Tom Graham brought back many memories. Of special interest was the July 1990 cable Graham highlighted in his article. While it was just one of thousands of cables sent that year from Moscow, it caught this former Information Resource Management officer's eye.

I remember hearing from across the room: "Tim, come take a look at this one!" It seems the cable (90 Moscow 23603: "Looking into the Abyss: The Possible Collapse of the Soviet Union and What We Should Be Doing About It") was sufficiently sensitive to warrant what was called "double encryption." That message would, indeed, as Ambassador Matlock asserted, prove prophetic the next year.

There is no question that it also testifies powerfully to the divination powers of the Foreign Service. Such cables trigger reflections not only on the substantive intellect and powers of persuasion brought to bear on events by our political, economic and public diplomacy officers but, equally important, the critical support functions provided by the management section — specifically, the outstanding team that I led: the IRM section.

Looking back 20 years, I appreciate just how skillfully Moscow's IRM staff managed critical communications involving cables like 90 Moscow 23603, supported negotiations regarding "Hot-Line" improvements and served as embassy liaison to Soviet Foreign Ministry officials for a fledgling Nuclear Risk Reduction Center initiative.

We helped manage high numbers of official visitors that year, too — the most during the Cold War. Assignments behind the Iron Curtain as an Information Resource Management or Regional Information Management Center officer were always challenging, for our access made us highly prized KGB targets. But they also usually put us on the fast track to promotion and greater responsibility since Moscow was the center of U.S. foreign policy, and communications support was critical.

During the final year of the USSR's existence, IRM had perhaps its finest hour. On the morning of March 28, 1991, a large fire broke out in Embassy Moscow. Curiously, it coincided with several huge rallies by the "Democratic Russia Movement." Once evacuated, most staff returned to their living quarters; but for IRM, the fun was only beginning.

With speed and courage, the team restored vital command and control circuitry and added makeshift unclassified processing (our cafeteria became office space). Most urgently, it restored secure-voice capability, which the ambassador used to consult Washington that evening. These accomplishments, performed as sparks continued to fly and smoke still rose from the charred embassy, won the IRM team a Superior Honor Award nomination.

Despite the challenges posed by a rapidly crumbling Soviet society and infrastructure, Washington expected a world-class performance. My IRM team never flinched.

I thank the *Journal* for this opportunity to highlight our achievements. The department can be assured of the same dedication from today's Foreign Service IRM professionals. With the leadership support they deserve, they, too, will be ready to respond as history unfolds.

Timothy C. Lawson
Senior FSO, retired
Hua Hin, Thailand

Embassy Moscow Memories

I loved reading the December issue of the *FSJ*, because it brought back a myriad of emotions and recollections. In fact, I have just retrieved from my father the entire file he kept of my 1987-1991 letters from Moscow, which I wrote more as historical diary entries than as letters. I had been contemplating what on earth to do with the incredible stories I had memorialized in my letters when I received your issue.

Admittedly, my perspective was totally different from that of those who were working at the embassy at the time. Kudos to the *FSJ* team, not only because the issue is so appropriate 20 years later, but — at least for me — because it brought back to the forefront an incredibly strange, convoluted and

wacky, yet bizarrely beautiful, time that redefined me.

Somehow, I think Shawn Dorman had a lot to do with this wonderful issue. I have always enjoyed reading the *Journal*, but this time it was especially rewarding.

By the way, I have already joined the Moscow Veterans Web site described in the December Cybernotes (www.moscowveteran.org).

Thanks for the memories!

Barbara Dillon Hillas
Alexandria, Va.

Three Gems

I would like to commend you for three articles in the November *FSJ*, all reprised from earlier issues. I particularly enjoyed Donald Roberts' wonderful satire, "Human Rights Report for the Hun Empire, A.D. 451." It brought me back to 1976, when I was assigned to what was then the Office of the Coordinator of Human Rights and Humanitarian Affairs. While there, I helped compile and edit the first human rights reports that the State Department submitted to Congress in April 1977.

The reports were required on all countries receiving any form of security assistance, based on Section 502B (b) of the Foreign Assistance Act, as amended in 1976. Overseas posts and the department struggled with the unprecedented task of documenting the human rights practices of the 137 countries that received any form of U.S. security assistance — even if only an instruction manual — and crafting credible public reports to Congress.

State did not want to destroy diplomatic relations with those governments, which were not accustomed to having their human rights records publicly divulged and judged by the U.S. We weathered the resulting diplomatic storms, and I am pleased to say that while the reports were not as blunt as critics would have liked, they did not descend to the level of the satire in the Hun Empire's human rights report.

Still, Mr. Roberts' parody contained many phrases familiar to those of us who negotiated the initial reports with desks and bureaus. Those modest efforts were the forebears of annual human rights reports that subsequently became more detailed and candid, and ultimately were written about every country in the world. In the process, respect for internationally recognized human rights became a constant element of U.S. foreign policy.

Second, reading the late Ambassador Hume Horan's commentary, "The U.S. and Islam in the Modern World," which you first published nearly a decade earlier, reminded me of the clear thinker and clear writer that I remember from 30 years ago. His comments on Islam's frozen theology and practices, and the unnecessarily, but perennially, stalled Israeli-Palestinian

FOREIGN SERVICE CROSSWORD PUZZLE SOLUTION

(January 2012 FSJ*, p. 76)*

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peace talks, were right on target.

Finally, Kevin Siepel's FS Heritage column about John Mosby's diplomatic assignment to China ("Rebel Raider As Diplomat: John Mosby in China") was an impressive later chapter in the famous Confederate's life. I now live not far from U.S. Route 50 — the John S. Mosby Highway — the location of his exploits during the Civil War.

H. Kenneth Hill
Ambassador, retired
Bradenton, Fla.

Helping the Less Fortunate

Was anyone else out there embarrassed by the news in the 2011 State Annuitant Newsletter that Foreign Service retirees will be receiving a substantial cost of living increase in 2012 — even as Congress and President Obama desperately try to deal with huge federal deficits and taxpayers face high unemployment, home foreclosures and losses to their private retirement nest eggs?

If so, I invite those who can afford to do so to join me in donating all or part of this increase to their favorite charities that support those in need — the hungry, the homeless, children at risk, etc. Aside from being the right thing to do, such a gesture could help dispel the widespread misperception that federal retirees are privileged.

Bonnie Lincoln
FSO, retired
Fort Myers, Fla.

The FAC Effort

The *Journal* is to be applauded for its November cover story, summarizing the Foreign Affairs Council's assessment of resource and management challenges at the Department of State and USAID. However, by assigning the byline to one person, the *Journal* obscured the fact that the excerpted passages were the product of the collaboration of numerous people.

While it is common in the national media to print an essay "by" a Cabinet official or senior lawmaker, knowing full well that the principal did not actually write the essay, I hope the *Journal* will be careful in the future to assign proper credit (or blame) of authorship in cases like this one.

John K. Naland
FSO
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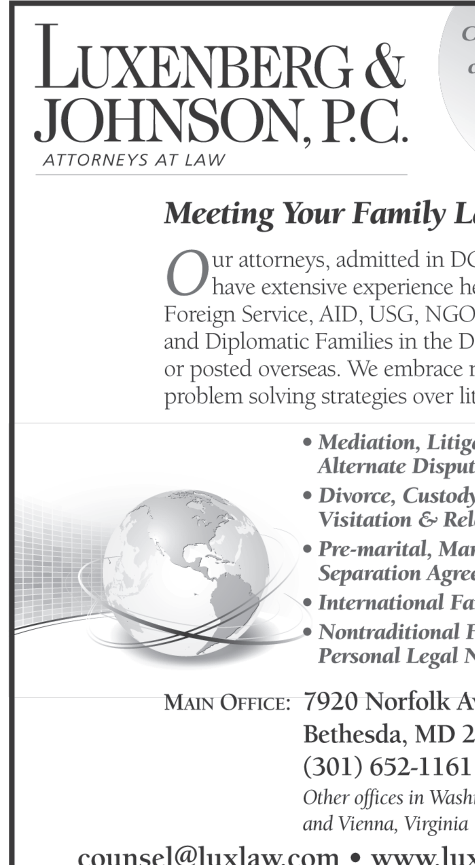

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CYBERNOTES

State's Iraq Transition Challenge

As the last American soldiers left Iraq in December, the State Department was poised to officially take up its greatest overseas operation since the Marshall Plan: the transition from a predominantly military U.S. presence to civilian engagement in Iraq. Though Embassy Baghdad is the largest, costliest and one of the most heavily fortified U.S. diplomatic missions in the world, this undertaking is sure to test both the department and the Foreign Service.

"This is clearly something that the State Department has never done before," Under Secretary of State for Management and Resources Patrick Kennedy, who oversees the enormous Iraq transition portfolio, told Reuters on Dec. 18. "We have excellent people at the State Department with management, acquisitions, logistical, security, communications and medical skills," Kennedy added. "We are ready."

Not everyone is as confident as Mr. Kennedy. "I think there is a lot of very serious concern about the department's ability to take the lead on all of this, given the cuts it has faced over the years and how difficult it has been for them to operate in semi-war zones," Brian Katulis, a security expert at the Center for American Progress, told Reuters.

> There is nothing inevitable about Europe's decline. But we are standing on the edge of a precipice. This is the scariest moment of my ministerial life, but therefore also the most sublime.
>
> I demand of Germany that, for your own sake and for ours, you help it [the euro zone] survive and prosper. You know full well that nobody else can do it.
>
> I will probably be the first Polish foreign minister in history to say so, but here it is: I fear German power less than I am beginning to fear German inactivity.
>
> — Polish Foreign Minister Radoslaw Sikorski, speaking in Berlin on Nov. 28, 2011; quoted in *Der Spiegel (www.spiegel.de).*

Not the least of the challenges for State is the fact that the withdrawal of U.S. troops is not synonymous with the end of the Iraq War. As we go to press, explosive sectarian battles continue, as do bomb blasts within the heavily fortified "Green Zone" of Baghdad.

Meanwhile, the country's already shaky coalition government was plunged into yet another serious political crisis at year's end, and Iraqi Prime Minister Nuri al-Maliki appears to be moving against political rivals and opponents, even at the cost of stoking ethnic and sectarian tensions.

As Harvard Professor Meghan O'Sullivan points out in a Dec. 21 Bloomberg commentary, Iraq's nascent political institutions have not yet gelled, so vital political issues, such as disagreements over Iraq's federal character, remain unresolved.

But there is consensus on one thing, at least: most Iraqis long ago stopped seeing Americans as heroes and liberators. Consequently, managing continued U.S. engagement promises to be a formidable task.

While there has been very little discussion of it, preparations for the transition have been under way for more than a year under the direction of Ambassador Patricia Haslach, who is based in Washington, D.C. State's transition operation is expected to involve some 16,000 individuals: about 2,000 members of the Foreign Service and other federal employees, and 14,000 contractors, half of them security personnel.

Only a small number of U.S. military personnel will remain in Iraq to

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work with the embassy on arms sales and training for Iraqi forces, as well as to provide maintenance for force protection equipment such as mine-resistant, ambush-protected vehicles.

Under chief-of-mission authority, Embassy Baghdad's Office of Security Cooperation-Iraq will handle ongoing efforts to develop Iraqi security forces through assistance and cooperation activities. State's Bureau of International Narcotics and Law Enforcement Affairs, along with the Department of Justice, has taken over responsibility for the Police Development Program.

Embassy Baghdad as a whole will continue counterterrorism cooperation as the primary focus of an information-sharing mission. It will also take over all logistics and other functions previously handled by the military for the embassy compound, such as air service and hospitals.

In addition, several consular offices will replace the 16 Provincial Reconstruction Teams currently deployed across the country.

Counting aid programs and military assistance, the mission is estimated to cost about $6.2 billion per year. That's not much when compared with the $80 billion per year spent on the war, but it constitutes more than a quarter of the State Department's global operational budget. Moreover, with the fiscal squeeze on in Washington and dwindling congressional interest in Iraq, funding may prove to be a real stumbling block.

Already, State has scaled back plans for the transition. For instance, the police training program will be run out of just three locations, compared to the U.S. military's program in all 18 provinces.

Most observers concur that State's

50 Years Ago...

All of us in the Service have been hearing a lot lately about the need for broadening the background and experience of the Foreign Service. We are being urged to know more about weapons systems, the techniques of decision-making, game theory, probability and science generally. A Senate subcommittee concluded in February 1961 that the armed services have done a far better job than other career services in giving senior officers the kind of training and job experience needed for a broad grasp of national security problems.

The subcommittee report stated that State's need for broadened staff competence is perhaps most acute in the area of military and scientific-technical problems. One might argue that the department is not so deficient in these areas as some have claimed, but no one will argue that FSOs should not have a good grasp of military science and technology. …

The institution of the political adviser is now well established. Like any vigorous bureaucratic species, it is increasing in numbers and, it is to be hoped, in effectiveness and influence.

— From "POLAD — A Permanent Institution" by Richard B. Finn, *FSJ*, February 1962.

SITE OF THE MONTH:
http://cipnationalsecurity.wordpress.com/

The Center for International Policy (**www.ciponline.org**) aims to facilitate the debate about U.S. foreign policy and, more specifically, U.S. national security policy through its *Rethinking National Security* blog and other projects. As the blog's main contributors — retired FSOs Harry C. Blaney III, Wayne Smith and Robert White, Johns Hopkins University Adjunct Professor Melvin A. Goodman, and noted journalist and author Selig S. Harrison — declare:

"We believe that there has long been a significant disparity between our espoused national values and goals and our continued policies and funding for outmoded defense programs. It is now widely acknowledged that, for too long, the United States has put a myopic emphasis on expensive, unworkable and inappropriate defense programs and strategy, at the expense of more effective and appropriate foreign policy and diplomacy tools. The moment is now right to create a more appropriate balance of our diplomacy, intelligence and defense structures and programs for the ever-changing landscape of the 21st century."

Toward that end, *Rethinking National Security* offers a wide range of commentaries by these distinguished experts and guest contributors. Recent postings include: "The China-America Confrontation Syndrome," "Turkey, the E.U. and — Oh, Yes — Cyprus," "The Crisis of Governance in America and in Europe," "The Battle over Defense Cuts: Will Realists or Lobbyists Win the Debate?" and "Kissinger, Afghanistan and Regional Policy."

Founded in 1975, in the wake of the Vietnam War, by former diplomats and peace activists, the Center for International Policy is a nonprofit research and advocacy organization based in Washington, D.C. It promotes transparency and accountability in U.S. foreign policy, while advocating international cooperation, demilitarization and respect for human rights. It places special emphasis on crafting policy recommendations and analysis for decision-makers in government, the private sector and civil society.

— Steven Alan Honley, Editor

biggest headache will center on security. "Security is going to be the paramount issue for the State Department, and it is very hard to plan for," Stephanie Sanok, a former State Department official in Iraq now at the Center for Strategic and International Studies, tells Reuters. According to Under Secretary Kennedy, the security contractors under the command of Diplomatic Security Bureau agents will be under orders to engage in defensive maneuvers only.

Some analysts are concerned that reliance on private security contractors is by itself a problem. As Charles Tiefer, a former member of the Commission on Wartime Contracting and a law professor at the University of Baltimore, points out to Reuters, the Pentagon long resisted the use of contractors as a quick-reaction force "because it's a kind of combat."

One need only recall the 2007 incident in which five security guards employed by Blackwater Worldwide were

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accused of killing 17 Iraqi civilians in Baghdad to understand the concerns. Now, Tiefer emphasizes, "State will have its own private army of security contractors, and they haven't dealt with things on this scale."

State Department officials acknowledge they have never done anything quite like the Iraq transition, but they are determined to succeed. "Make no mistake, this is hard," Deputy Secretary of State for Management and Resources Thomas Nides told the *Washington Post* in October. But, he added, "We've spent too much money and lost too many kids' lives not to do this thing right."

— Susan Brady Maitra,
Senior Editor

Environmental Trends Point the Wrong Way

Development progress in the world's poorest countries could be halted or even reversed by mid-century unless bold steps are taken now to slow climate change, prevent further environmental damage, and reduce deep inequalities within and among nations. That is according to projections in the 2011 Human Development Report, which the United Nations Development Program (**www.undp.org**) issued on Nov. 2, 2011.

Titled "Sustainability and Equity: A Better Future for All," the 2011 report argues that environmental sustainability can be most fairly and effectively achieved by addressing health, education, income and gender disparities, and by taking action globally on energy production and ecosystem protection.

The report was released in Copenhagen by UNDP Administrator Helen Clark and Danish Prime Minister Helle Thorning-Schmidt, whose new government has pledged to reduce Denmark's carbon dioxide emissions by a dramatic 40 percent over the next 10 years. Here are some key findings and regional highlights from the study:

• Norway, Australia and the Netherlands lead the world in the 2011 Human Development Index, while the Democratic Republic of the Congo, Niger and Burundi are at the bottom of the annual rankings of national achievement in health, education and income.

• The United States, New Zealand, Canada, Ireland, Liechtenstein, Germany and Sweden round out the top 10 countries in the 2011 HDI. But when the index is adjusted to take into account internal inequalities in health, education and income, some of the wealthiest nations drop out of the HDI's top 20. For instance, the U.S. falls from number four to 23, the Republic of Korea from 15 to 32, and Israel from 17 to 25.

• By 2050, projecting recent positive regional human development trends forward, sub-Saharan Africa's average Human Development Index rating could rise by an estimated 44 percent. Conversely, failure to reduce environmental risks and income inequalities could stall or even reverse economic progress.

• Arab countries have made steady progress over the past 40 years in income, education and health care. However, Human Development Index rankings for the 19 states surveyed show extremely divergent patterns. The United Arab Emirates (30), Qatar (37) and Bahrain (42) all rank in the top quarter of nations, while Sudan (169), Djibouti (165) and Yemen (154) are in the lowest grouping.

• Pollution, deforestation and rising sea levels threaten development in the island nations of Asia and the Pacific, while South Asia must overcome acute poverty and internal inequalities to maintain current rates of progress.

• Throughout Eastern Europe and Central Asia, human development levels continue to rise, with greater equality than other areas of the developing world. However, internal income gaps are widening in many countries, and environmental deterioration could potentially further undermine hard-won progress in the region.

• Latin American and Caribbean nations are reducing wide income inequalities, even as many of them take steps to address deforestation and other environmental threats. Still, the report urges even bolder action, both by individual nations and across the hemisphere, to address rising sea levels and other climate change challenges.

— Steven Alan Honley, Editor

State Celebrates Diplomacy

In November the Department of State launched a new Web site, *Discover Diplomacy* (**http://diplomacy.state.gov/discoverdiplomacy/**), to highlight the myriad ways in which "diplomacy and international issues affect individual citizens, as well as governments and businesses worldwide."

Aimed at the general public, the site invites visitors to "discover the people who conduct diplomacy, the places where the Department of State engages in diplomacy, and the issues diplomacy helps resolve."

Through a Diplomacy 101 portal, visitors can click on an interactive map to learn what issues selected posts are working on, consult a diplomatic dictionary that defines common (and not so common) terms, and much more. ■

— Steven Alan Honley, Editor

Speaking Out

Implementing the QDDR at Chief-of-Mission Level

By Edward Marks

Reorganization proposals are often dismissed with the comment that they amount to reshuffling the deck chairs on the Titanic. But, what if the proposal in question called for a structural change that — to extend the analogy — would keep the ship from sinking?

Although the Quadrennial Diplomacy and Development Review report is primarily a strategic policy document, it also addresses organizational questions. These proposed changes concern operational matters and, very specifically, interagency cooperation. Perhaps such changes can prevent foreign policy failure, the governmental equivalent of a vessel sinking.

Although the reorganization of the State Department proposed in the QDDR is not massive, it would significantly improve how the Foreign Service does business. Its recommendations are all derived from the fundamental concept of "smart power" as wielded by a single team.

Some organizational changes are envisaged to assist in achieving this object: e.g., elevating the Office of the Coordinator for Reconstruction and Stabilization to the level of a bureau, and reformulating the relationship between State and the U.S. Agency for International Development. In addition, the study takes a fresh look at the question of chief-of-mission authority and program management.

> *The Quadrennial Diplomacy and Development Review is a useful springboard for broader restructuring.*

The COM as CEO

Specifically, the QDDR notes the need to "empower and hold accountable chiefs of mission as chief executive officers of interagency missions." In a sense, this is nothing new. After all, since the days of President Harry Truman chiefs of mission have always been empowered, and instructed, to serve as the CEOs of U.S. diplomatic missions.

In addition, presidential letters going back to Dwight Eisenhower, as well as federal legislation, state that "Under the direction of the president, the chief of mission to a foreign country shall have full responsibility for the direction, coordination and supervision of all government executive branch employees in that country (except for Voice of America correspondents on official assignment and employees under the command of a United States area military commander)."

Under this authority, the ambassador is supposed to perform the role of the chief executive officer of a multiagency mission. As the QDDR points out, "the best ambassadors play that role effectively." However, it is no secret that the executive authority of ambassadors as chiefs of mission has often been challenged and restricted in the interplay of bureaucratic competition and policy debate.

In addition, the managerial expertise of ambassadors varies widely, yet the department has devoted little thought or effort to offering background information and training. The clear objective of the QDDR reforms in this area, therefore, is to turn occasional effectiveness into something more robust and persistent.

Empowering or reinvigorating chiefs of mission in the way called for in the QDDR will require expanded support from the National Security Council and other agencies to do two things: ensure that U.S. government personnel understand and internalize their accountability to the chief of mission, and clarify the reporting structures for all U.S. civilians in country.

… And Country Director

The QDDR also calls for COMs to engage directly in high-level policymaking back in Washington. This idea is a bit more radical, yet it reflects what

has always been an aspiration that marks successful ambassadors. After all, they are generally the most senior U.S. government officials engaged full-time on the portfolio of problems and programs associated with their respective countries of assignment. They are also the only federal officials with standing interagency executive authority, based on statute and specific presidential designation (albeit limited to in-country personnel and operations).

The QDDR's discussion of this subject is worth repeating: "In order for our chiefs of mission to direct and coordinate the interagency in the field, they must not only drive the country team on the ground, but also be more effectively engaged in interagency decision-making in Washington. … To give them the voice they need in Washington and to draw on their knowledge and perspective, chiefs of mission will be invited to participate via secure telecommunications in Deputies Committee meetings in Washington at the discretion of the National Security Council staff."

With that directive in mind, why not go all the way and use today's communication technology to eliminate the organizational distinction between headquarters and field, empowering ambassadors/chiefs of mission to serve as their own "country directors?" Ambassadors who are dual-hatted as their own country directors could then participate directly in Washington decision-making. (Indian Ambassador Kishan S. Rana describes a similar vision of their role in his 2004 book, *The 21st Century Ambassador: Plenipotentiary to Chief Executive*.)

Many U.S. ambassadors have informally played this role in the past and, no doubt, some still do so today. It should become the standard operational mode for all U.S. chiefs of mission, although this change will require some formal restructuring of the relationship between the COM and State on one hand, and between the COM and the deputy chief of mission, on the other.

Empowering or reinvigorating COM authority will require expanded support from the National Security Council and other agencies.

The "ambassador/COM as country director" model will require individuals holding that title to devote significant time and effort to that task, accruing lots of frequent flier miles in the process. That investment will bring two important benefits, however.

Formally recognizing each ambassador as the most senior official who works full-time on a specific bilateral portfolio should enhance the coherence and interagency coordination of U.S. government policy — bringing about greater "unity of effort," if not "unity of command."

It will also lessen the incidence of the resident diplomat's besetting sin — localitis — by immersing the chief of mission in headquarters activity. To paraphrase that wise comic strip philosopher of the 1950s, Pogo, the resident COM in the field will "meet headquarters and find that he is they."

Defining the role of the deputy chief of mission has long been a subject of discussion, with no single conclusion. Is he or she an "alter ego," a senior assistant, an enforcer, a "straw boss" or a standby COM? Often, DCMs play all of these roles in varying degrees, and the answer in any given situation mainly depends on the chief of mission.

Whatever the answer, an expanded role for COMs can only expand the role of the DCM, as well, making him or her the day-to-day de facto manager of the mission. This reality will probably necessitate the formal inclusion of a limited version of COM authority in the job description of DCMs. In other words, deputy chiefs of mission will become even more important than they are today, which is saying quite a lot.

Chiefs of Mission as Crisis Managers

In addition to reinvigorating the standing authority of chiefs of mission, there are two further levels of reform worth pursuing. The first would be to expand their authority into crisis management.

A 2010 report by the Center for Strategic and International Studies (www.csis/org) on smart power makes a compelling case for reorganizing and re-equipping the executive branch to carry out such multifaceted tasks as economic development, contingency planning and post-conflict reconstruction. (Recommendations from other sources have often used the term "mission manager" to clarify the function envisaged here.)

As currently constituted, civilian foreign affairs agencies lack the resources and expertise to undertake

such tasks, resulting in their delegation to the military by default, if not by presidential decision. The attendant introduction of military personnel and resources from the regional combatant command, as well as the regional character of a particular contingency, currently constrains the management capability of the resident ambassador(s).

Toward that end, it might be feasible to expand the COM concept, staying strictly within the bureaucratic boundaries of State and USAID but applying it to all missions conducted within those boundaries. Even military personnel and resources could conceivably be included under this "Mission Manager-COM" arrangement if those resources were assigned — or "chopped" in military parlance — to the mission, in much the way defense attachés and military assistance personnel are.

In the case of emergencies requiring a mammoth surge in U.S. government involvement (often including the military) — such as a tsunami, genocide or post-conflict reconstruction project; a "special situation" such as the U.S. role in Afghanistan and Pakistan; or developments in countries where no permanent U.S. mission exists — the authority to name chiefs of mission could be extended to include situation-specific appointments. This approach would be especially useful in addressing regional challenges.

Integrating COMs into Foggy Bottom

The second category of reform is much more radical and moves beyond the boundaries of the QDDR. However, it involves a concept and perspective that follow the logic of that review and is worth future consideration.

The QDDR also calls for chiefs of mission to engage directly in high-level policymaking back in Washington.

Specifically, it calls for exporting chief-of-mission authority back into headquarters, explicitly assigning it to the key management levels: the Secretary of State and the six regional assistant secretaries.

With this authority, State could exercise integrated management and direction of all U.S.government civilian and political-military international operations. Thus empowered, regional assistant secretaries (possibly expanded to the under-secretary level) would constitute a middle tier in the chain of command.

This would ensure that policy and resources are integrated and coordinated at the policy level and then flow down to country teams, rather than going directly through discrete bureaucratic and authority stovepipes. It would also alleviate, if not eliminate, the current organizational competition at the country level.

Under this system, the combatant commands would continue to prepare and review war plans through the existing military chain of command — but regional assistant secretaries would assist with developing the pre- and post-conflict phases (Phase 0 and Phase IV) of those plans and the theater security cooperation plans of the combatant commanders.

These State officials could thereby fulfill the Defense Department's longstanding desire for an effective counterpart at the operational level of State to their geographic commanders. This would forge a strong relationship between peacetime engagement and deterrence, and maintain a stable policy in such regions.

The regional assistant secretaries would have primary responsibility for integrating all federal operations and implementation within their areas of responsibility, with the exception of military forces engaged in active operations. They would be responsible for producing integrated regional strategies and reviewing and approving all departmental and agency plans that drive activity and resource allocations. This includes country team plans (Strategic Mission Plans), DOD security cooperation efforts and foreign assistance programs..

Such a clear operational chain of command to manage field operations, running from the Secretary of State through regional assistant secretaries to chiefs of mission, would replicate at each level the authority and role that chiefs of mission are already supposed to exercise through their country teams.

In sum, the whole Department of State would be organized as a "National Team," under which policy and resource integration would take place at three formally designated levels (in addition to informal coordination at all levels): the secretarial or Cabinet level, the regional assistant secretary level, and the country team level. (This would also apply to emergencies, whether handled by special teams, missions or both.)

Building on the QDDR

Obviously, few of these proposed reforms can be implemented rapidly, even if there were the requisite political and congressional interest and approval. (Exporting COM authority into the crisis management area might require legislative action.)

However, they do constitute a spectrum of possible reform, with each point on the spectrum worthwhile on its own account and opening the way to further reform in the future. (For a fuller discussion, see "Expanding Chief of Mission Authority to Produce Unity of Effort," by Edward Marks and Christopher Lamb, Institute for National Strategic Studies).

If the QDDR is to avoid the usual fate of blue-ribbon organizational reviews — filed away for the interest of historians — then some movement is required. As the report notes: "Ultimately, however, the reforms and recommendations presented in the QDDR are only as good as their implementation." ■

Few of these proposed reforms can be implemented rapidly. However, they do constitute a spectrum of possible reform.

Edward Marks spent 40 years in the U.S. Foreign Service, including an assignment as ambassador to Guinea-Bissau and Cape Verde. After retiring from the Service in 1995, Ambassador Marks did consulting work with the United Nations, private companies and the Department of Defense, and continues as a senior mentor at various military institutions. He is a retiree representative on the AFSA Governing Board, a member of the American Diplomacy *board and a Distinguished Senior Fellow at George Mason University.*

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Focus on the Euro Zone Debt Crisis

European Debt, the Trans-Atlantic Alliance and U.S. Foreign Policy

Jeff Lau

The European debt crisis should be a wake-up call for the Foreign Service to adapt to new challenges.

By Alan Larson

The European debt crisis profoundly threatens the economic health of the United States and the trans-Atlantic alliance, two cornerstones of U.S. foreign policy since the end of World War II. A failure of European leadership threatens to drive both Europe and the United States, and perhaps the entire global economy, back into recession after the worst economic setback since the Great Depression. Worse still, the two allies will not be able to shape a world order friendly to our interests and Western values if the euro zone fractures or the European Union splin-

ters. Unless the U.S. can help Europe resolve the euro crisis and rekindle growth on both sides of the Atlantic, U.S. global leadership will suffer greatly.

Throughout 2011, European prime ministers seemed to fall like sparrows from the sky: the governments of Ireland, Portugal, Greece, Italy and Spain all experienced turnovers. European leaders met on Dec. 8-9, and agreed in principle to a pact to establish binding fiscal guidelines enforced by sanctions. This pact is only an agreement to agree in the future, however, and as this article is being written, it is not clear whether European leaders will muster the will and capacity to codify and implement such guidelines.

Like it or not, the European debt saga will linger, and even appears to be a harbinger of future crises that will challenge the next generation of American diplomats. To address these challenges, the State Department will need to expand its capabilities in international economics and integrate economics more fully into its foreign policy tool kit. Only by doing so can it discharge effectively its responsibilities to the president and the nation. As it enhances its capabilities in these areas, the State Department will need to play a stronger role in international financial policy — not at the expense of Treasury and the National Security Council staff, but alongside them.

As well as the State Department and the Foreign Service have been performing up to this point, going forward each will need to raise the caliber of its game. And as they do so, it will be incumbent on presidents to make full use of their capabilities.

State has ably responded to the crisis thus far, but needs to raise the caliber of its game going forward.

Original Sin

The creation of the euro at the turn of the 21st century was a major step in the integration of Europe and the binding of Germany to a common European future. In the minds of many Europeans, the rise in German power that followed the unification of the country after the fall of the Berlin Wall made this step even more imperative. While Germany gave up its cherished deutsche mark as part of the bargain, the "sound money" philosophy of the Bundesbank permeated the conceptual framework of the new European Central Bank.

After careful preparations, the euro was introduced in stages between 1999 and 2002. At the time, European Union officials were consumed by the project. They looked forward to a day when the euro would rival the U.S. dollar as a reserve currency.

For their part, many American officials saw the adoption of the euro as a major milestone in the building of a United States of Europe, an implicit goal of U.S. foreign policy in the minds of many. Other Americans, however — though they embraced the political goals surrounding the euro and hoped for the best — harbored worries that the European economy was insufficiently integrated for a common currency.

In contrast to what academic economists describe as "an optimum currency area," labor within Europe was not particularly mobile, especially across national borders. Once the euro was adopted, economic pressures from downturns in one nation could no longer be eased by currency depreciations, and the outward migration of labor from a depressed country to a booming country would not likely be sufficiently large to restore economic balance quickly. Moreover, a monetary policy appropriate for certain nations in the euro zone often would be inappropriate for other nations.

In essence, Europe was proposing to form a currency union without a fiscal union. The very small budget controlled by Brussels could not begin to serve as an "automatic stabilizer" that would take revenues raised in thriving nations and channel them to spending in depressed nations, as the federal government budget does between different economic regions in the United States. Authorities in Brussels did not have the right to impose discipline on the budgets of nations that adopted the euro as their currency.

Finally, the lack of effective machinery to impose a common euro zone fiscal policy had implications for mon-

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etary policy. The European Central Bank was not empowered to serve as a lender of last resort to euro zone governments, in contrast to the authority the Federal Reserve had been given in the United States. The ECB was committed to fighting inflation above all other goals and was determined to ensure that the euro would be a strong currency.

Nevertheless, all these doubts about the viability of the euro were subordinated to the foreign policy priority attached to German unification and deeper integration of Europe. The consensus was that the fragilities and fault lines in the euro zone could be dealt with at a later stage.

The creation of the euro a decade ago was a major step in the integration of Europe and the binding of Germany to a common European future.

The initial experience with the euro was positive, creating no sense of urgency to address the fragilities. Indeed, the euro might have continued to enjoy success if the global economy had evolved under normal conditions. Unfortunately, the seeds of various pre-existing problems were sprouting, and the global economy soon fell into its deepest crisis since the Great Depression.

The stresses of the financial collapse that began in 2007 and 2008 magnified the fault lines that had existed since the founding of the euro zone. In the absence of a fiscal union, the Europeans had adopted the "Maastricht criteria" with the goal of ensuring that euro zone members would maintain disciplined budget policies. Unfortunately, there was only a weak commitment to policing compliance with this requirement.

The soft economy early in this century persuaded policymakers in France, Germany and the European Union that deficits larger than those contemplated by Maastricht

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were necessary to stimulate the economy. The Maastricht criteria did not bite. The lack of an effective European mechanism to enforce budget discipline among members of the euro zone continues to be the main reason Germans and Northern Europeans resist calls for the issuance of euro bonds or a stronger European Central Bank role in buying national bonds to backstop national budgets.

Many American officials have seen the building of a United States of Europe as an implicit goal of U.S. foreign policy.

The fragility of the euro zone was compounded by expansion beyond its original membership. European leaders decided to include Greece, even though it was common knowledge that Athens did not meet the Maastricht criteria and its official deficit numbers were a sham.

Meanwhile, Europe had other, more deep-seated problems that had been even longer in the making. For more than two decades, growth, productivity and job creation had stagnated. After all of the traumas of the 20th century, European citizens had a preference for personal stability and generous social welfare programs, even if that meant that the European economy as a whole was less dynamic, grew more slowly, created fewer jobs and was less resilient to shocks.

In forging a response to the global financial crisis, however, it was natural that the United States and Europe, especially the United Kingdom, would take the lead.

Leadership, Followed by Paralysis

For more than half a century before the current crisis, the United States and Europe shared leadership in the construction of the post–World War II world as partners in multilateral diplomacy. From my own vantage point, trans-Atlantic cooperation was critical in responding to the turmoil that began in 2008. The George W. Bush and Barack Obama administrations both deserve great credit for transforming the Group of 20 from a finance ministry forum into a structure that heads of government could use to harmonize policy approaches.

The G-20 enjoyed initial success in rallying governments around a policy framework of short-term economic stimulus and commitments to avoid protectionist, beggar-thy-neighbor policies. Without this success, the response could have repeated the mistakes of the 1930s, making the crisis much worse.

Europe and the United States have done a less effective job, however, in leading the way toward an effective framework for economic recovery over the longer term. Europe was less strongly committed to budgetary stimulus than were the Americans. The European Central Bank had neither the authority nor the desire to engage in creative forms of monetary stimulus, such as those initiated by Federal Reserve Chairman Ben Bernanke. In certain respects, Europe favored stronger regulation of the financial sector than did the U.S. Treasury and the Fed. The United States, on the other hand, was more strongly supportive of regulatory steps to force banks to raise additional capital to buffer against shock, measures that the Europeans were reluctant to take.

In addition, the G-20 framework suffers from an overly narrow focus on immediate financial issues. Financial officials driving the G-20 have paid inadequate attention to, and mobilized less consensus on, the broader economic policy issues, political concerns and institutional problems that must be tackled to stabilize the euro and launch a stronger and durable recovery. By contrast, these broader economic, political and institutional issues are natural strengths for the State Department and the Foreign Service.

Further, the early diplomatic successes of the G-20 — for which the United States and Europe both deserve great credit — have been partially undone by the fact that the European and American economies have been much slower to rebound than other G-20 economies. Europe continued to suffer from tepid economic growth and may slide into recession in 2012. The U.S. economy was overindebted, and Washington was slow to deal with the housing crisis and to chart a path toward medium-term budget discipline. The intensifying European debt crisis and the slow recovery of the U.S. economy are not only global problems, but have become central challenges for American diplomacy.

European Politics

One can neither understand nor overcome the current crisis without coming to grips with problems of European politics and governance. The domestic politics of individual nations that make up the euro zone are complex, but the politics among the zone's member-countries and insti-

tutions and their relations within the European Union are even more so. Complicating matters, even as the U.S. and Europe launched a global G-20 process, they failed to take the necessary economic policy steps at home.

As the global financial and economic crisis deepened, jittery financial markets began to question their previous assumption that the bonds of all euro zone countries were nearly risk-free. In such turbulent times, investors become much more attentive to risk, and it was clear that the level of risk associated with German government bonds was significantly less than that associated with Greek, Portuguese, Irish, Spanish or Italian government bonds. These countries shared the same currency, but they did not share the same budget policies or political systems.

The fragility of the euro zone was compounded by expansion beyond its original membership.

Financial markets reflect a balance of greed and fear. In the past, speculators made billions of dollars by betting against the European Exchange Rate Mechanism. Today, greed drives speculators to seek even bigger returns by betting against the bonds issued by financially weak nations of the European Union, and against the continuation of the euro zone. To date, the policy responses of European leaders have not been sufficiently decisive, strong or credible to inspire counter-balancing fears that such speculators could lose their shirts.

In principle, Europeans could wrong-foot speculators and defuse the euro zone crisis by creating a fiscal union and strengthening the European Central Bank. Giving the European Commission the power to issue large quantities of eurobonds based on the full faith and credit of the E.U., and empowering the European Central Bank to buy more national government debt and serve as a lender of last resort, could have a powerful impact. But instead, many Germans and Northern Europeans believe that without

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stronger central control over national budgets, authorizing the use of such tools would only allow spendthrift nations to live beyond their means and drag down the credit rating of the entire European Union. The early months of 2012 will indicate whether Europe is able to take historic steps to create a fiscal union and to make corresponding expansions to the powers of the European Central Bank.

The QDDR's recommendations to strengthen State's economic policy capability are right on the mark.

If Europe does demonstrate that it is ready to take the necessary hard steps, it surely will be possible to mobilize expanded financial resources from the International Monetary Fund, and even from major creditors, such as China. But as of now, such investors have not seen sufficient signs of resolve to believe that such investments can be justified.

The Challenge for State

The trans-Atlantic alliance cannot solve the euro debt crisis; Europe must do that mainly on its own. Even so, Washington should seek ways to help. As Europe works to resolve the euro crisis, the U.S. and the E.U. would do well also to consider how to renew their durable partnership.

Ten years after the 9/11 attacks, we can see just how greatly the last decade reshaped the contours of American diplomacy. For more than 10 years, the best and brightest U.S. diplomats have concentrated much of their energies on Iraq, Afghanistan, Pakistan and related aspects of the war on terror. The United States devoted enormous budget resources and high-level policy attention to challenges in the Middle East and Central Asia.

As a result, the policy agenda for the European Union and the United States stalled and increasingly became dominated by "out of area" missions. During my last years at the State Department, U.S.-E.U. summits tended to focus on aligning policies to stabilize Iraq and Afghanistan, and contain Iran. As important as those efforts were, it appears to me in retrospect that we could have done more to integrate the European and American economies, and to harmonize our approaches to economic issues.

One can hope that during the next generation, the U.S. and E.U. can devote more attention to Asia, to common economic objectives such as promoting development and trade, and to setting an agenda for deeper trans-Atlantic economic cooperation and integration.

If Europe is able to devise a successful recovery program, with targeted political and economic support from Washington, there is every reason to believe that the trans-Atlantic alliance can be revitalized. Europe and the United States can continue to play a decisive role in shaping the economic, political and security institutions of a new globalized and multipolar world, and the rules that govern them.

The European debt crisis is also a wake-up call on the changes that are needed for State and the Foreign Service to adapt to the challenges of the 21st century. In this regard, it is fortuitous that Secretary of State Hillary Rodham Clinton launched the Quadrennial Diplomacy and Development Review, completed in 2010.

I believe the QDDR's recommendations in the economic policy area are right on the mark. They should be implemented and even expanded upon.

It is very important that future Secretaries of State be supported by a stronger economic function. I welcome the expanded responsibilities contemplated for the Under Secretary of State for Economic Affairs, the creation of a new energy bureau and the creation of the position of a State Department chief economist.

In addition, I believe that the Foreign Service needs to recruit more officers with strong economic and business backgrounds. The Foreign Service Institute's in-house program of economic training should be sustained, and the university economic training program should be expanded.

Interagency coordination, especially among State, Treasury and the National Security Council, should be strengthened in both formal and informal ways. For example, I recall great value arising from the regular breakfast meetings that Secretary of State George Shultz, Secretary of Treasury James A. Baker III and National Security Adviser Colin Powell, together with senior advisers, held during the Reagan administration. That model should be followed again.

In short, the euro zone crisis has furnished Foggy Bottom with a case study of the types of challenges it must tackle in the future. To meet them, State must once again reinvent itself. ■

WHY THE EURO CRISIS MATTERS

AS WASHINGTON SCRAMBLES TO COPE WITH THE ECONOMIC FALLOUT, IT MUST REASSESS EUROPE'S RELIABILITY AS A STRATEGIC PARTNER.

BY BRUCE STOKES

The euro zone crisis is not simply an economic issue. It is a political problem, one that poses a grave challenge to the foreign policy and security interests of the United States. And its fallout could affect U.S. strategic interests for years to come.

The trans-Atlantic alliance, long the cornerstone of America's engagement with the world, was already eroding before Europe's sovereign debt problems came into view, thanks to the alliance's lack of a clear future mission and the lure of Asia. As the continent's economic problems accelerate, they accentuate the alliance's underlying problems, complicating Washington's ability to deal with its myriad foreign challenges.

Sovereign debt defaults by one or more euro zone countries and the subsequent potential breakup of the euro zone could well lead to stagnant economic growth, debilitating introspection and self-preoccupation in Europe.

"A Europe that is not united," warns Simon Serfaty, a scholar at the Center for Strategic and International Studies in Washington, D.C., "is, by definition, less strong. And a Europe that is less strong will become increasingly less vital to the United States in the 2010s, when American power will need to rely on allies that are not only willing, but capable."

The U.S.-European partnership and U.S. foreign policy have weathered potentially debilitating challenges in the past, to be sure: France's withdrawal from NATO in 1966, the Vietnam War of the late 1960s and early 1970s, the basing of American intermediate-range nuclear missiles in the early 1980s, the wars in the Balkans in the 1990s and, most recently, the Iraq War.

Thanks to U.S. strategic leadership, the trans-Atlantic alliance remains solid, suggesting America can weather this storm, too. But past performance is no guarantee of future results. And it would be shortsighted to underestimate the challenges that lie ahead.

The Inconceivable Becomes Possible

The possibility that the euro zone could ever break up was once considered inconceivable, for several reasons. First, the economic cost of such an unraveling was just too high. Moreover, the treaty creating the euro made no

Bruce Stokes is a senior trans-Atlantic fellow at the German Marshall Fund of the United States.

provision for a nation leaving. Finally, the political commitment of the continent's leaders to the project was so strong that it was widely assumed they would never let the euro fail.

The U.S.-European partnership has weathered potentially debilitating challenges in the past. But future success can't be taken for granted.

But as the crisis has metastasized, the inconceivable has become possible. Last November, a credit rating firm, Moody's, told its clients: "The probability of multiple defaults by euro area countries is no longer negligible. A series of defaults would also significantly increase the likelihood of one or more members not simply defaulting, but also leaving the euro area."

This is true even though it has become increasingly clear that if any nation leaves the euro zone, it will probably have to leave the European Union, as well. In the wake of a default on its government debt and the effective devaluation that would accompany a reversion to its former currency, bank deposits, people without jobs and goods would all flee.

In turn, other European governments would likely feel the need to limit those flows to protect their own economies. This would effectively terminate a country's participation in the European Union.

A Lost Decade?

A splintering Europe would be disastrous for the continent's economy as a whole. The euro zone, which the European Commission thought would grow by 1.8 percent in 2012, is now expected to increase by no more than 0.5 per cent.

Individual nations could fare even worse: growth for Italy is forecast at just 0.1 per cent, while Portugal's economy should shrink by 3 percent and Greece's by 2.8 percent. And even these estimates may prove optimistic.

Accordingly, Europe risks a "lost decade," not unlike that experienced by Japan in the 1990s — but with far graver consequences for the rest of the world. After all, Tokyo had a deep pool of national savings to draw on. Europe does not.

The most immediate strategic problem for the United States created by the euro crisis will be the erosion of Europe's capacity to share the burden of paying for global public goods. Debt-strapped countries are already tightening their belts, with even greater austerity in their futures. Flatlining growth will also mean decreased revenues, compounding their budgetary woes.

The Impact on Defense

The first casualty of the crisis is likely to be military spending. In 2010, the United States devoted 4.8 percent of its GDP to defense, while the United Kingdom spent 2.7 percent and Germany just 1.3 percent. So a burden-sharing gap already exists — and is growing.

"In Europe, defense spending has dropped almost 2 percent annually for a decade," noted U.S. Secretary of Defense Leon Panetta, in a speech in Brussels in early October. And since the financial crisis began in 2008, European nations have cut military spending by an amount equivalent to the entire annual defense budget of Germany.

This translates into real reductions in military capacity. Over the next several years, the United Kingdom plans to curtail defense spending in real terms by 7.5 percent by phasing out its troop deployment in Germany, scrapping the Nimrod reconnaissance aircraft, mothballing one planned aircraft carrier and leaving the other carrier with no planes to land on it for several years.

For its part, Berlin had already announced plans to trim €8.4 billion from its €31.5 billion annual defense budget. It also plans to suspend conscription, reducing armed forces personnel from 250,000 to 185,000. The Luftwaffe will curtail its planned acquisition of Eurofighters and reduce its contingent of Tornado aircraft, and the air force's fleet of military transport aircraft will be cut back.

All of these measures will reduce Germany's airlift potential and expeditionary capability. And since all of these cuts had already been announced before the euro crisis hit with full force, more reductions in defense spending can be expected.

The cost of shortchanging defense was already evident during the Libyan conflict, in which Britain and France would not have been able to carry out their successful mission without U.S. munitions. Factoring in America's own budgetary constraints, with the Pentagon facing tens

of billions of dollars in mandated spending cuts, longstanding American resentment about Europe's lack of defense burden-sharing is only likely to grow, poisoning future trans-Atlantic military collaboration.

A weakened, distracted Europe could prove a strategic liability for the United States.

… And on Climate Change Cooperation

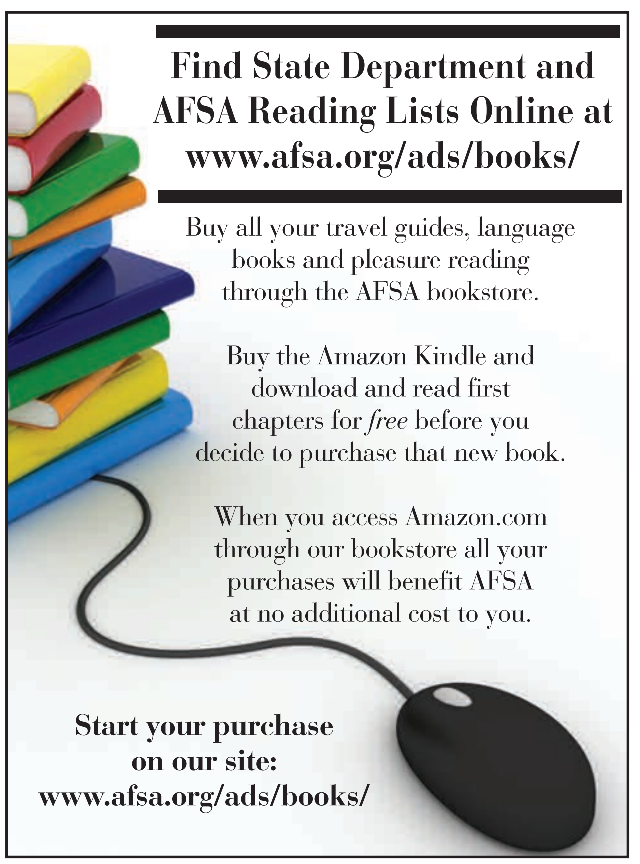
Europe's budget woes are also likely to weaken its commitments to help curb global warming. In December 2009, at the Copenhagen climate change summit, rich nations promised to give poor countries $30 billion in "new and additional" resources by 2012 to cope with climate change. That sum would be a down payment on a pledge to provide $100 billion annually in climate finance by 2020.

European nations are on track to meet their share of the $30 billion goal, but that assessment is based solely on 2010 outlays. Europe will need to pony up equal amounts in 2011 and 2012, and more in later years. If the continent's economy does not grow, cash-strapped governments may find it difficult to meet that commitment. And with America also facing budgetary and political constraints on such outlays, the West has little hope of leading the international effort to stop global warming.

A Less Attractive Role Model?

More broadly, the euro crisis is undermining Europe's pivotal position as a democratic, free-market role model for its immediate neighbors.

"The idea of the E.U. and the euro was that affluence would be created and shared," notes Charles Kupchan, a senior fellow at the Council on Foreign Relations. "Now, that is fading. Instead of delivering affluence, the E.U.



now delivers austerity and pain."

Nowhere is this more evident than in Greece. One of the main reasons Athens was admitted to the European Union in 1981 was to cement democratic governance in the land where democracy itself first blossomed — but which was ruled by a military dictatorship from 1967 to 1974.

"For the Greeks," says Serfaty, "getting into the E.U. was a way to end political instability and an undemocratic threat that defined Greece in the past. Being forced out of Europe would resurrect those things. Moreover, it would define an easy way out for other states with potential populist leadership."

If the technocratic government installed in Athens last November fails, the temptation will be for the Greek electorate to turn to populist politicians who promise less pain. A country where the standard of living declines sharply could also face a growing public backlash in the form of rising nationalism. History teaches that an effective way to distract a disgruntled electorate is to foment external threats. A Greek politician intent on doing so would have ample opportunities to fan latent anti-Turkey sentiment in Cyprus or in the Aegean.

At the same time, association with the European economy is likely to look less and less attractive to Turkey. Already, fewer than half of Turks (48 percent) think joining the European Union would be a good thing for their country, according to the German Marshall Fund's 2011 Transatlantic Trends survey. And given Europe's current troubles, such support is likely to shrink over time. In addition, a Turkey that no longer aspires to join the European Union and whose behavior is no longer constrained by the need to meet conditions for admission could well become a more unpredictable, unhelpful free agent in the Middle East.

As the E.U. looks less successful economically and less politically functional, it will also hold less appeal for the former nations of the Soviet Union, which are likely to slip further back into Moscow's orbit. For that matter, the idea of a united Europe has less allure for the Russians themselves. "Russian liberals used to present the European project as a model for Russia," notes Dimitri Simes, president of the Center for the National Interest. "Now they cannot say this with a straight face."

The most immediate strategic problem for the United States will be the erosion of Europe's capacity to share the burden of paying for global public goods.

With the future of North Africa up for grabs and the Balkans still unsettled, the last thing Washington should want is for the European Union to become a centrifugal rather than a centripetal force in its own corner of the world.

Compounding the problem, European weakness and self-preoccupation could dash all American hopes for trans-Atlantic cooperation in dealing with the China challenge.

An Opening for China

Beijing is already flexing its muscles in the South China Sea and the Indian Ocean, and extending its influence in Pakistan, Africa and Latin America. In addition, its brand of state capitalism looks more attractive to many governments around the world than the form being practiced in Europe or even in the United States.

Hard-pressed to counter this influence on its own, Washington could find itself without an effective European partner. Already, European governments hoping to sell Beijing their sovereign debt have come under pressure to back off anti-dumping cases aimed at Chinese firms. If Beijing ever contributes to a euro bailout fund, as some in Europe hope, the foreign policy price for its cooperation could be steep. "The downside risk," said Kupchan, "is that the U.S. will find itself navigating a new East Asia map very much on its own."

Left without an effective strategic partner, America's drift toward an Asia-centric foreign policy will only accelerate. Already, a majority of Americans (51 percent), including seven in 10 Americans born after the end of the Vietnam War, thinks Asia is more important than Europe to U.S. national interests, according to the German Marshall Fund survey. And as Europe appears more and more dysfunctional, that sentiment is only likely to grow — a development that is in neither America's nor Europe's interest.

For all these reasons, Europe's problems are now America's headache, too. So as Washington scrambles to cope with the economic consequences of the euro zone crisis, it must also reassess how much it will be able to depend on Europe as a strategic partner in the future. ■

FS HERITAGE
U.S. DIPLOMATS AND THE SMITHSONIAN

THE NEXT TIME YOU VISIT A SMITHSONIAN MUSEUM, TAKE PRIDE IN THE ROLE OUR PREDECESSORS PLAYED IN MAKING IT A REALITY.

BY LUCIANO MANGIAFICO

American diplomats played a significant if unheralded role in establishing and nurturing the Smithsonian Institution. First, they assisted in securing and transferring the legacy of James Smithson, a British citizen after whom the institution is named, from England to the United States. Later, they cared for his tomb in the Anglican Cemetery in Genoa. And last, they helped to transfer his remains to the United States in 1904.

But who was this Englishman, and why did he leave his fortune to a country he never even visited? And what was the role of U.S. diplomats in fulfilling his wishes?

James Smithson (1765-1829) was actually born James Macie, the out-of-wedlock child of Elizabeth Hungerford Keate Macie (1728-1800) and Hugh Smithson, the first Duke of Northumberland. In 1786, the future James Smithson graduated from Oxford. Very interested in the natural sciences, he gained a reputation as a chemist and mineralogist. In April 1787, at age 22, he was elected as a member of the Royal Society of London, the premier scientific society in England. The Society published many of his papers, which covered a wide range of subjects, and connected him with most of the eminent scientists of his time.

In the fall of 1791, James Macie moved to continental Europe, ultimately ending up in Italy, where he remained until 1796. He returned to England in March 1797. Three years later, Macie's mother died and he became very wealthy. He then applied to change his name from Macie to Smithson, a petition the courts granted in February 1801.

Luciano Mangiafico, a Foreign Service officer from 1970 to 1991, served in Milan, Palermo, Bucharest, Manila, Bridgetown and Washington, D.C. Since his retirement from the Service, he has continued to work as an inspector for the State Department. The author of two books, Contemporary American Immigrants *and* Italy's Most Wanted, *he writes on foreign policy, business and the arts for various publications.*

An Unusual Will

In the fall of 1826, Smithson, now 61, made his last will and testament, which he probably drafted without legal counsel and signed on Oct. 23, 1826. It left some money to his servants, but virtually his entire estate, worth more than £100,000 (about $150 million today), was intended for his nephew, **Henry James (Dickinson) Hungerford**, the son of his brother Henry Louis Dickinson. (Henry, who lived from around 1807 to 1835, had changed his last name from Dickinson to Hungerford in 1825 at his uncle's request.)

The unusual will directed that: "In the case of the death of my said nephew without leaving a child or children, or the death of the child or children he may have had under the age of 21 years or intestate, I then bequeath the whole of my property … to the United States of America, to found at Washington, under the name of the Smithsonian Institution, an Establishment for the increase & diffusion of knowledge among men."

It remains a mystery why Smithson included this contingent clause in favor of the United States, a country he never visited. The only tangible evidence of any interest in things American on his part was a two-volume work by **Isaac Weld** (1774-1856), about Canada and the eastern United States, in his library.

It has been surmised that Smithson did not want English scientific institutions to benefit from his wealth because he believed they had not treated him with due deference. It may also be that he saw in the United States the potential and raw energy, unfettered by old world traditions and social strictures, to advance knowledge for the benefit of humanity.

Alternatively, Americans he knew may have influenced him.

It is possible, for instance, that he met **Benjamin Franklin** (1706-1790) while he was the U.S. minister in Paris; we know that Smithson later lived on the same London street as Franklin's nephew. In his youth Smithson had also known **William Thornton** (1759-1828), the future architect of the U.S. Capitol. However, Thornton had not yet moved to the United States, and no subsequent correspondence between the two has turned up.

Ultimately, though, all these explanations are speculative. Smithson's motivation for leaving his fortune to the U.S. is likely to remain a mystery.

Uncle Sam Gets a Gift

In 1828 Smithson relocated to Genoa, where he died on June 27, 1829, and was buried in the tiny Anglican Cemetery on San Benigno Hill, above the port. Three years later his nephew, Henry James Hungerford, had a monumental tomb built for his uncle there.

A bit of a dandy, Hungerford traveled throughout Europe under the assumed name of Baron de La Batut. He was described in a 1965 biography of Smithson as "a wastrel, living for his pleasures, which did not, however, include women." While touring Italy, he died in a hotel in Pisa on June 5, 1835, at the age of 26 or 27.

As James Smithson's will provided, since Henry James Hungerford had died unmarried and without children, the estate of James Smithson became legally the property of the United States.

Informed by Smithson's London solicitors, the U.S. chargé d'affairés there, **Aaron Veil** (1796-1878), wrote to the Department of State about the inheritance. Curiously, he cast aspersions on Smithson's soundness of mind when the will had been made, writing that he had doubts on whether "the testator labored under some degree of mental aberration at the time it (the will) was made."

Veil was chargé in London from April 1832 to July 1836; he was subsequently a special diplomatic agent to Canada (1838-1840) and chargé d'affaires in Madrid (May 1840–August 1842), where he was succeeded by author **Washington Irving** (1783-1859).

If James Smithson did cross paths with Benjamin Franklin and other Americans, that might have influenced his bequest.

President **Andrew Jackson** (1768-1845), in his second term when informed about the Smithson legacy, was not even sure that he had the authority to accept the gift. On Dec. 17, 1835, he dropped the issue into Congress's lap.

Some congressmen saw the legacy as "a cheap way of conferring immortality" on Smithson. Others, particularly Senator **John C. Calhoun** (1782-1850) of South Carolina, argued that it was "beneath the dignity of the United States to receive presents of this kind from anyone."

Calhoun had more than national dignity on his mind, however. He, like most of states-rights Southerners, was opposed to the legacy because it conferred on the national government the power to use it to set up a national institution that neither the states, nor Congress through its appropriations process, could control.

Fortunately, former President **John Quincy Adams** (1767-1848) advocated using the legacy to set up an astronomical observatory.

Adams was well acquainted with the Department of State and foreign affairs, having lived abroad when his father, John Adams, was U.S. envoy to France and then to the Netherlands. Under President **George Washington** (1732-1799), he himself was the U.S. envoy to the Netherlands (at age 24). He later served as envoy to Portugal, Russia and England before becoming Secretary of State, a position he held from 1817 to 1825.

After leaving the presidency in 1829, Adams won a seat in the House of Representatives in 1830 and served there for 17 years.

By the spring of 1836, Adams' personality and force of argument had garnered enough congressional support for accepting Smithson's legacy, but the decision on what to do with it was left to a later day. In the meantime, Congress gave the president authority to appoint a representative to go to London and claim the bequest.

A Rush Job

On July 1, 1836, Pres. Jackson appointed **Richard Rush** (1780-1859) of Philadelphia to represent the United States in its claim. A son of **Benjamin Rush** (1746-1813), a signer of the Declaration of Independence, Richard Rush had held a wide range of government positions, including stints as comptroller of the Treasury, U.S. Attorney General, acting Secretary of State and Secretary of the Treasury, among many others. He had also been envoy to England, where he had replaced John Quincy Adams, and was well acquainted with English public figures and that country's court system.

Rush arrived in London in September 1836 and soon learned the legal difficulties of the case. Smithson had stated in his will that the estate would go to the United States only if his nephew died unmarried and childless. Because "Baron Le Batut" had traveled widely in continental Europe, the courts had to be satisfied that he had not left any illegitimate children in his wake.

Complicating things further, his mother was also clamoring for a share of the money, as was the British gov-

ernment itself.

For all these reasons, the U.S. did not prevail in court until May 1838. Most of the bequest was in government bonds amounting to £105,000, worth about $150 million today. Wisely, Rush took several months to sell the bonds so as not to flood the market and cause a decline in value, and with the proceeds purchased gold coins. All 104,960 of these were then packed in leather bags and sealed in 11 boxes for the trip home, together with some of Smithson's effects, which had been placed in storage in London. Each coinbox weighed 187 pounds.

Traveling on the ship *Mediator*, Rush arrived in New York on Aug. 29, 1838. By Sept. 4, he was on his way to the U.S. Mint in Philadelphia with his treasure. At the mint, all the gold coins, except two, were recast as U.S. $10 coins, yielding a total of $508,318.46. The two gold sovereigns that were not melted are now in the coin collections of the National Museum of American History.

In 1838 the budget of the United States was only about $38 million, the endowment of Harvard University amounted to $600,000, and the per capita income of a free man in the United States was $109. So half a million dollars was a true fortune.

The legacy secured, Congress then debated the issue of what to do with the funds for eight years. It finally reached a compromise in 1846 and the first Smithsonian building, the Castle, rose on the Mall between 1847 and 1849.

Maintaining a Monument

After the establishment of the Smithsonian, Congress thought it proper for the beneficiaries of James Smithson's largesse to care for his tomb in Genoa. In 1880, the Department of State charged the U.S. consul in that city "to put the monument in thorough repair and to arrange to have it kept in good condition at the expense of the Institution."

John Quincy Adams, a former Secretary of State, advocated strongly for accepting Smithson's bequest.

Among the notable U.S. consuls who looked after Smithson's tomb were James Fletcher, Richmond Pearson and William Henry Bishop.

James Fletcher (1840-1901), who was born in England, arrived in the United States in 1848 and settled in Vermont. During the Civil War, he served with the Third Vermont Volunteers and rose to first lieutenant. Mustered out at the end of the war, he moved to Waverly, Iowa, where he became a businessman and co-owner and editor of the *Waverly Republican*. In 1883 President **Chester A. Arthur** (1829-1896) appointed Fletcher as consul in Genoa, where he served until his death in 1901.

Richmond Pearson (1852-1923) had been U.S consul in Liege, Belgium, before returning home and being elected to the U.S. House of Representatives. In 1901, President **Theodore Roosevelt** (1858-1919) appointed him consul in Genoa. The following year Pearson became ambassador to Persia, and later served as envoy to Greece.

William Henry Bishop (1847-1928) was in Genoa as consul when the arrangements for the disinterring and shipment of Smithson's remains to Washington were made. Born in Hartford, Conn., Bishop graduated from Yale in 1867. An eclectic man, he studied architecture in New York, became the proprietor and editor of several Milwaukee newspapers, lived in Mexico and in France for several years, and was an instructor in French and Spanish at Yale. He was also a prolific and well-known author, and between 1867 and his death published many books.

In 1903 Pres. Roosevelt appointed Bishop consul in Genoa to replace Pearson. By the end of the year, he was heavily involved in the arrangements to move Smithson's remains to Washington, D.C. The Smithsonian dispatched **Alexander Graham Bell** (1847-1922) to Genoa to secure Smithson's remains and bring them back.

Bishop actively assisted Bell in navigating the shoals of Italian bureaucracy and was at the cemetery on Dec. 29, 1903, when the tomb was opened. Mabel Bell, the inventor's wife, was also there, busily photographing the proceedings, and took photos of Bishop and her husband holding Smithson's skull in a scene reminiscent of Hamlet holding that of Yorick.

On Jan. 7, 1904, Bell and his wife left Genoa on the German steamer *Princess Irene* with the zinc box containing Smithson's remains. They arrived in Hoboken, N.J., on Jan. 24. In the meantime Bell's son-in-law, **Gilbert Grosvenor** (1875-1966), editor of *National Geographic Magazine*, wrote several articles on the importance of receiving and honoring Smithson's remains. Roosevelt ordered the USS *Dolphin* to meet the ship, transfer Smithson's coffin to its custody and bring it to Washington, D.C.

The *Dolphin* docked at Washington's Navy Yard on Jan. 25, 1904, and was escorted first by U.S. Marines and then a troop of the 15th U.S. Cavalry. James Smithson's remains were brought to the Smithsonian Castle, where they still rest.

A Lasting Legacy

U.S diplomats definitely played a significant, if unheralded, role in making the Smithsonian Institution possible. In the process, they truly honored the foreigner whose money financed its foundation. ■

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2011 TAX GUIDE

Federal and State Tax Provisions for the Foreign Service

The annual AFSA Tax Guide is designed as an informational and reference tool. Although we try to be accurate, many of the new provisions of the tax code and the implications of Internal Revenue Service regulations have not been fully tested. Therefore, use caution and consult with a tax adviser as soon as possible if you have specific questions or an unusual or complex situation.

Foreign Service employees most frequently ask AFSA about home ownership, tax liability upon sale of a residence and state of domicile. We have devoted special sections to these issues.

James Yorke (yorkej@state.gov), who compiles the tax guide, would like to thank M. Bruce Hirshorn, Foreign Service tax counsel, for his help in its preparation.

Federal Tax Provisions

The Military Families Tax Relief Act of 2003 continues to provide a significant benefit for Foreign Service families who sell their homes at a profit, but would have been unable to avail themselves of the capital gains exclusion (up to $250,000 for an individual/$500,000 for a couple) from the sale of a principal residence because they did not meet the Internal Revenue Service's "two-year occupancy within the five years preceding the date of sale" requirement due to postings outside the U.S. In relation to the sale of a principal residence after May 6, 1997, the 2003 law provides that the calculation of the five-year period for measuring ownership is suspended during any period that the eligible individual or his or her spouse is serving away from the area on qualified official extended duty as a member of the uniformed services, the Foreign Service or the intelligence community.

The five-year period cannot be extended by more than 10 years. In other words, Foreign Service employees who are overseas on assignment can extend the five-year period up to 15 years, depending on the number of years they are posted away from their home. Note that the provision is retroactive, so that anyone who has already paid the tax on the sale of a residence that would have qualified under the new law may file an amended return to get the benefit of the new rule. There is, however, a three-year statute of limitations on this provision, after which one cannot obtain a refund.

For 2011, the six tax rates for individuals remain at 10, 15, 25, 28, 33 and 35 percent. The 10-percent rate is for tax-

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The William R. Rivkin Dissent Award: Making an Indispensable Contribution

BY AMBASSADOR CHARLES H. RIVKIN

As soon as I was confirmed by the U.S. Senate in 2009 as ambassador to France and Monaco, I paid a visit to my father's grave at Arlington National Cemetery. Ambassador William R. Rivkin died suddenly at the age of 47 while serving as chief of mission in Senegal. Although I barely knew him, he left my brother, Robert S. Rivkin, general counsel for the U.S. Department of Transportation, and me a set of core values that have guided our lives ever since.

One of those values is having the courage to bring our convictions to the service of our country. For more than 40 years, my family and I have chosen to honor our father

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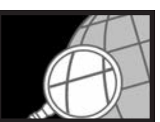

Last Call for Dissent and Performance Award Nominations

Please consider nominating an outstanding member of the Foreign Service for one of AFSA's prestigious awards for constructive dissent and exemplary performance. Anyone may nominate an FS employee who has shown courage by challenging policy or the system or has made an extraordinary difference in the lives of others. All winners receive a $2,500 cash prize and are honored at a ceremony in the State Department in late June. Nomination deadline is Feb. 28. For forms and more information, please go to www.afsa.org/awards or contact Perri Green, Coordinator for Special Awards and Outreach, at green@afsa.org or (202) 719-9700.

AFSA Welcomes Spring Interns

AFSA is pleased to welcome a new group of interns who will be with us during the spring semester. The new *Foreign Service Journal* editorial intern is David Barton, a recent graduate of James Madison University. The advertising intern is Claudia Gerkin, a student at the HAN University of Applied Sciences in Arnhem, the Netherlands. The communications, marketing and outreach intern is Paul Carter, a graduate of Boston University, and the legislative affairs intern is Christy Nguyen, a student at American University.

We also thank our departed fall semester interns for their hard work and dedication: Laura Pettinelli, Liron Feldman, Minh-Nhat "Leo" Tran and Harsh Govil.

Appreciation: Robert J. Wozniak Sr.

AFSA is saddened to learn of the passing of Robert Wozniak, a good friend and strong supporter of AFSA. Bob died from cancer on Nov. 13.

A native of Michigan, Bob started out as a journalist and joined the U.S. Information Agency in the early 1960s. He served at U.S. diplomatic posts around the world, including Athens, Damascus, Rabat, Nicosia and NATO headquarters in Brussels. He retired from the Foreign Service in 1996 following a management position at the Voice of America, and spent a number of years as a Diplomat-in-Residence at American University's Center for Global Peace. His postings in Mediterranean countries piqued Bob's interest in antiquities, leading to his service on the board of the Cyprus American Archaeology Research Institute.

AFSA will remember Bob fondly from his time as chairman of the AFSA Elections Committee from 1999-2007. AFSA Executive Director Ian Houston comments: "Bob was a wonderful supporter of AFSA through the years. He made excellent contributions on the election front as chair of the committee, but he also contributed his time and talents to the organization in so many other ways. We will surely miss him."

AFSA extends its condolences to Bob's wife Farida, his children Lisa, Robert, Leila and Farid, and his surviving brothers and grandchildren.

FLO's Global Employment Initiative for Family Members Wins Top Honors

The Global Employment Initiative of the State Department's Family Liaison Office is making a name for itself. On Nov. 4, GEI received the Best Family Support Program Award (for Europe) from the Forum for Expatriate Management.

The GEI program faced stiff competition from the World Bank Family Network, U.S. Girl Scouts Overseas and the United Nations, among others. Designed to help Foreign Service family members develop their career and employment options while overseas, GEI's award-winning services include resumé help, interviewing tips, networking assistance (where available) and career coaching. For family members of direct-hire government employees serving overseas who would like more information on GEI, please e-mail gei@state.gov.

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able income up to $17,001 for married couples, $8,501 for singles. The 15-percent rate is for income up to $69,001 for married couples, $34,501 for singles. The 25-percent rate is for income up to $139,351 for married couples, $83,601 for singles. The 28-percent rate is for income up to $212,301 for married couples and up to $174,401 for singles. The 33-percent rate is for income up to $379,151 for married couples and singles. Annual income above $379,151 is taxed at 35 percent. Long-term capital gains are taxed at a maximum rate of 15 percent and are reported on Schedule D. This rate is effective for all sales in 2011, except for those people who fall within the 10- or 15-percent tax bracket: their rate is either 0 or 5 percent. Long-term capital gain is defined as gain from the sale of property held for 12 months or longer.

Personal Exemption

For each taxpayer, spouse and dependent the personal exemption remains at $3,700. There is no personal exemption phase-out for 2011.

Foreign Earned Income Exclusion

Many Foreign Service spouses and dependents work in the private sector overseas and, thus, are eligible for the Foreign Earned Income Exclusion. American citizens and residents living and working overseas are eligible for the income exclusion, unless they are employees of the United States government. The first $92,900 earned overseas as an employee or as self-employed may be exempt from income taxes.

To receive the exemption, the taxpayer must meet one of two tests: 1) the Physical Presence Test, which requires that the taxpayer be present in a foreign country for at least 330 full (midnight to midnight) days during any 12-month period (the period may be different from the tax year); or 2) the Bona Fide Residence Test, which requires that the taxpayer has been a bona fide resident of a foreign country for an uninterrupted period that includes an entire tax year.

Most Foreign Service spouses and dependents qualify under the bona fide residence test, but they must wait until they have been overseas for a full calendar year before claiming it. Keep in mind that self-employed taxpayers must still pay self-employment (Social Security and Medicare) tax on their income. Only the income tax is excluded.

Note: The method for calculating the tax on non-excluded income in tax returns that include both excluded and non-excluded income was changed, beginning in 2006, so as to result in higher tax on the non-excluded portion. (See the box on this page for a full explanation.)

Extension for Taxpayers Abroad

Taxpayers whose tax home is outside the U.S. on April 15 are entitled to an automatic extension until June 15 to file their returns. When filing the return, these taxpayers should write "Taxpayer Abroad" at the top of the first page and attach a statement of explanation. There are no late filing or late payment penalties for returns filed and taxes paid by June 15, but the IRS does charge interest on any amount owed from April 15 until the date it receives payment.

Standard Deduction

The standard deduction is given to non-itemizers. For couples, the deduction is now $11,600, and for singles, $5,800. Married couples filing separately get a standard deduction of $5,800 each, and head-of-household filers receive an $8,500 deduction. An additional amount is allowed for taxpayers over age 65 and for those who are blind.

Most unreimbursed employee business expenses must be reported as miscellaneous itemized deductions, which are subject to a threshold of 2 percent of Adjusted Gross Income. These include professional dues and subscriptions to publications; employment and educational expenses; home office, legal, accounting, custodial and tax preparation fees; home leave, representational and other employee business expenses; and contributions to AFSA's Legislative Action Fund. Unreimbursed moving expenses are an adjustment to income, which means that you may deduct them even if you are taking the standard de-

Foreign Earned Income — Important Note

The Foreign Earned Income Exclusion allows U.S. citizens who are not U.S. government employees and are living outside the U.S. to exclude up to $92,900 of their 2011 foreign-source income if they meet certain requirements.

Beginning in 2006, the IRS changed how the excluded amount must be calculated. This affects the tax liability for couples with one member employed on the local economy overseas. Previously, you subtracted your excluded income from your total income and paid tax on the remainder. The change now requires that you take your total income and figure what your tax would be, then deduct the tax that you would have paid on the excludable income.

For example:

A Foreign Service employee earns $80,000.

A spouse working as a teacher earns $30,000.

Before 2006: Tax on $110,000 minus $30,000 = tax on $80,000 = tax bill of $13,121.

Now (2006 and later): Tax on $110,000 = $20,615; tax on $30,000 = $3,749; total tax = $20,615 minus $3,749 = tax bill of $16,866.

duction. However, the deduction includes only the unreimbursed transportation, storage and travel costs of moving your possessions and yourself and your family to the new location; it does not include meals.

Medical expenses (including health and long-term care insurance, but not health insurance premiums deducted from government salaries) are subject to a threshold of 7.5 percent of Adjusted Gross Income. This means that to be deductible, the medical cost would have to exceed $2,250 for a taxpayer with a $30,000 AGI. There is no reduction of itemized deductions for higher income taxpayers for 2011.

State and local income taxes and real estate and personal property taxes remain fully deductible for itemizers, as are charitable contributions to U.S.-based charities for most taxpayers. Donations to the AFSA Scholarship Fund are fully deductible as charitable contributions, as are donations to AFSA via the Combined Federal Campaign. Individuals may also dispose of any profit from the sale of personal property abroad in this manner.

For 2011 tax returns, any interest paid on auto or personal loans, credit cards, department stores and other personal interest will not be allowed as itemized deductions. If such debts are consolidated, however, and paid with a home equity loan, interest on the home equity loan is allowable. Interest on educational loans will be allowed as an adjustment to gross income. Mortgage interest is still, for the most part, fully deductible. Interest on loans intended to finance investments is deductible up to the amount of net income from investments. Interest on loans intended to finance a business is 100-percent deductible. Passive-investment interest on investments in which the taxpayer is an inactive participant (i.e., a limited partnership) can be deducted only from the income produced by other passive activities. Interest on loans that do not fall into the above categories, such as money borrowed to buy tax exempt securities, is not deductible.

Home Leave Expenses

Employee business expenses, such as home leave and representation, may be listed as miscellaneous itemized deductions and claimed on Form 2106. In addition to the 2-percent floor, only 50 percent for meals and entertainment may be claimed (100 percent for unreimbursed travel and lodging). Only the employee's (not family members') home leave expenses are deductible. AFSA recommends maintaining a travel log and retaining a copy of home leave orders, which will help if the IRS ever questions claimed expenses.

It is important to save receipts: without receipts for food, a taxpayer may deduct only $45 to $58 a day (depending on the federal meals-and-incidentals per diem rate at the home leave address), no matter how large the grocery or restaurant bill. Lodging is deductible, as long as it is not with friends or relatives, or in one's own home. The IRS will disallow use of per diem rates and any expenses claimed for family members. If a hotel bill indicates double rates, the single room rate should be claimed; and, if possible, the hotel's rate sheet should be saved for IRS scrutiny.

Car rental, mileage and other unreimbursed travel expenses, including parking fees and tolls, may be deducted. The rate for business miles driven is 51 cents per mile for the first half of 2011 and 55.5 cents for the second half. Those who use this optional mileage method need not keep detailed records of actual vehicle expenses. They must, however, keep a detailed odometer log to justify the business use of the vehicle and track the percentage of business use. This optional mileage method applies to leased vehicles, as well.

Official Residence Expenses

Since Oct. 1, 1990, employees who receive official residence expenses have not been allowed to reduce their reportable income by 3.5 percent. The IRS ruling regarding ORE states that "usual expenses," defined as 3.5 percent of salary, are not deductible. Therefore the only expenses that are deductible are those above the 3.5 percent paid out of pocket. Employees should save receipts for any out-of-pocket expenses associated with their representational duties. These expenses can be deducted as miscellaneous business expenses.

Home Ownership

Individuals may deduct interest on up to $1 million of acquisition debt for loans secured by a first and/or second home. This also includes loans taken out for major home improvements. On home equity loans, interest is deductible on up to $100,000, no matter how much the home cost, unless the loan is used for home improvements, in which case the $1 million limit applies. The $100,000 ceiling applies to the total of all home equity loans you may have. The same generally applies to refinancing a mortgage. Points paid to obtain a refi-

nanced loan cannot be fully deducted the same year, but must be deducted over the life of the loan. It is advisable to save the settlement sheet (HUD-1 Form) for documentation in the event your tax return is selected by the IRS for audit.

Qualified residences are defined as the taxpayer's principal residence and one other residence. The second home can be a house, condo, co-op, mobile home or boat, as long as the structure includes basic living accommodations, including sleeping, bathroom and cooking facilities. If the second home is a vacation property that you rent out for fewer than 15 days during the year, the income need not be reported. Rental expenses cannot be claimed either, but all property taxes and mortgage interest may be deducted.

Rental of Home

Taxpayers who rented out their homes in 2011 can continue to deduct mortgage interest as a rental expense. Also deductible are property management fees, condo fees, depreciation costs, taxes and all other rental expenses. Losses up to $25,000 may be offset against other income, as long as the Modified Adjusted Gross Income does not exceed $100,000 to $150,000 and the taxpayer is actively managing the property.

Note that a taxpayer who retains a property manager does not lose this benefit, as this is still considered active management of the property. All passive losses that cannot be deducted currently are carried forward and deducted in the year the property is sold.

Sale of a Principal Residence

Current tax laws allow an exclusion of up to $500,000 for couples filing jointly and up to $250,000 for single taxpayers on the long-term gain from the sale of their principal residence. One need not purchase another residence to claim this exclusion. All depreciation taken after May 7, 1997, will, however, be recaptured (added to income) at the time of sale, and taxed at 25 percent.

Since January 2009 gain from the sale of a home can no longer be excluded from gross income for periods when it was rented out before you occupied it as a principal residence. The only qualification for the capital-gains exclusion is that the house sold must have been owned and occupied by the taxpayer as his or her principal residence for at least two of the last five years prior to the date of the sale. For the Foreign Service, the five-year period may be extended by any period during which the taxpayer has been away from the area on a Foreign Service assignment, up to a maximum of 15 years (including the five years). There are some exceptions to the two-year occupancy requirement, including a sale due to a "change in place of em-

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ployment" (this would include foreign transfers). This exclusion is not limited to a once-in-a-lifetime sale, but may be taken once every two years.

When a principal residence is sold, capital gains realized above the exclusion amounts are subject to taxation. This exclusion replaces the earlier tax-law provision that allowed both the deferral of gain and a one-time exclusion of a principal residence sale.

Temporary rental of the home does not disqualify one from claiming the exclusion. The new tax law requires only that you have occupied the house as your principal residence for the required period (two years out of five, extended). However, the 2009 legislation requires that the "two years out of five (extended)" cannot start until the date the home is occupied as a principal residence for the first time.

Under Internal Revenue Code Section 1031, taxpayers whose U.S. home may no longer qualify for the principal residence exclusion may be eligible to replace the property through a "tax-free exchange" (the so-called Starker Exchange). In essence, one property being rented out may be exchanged for another, as long as that one is also rented. In exchanging the properties, capital gains tax may be deferred. Technically, a simultaneous trade of investments occurs. Actually, owners first sign a contract with an intermediary to sell their property, hold the cash proceeds in escrow, identify in writing within 45 days the property they intend to acquire, and settle on the new property within 180 days, using the money held in escrow as part of the payment.

It is important to emphasize that the exchange is from one investment property to another investment property — the key factor in the IRS evaluation of an exchange transaction is the intent of the investor at the time the exchange was consummated. The IRS rules for these exchanges are complex and specific, with a number of pitfalls that can nullify the transaction. An exchange should never be attempted without assistance from a tax lawyer specializing in this field.

Calculating Your Adjusted Basis

Many Foreign Service employees ask what items can be added to the cost basis of their homes when they are ready to sell. Money spent on fixing up the home

for sale may be added to the basis. To qualify as legitimate fixing-up costs, the following conditions must be met: 1) the expenses must be for work performed during the 90-day period ending on the day on which the contract to sell the old residence was signed; 2) the expenses must be paid on or before the 30th day after sale of the house; and 3) the expenses must not be capital expenditures for permanent improvements or replacements (these can be added to the basis of the property, the original purchase price, thereby reducing the amount of profit). A new roof and kitchen counters are not "fix-up" items, but painting the house, cleaning up the garden and making minor repairs qualify.

State Tax Provisions

Most Foreign Service employees have questions about their liability to pay state income taxes during periods when they are posted overseas or assigned to Washington.

Members of the Foreign Service are not treated as domiciled in their countries of assignment abroad. Every active-duty Foreign Service employee serving abroad must maintain a state of domicile in the United States, and the tax liability that the employee faces varies greatly from state to state. In addition, there are numerous regulations concerning the taxability of Foreign Service pensions and annuities that vary by state.

The "State Overviews" (see p. 38) briefly review the laws regarding income tax and tax on annuities and pensions as they affect Foreign Service personnel by state. Please note that while AFSA makes every attempt to provide the most up-to-date information, readers with specific questions should consult a tax expert in the state in question at the addresses given. We also encourage readers to visit the state's tax Web site (also listed).

There are many criteria used in determining which state is a citizen's domicile. One of the strongest determinants is prolonged physical presence, a standard that Foreign Service personnel frequently cannot meet due to overseas service. In such cases, the states will make a determination of the individual's income-tax status based on other factors, including where the individual has family ties, where he or she has been filing resident tax returns, where he or she is registered to vote or has a driver's license, where he or she owns property, or where the person has bank accounts or other financial holdings.

In the case of Foreign Service employees, the domicile might be the state from which the person joined the Service, where his or her home leave address

is, or where he or she intends to return upon separation. For purposes of this article, the term "domicile" refers to legal residence; some states also define it as permanent residence. Residence refers to physical presence in the state. Foreign Service personnel must continue to pay taxes to the state of domicile (or to the District of Columbia) while residing outside of the state, including during assignments abroad, unless the state of residence does not require it. Members are encouraged to review the Overseas Briefing Center's guide to Residence and Domicile, available on AFSA's Web site at www.afsa.org/MemberServices/MemberGuidance/ResidenceandDomicile.aspx

A non-resident, according to most states' definitions, is an individual who earns income sourced within the specific state but does not live there or is living there for only part of the year (usually fewer than six months). Individuals are generally considered residents, and are thus fully liable for taxes, if they are domiciled in the state or if they are living in the state (usually at least six months of the year) but are not domiciled there.

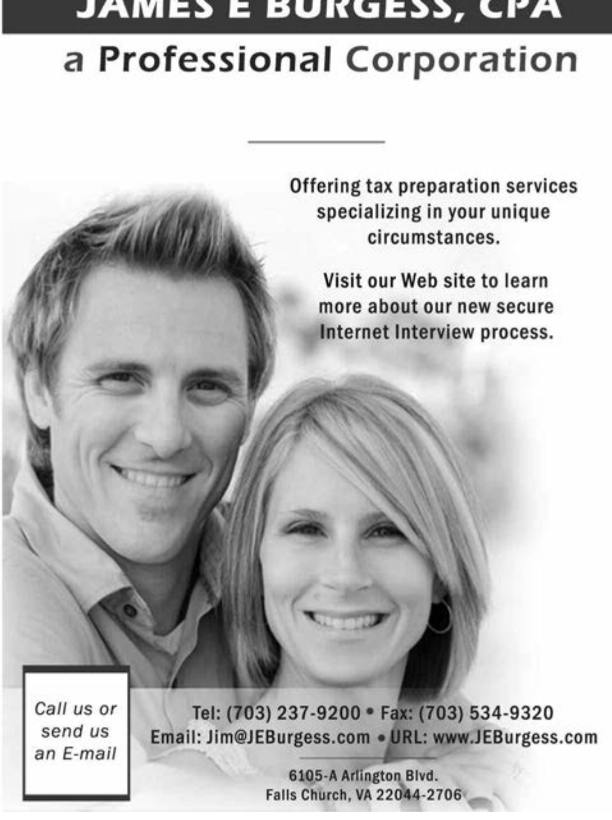
Foreign Service employees residing in the metropolitan Washington, D.C., area are required to pay income tax to the District of Columbia, Maryland or Virginia, in addition to paying tax to the state of their domicile. Most states allow a credit, however, so that the taxpayer pays the higher tax rate of the two states, with each state receiving a share. There are currently seven states with no state income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. In addition, New Hampshire and Tennessee have no tax on personal income but do tax profits from the sale of bonds and property.

There are 10 states that, under certain conditions, do not tax income earned while the taxpayer is outside the state: California, Connecticut, Idaho, Minnesota, Missouri, New Jersey, New York, Oregon, Pennsylvania and West Virginia. The requirements for all except California, Idaho, Minnesota and Oregon are that the individual not have a permanent "place of abode" in the state, have a permanent "place of abode" outside the state, and not be physically present for more than 30 days during the tax year.

California allows up to 45 days in the state during a tax year. These 10 states require the filing of non-resident returns for all income earned from in-state sources.

Foreign Service employees should also keep in mind that states could challenge the status of government housing in the future.

The following list gives a state-by-state state overview of the latest information available on tax liability, with addresses provided to get further information or tax forms. Tax rates are provided where possible. For further information, please



contact AFSA's Labor Management Office or the individual state tax authorities. As always, members are advised to double-check with their state's tax authorities.

To assist you in connecting with your state tax office, we provide the Web site address for each in the state-by-state guide, and an e-mail address or link where available. Some states do not offer e-mail customer service. The Federation of Tax Administrators' Web site, www.taxadmin.org, also provides much useful information on individual state income taxes.

State Overviews

ALABAMA: Individuals domiciled in Alabama are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Alabama's individual income tax rates range from 2 to 5 percent on taxable income over $500 for single taxpayers or $6,000 for married filing jointly. Write: Alabama Department of Revenue, 50 N. Ripley, Montgomery AL 36132.
Phone: (334) 242-1170.
E-mail: Link through the Web site, "About Us" then "Contacts," then "Income Tax"
Web site: www.ador.state.al.us

ALASKA: Alaska does not tax individual income or intangible or personal property. It has no state sales and use, franchise or fiduciary tax. Some municipalities levy sales, property and use taxes. Write: State Office Building, 333 West Willoughby Ave., 11th Floor, P.O. Box 110420, Juneau AK 99811-0420.
Phone: (907) 465-2320.
Web site: www.tax.state.ak.us

ARIZONA: Individuals domiciled in Arizona are considered residents and are taxed on any income that is included in the Federal Adjusted Gross Income, regardless of their physical presence in the state. Arizona's tax rate ranges in five brackets from a minimum of 2.59 percent to a maximum of 4.54 percent of taxable income over $300,000 for married filing jointly or $150,000 for single filers. Write: Arizona Department of Revenue, Taxpayer Information & Assistance, P.O. Box 29086, Phoenix AZ 85038-9086.
Phone: (602) 255-3381.
E-mail: For general questions, taxpayerassistance@azdor.gov
Web site: www.azdor.gov

ARKANSAS: Individuals domiciled in Arkansas are considered residents and are taxed on their entire income regardless of their physical presence in the state. The Arkansas tax rate ranges in six brackets from a minimum of 1 percent to a maximum of 7 percent of net taxable income over $32,700. Write: Department of Finance and Administration, Income Tax Section, P.O. Box 3628, Little Rock AR 72203-3628.
Phone: (501) 682-1100.
E-mail:
Individual.Income@dfa.arkansas.gov
Web site: www.arkansas.gov/dfa

CALIFORNIA: Foreign Service employees domiciled in California must establish non-residency to avoid liability for California taxes (see FTB Publication 1031). However, a "safe harbor" provision allows anyone who is domiciled in state but is out of the state on an employment-related contract for at least 546 consecutive days to be considered a non-resident. This applies to most FS employees and their spouses, but members domiciled in California are advised to study FTB Publication 1031 for exceptions and exemptions. The California tax rate ranges in six brackets: from 1.25 percent to a maximum of $4,352, plus 9.55 percent of the excess over $93,532 for married filing jointly or $46,766 for singles. Non-resident domiciliaries are advised to file on Form 540NR. Write: Personal Income Taxes, Franchise Tax Board, P.O. Box 1468, Sacramento CA 95812-1468.
Phone: toll-free 1 (800) 852-5711 (inside the U.S.); (916) 845-6500 (outside the U.S.).
E-mail: Link through the Web site's "Contact Us" tab.
Web site: www.ftb.ca.gov

COLORADO: Individuals domiciled in Colorado are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Colorado's tax rate is a flat 4.63 percent of federal taxable income plus or minus allowable modifications. Write: Department of Revenue, Taxpayer Service Division, State Capitol Annex, 1375 Sherman St., Denver CO 80261-0005.
Phone: (303) 238-7378.
E-mail: Link through "Contact Us" tab on "Taxes" page, then click on "E-Mail and Telephone" for subject matter options.
Web site: www.colorado.gov/revenue

CONNECTICUT: Connecticut domiciliaries may qualify for non-resident tax treatment under either of two exceptions as follows: Group A — the domiciliary 1) did not maintain a permanent place of abode inside Connecticut for the entire tax year; and 2) maintains a permanent place of abode outside the state for the entire tax year; and 3) spends not more than 30 days in the aggregate in the state during the tax year. Group B — the domiciliary 1) in any period of 548 consecutive days, is present in a foreign country for at least 450 days; and 2) during the 548-day period, is not present in Connecticut for more than 90 days; and 3) does not maintain a permanent place of abode in the state at which the domiciliary's spouse or minor children are present for more than 90 days. Connecticut's tax rate for married filing jointly ranges from 3 percent on the first

$20,000 and 5 percent of income over $20,000 to 6.5 percent of income over $1,000,000. For singles, the tax rate ranges from 3 percent on the first $10,000 and 5 percent of income over $10,000, to 6.5 percent on income over $500,000. Write: Department of Revenue Services, Taxpayer Services Division, 25 Sigourney St., Suite 2, Hartford CT 06106-5032.
Phone: (860) 297-5962.
E-mail: drs@po.state.ct.us
Web site: www.ct.gov/drs

DELAWARE: Individuals domiciled in Delaware are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Delaware's graduated tax rate ranges from 2.2 percent to 5.55 percent on income under $60,000, to a maximum of $2,944 plus 6.95 percent on any taxable income over $60,000. Write: Division of Revenue, Taxpayers Assistance Section, State Office Building, 820 N. French St., Wilmington DE 19801.
Phone (302) 577-8200.
E-mail: personaltax@state.de.us
Web site: www.revenue.delaware.gov

DISTRICT OF COLUMBIA: Individuals domiciled in the District of Columbia are considered residents and are subject to tax on their entire income regardless of their physical presence there. Individuals domiciled elsewhere are also considered residents for tax purposes for the portion of any calendar year in which they are physically present in the District for 183 days or more. The District's tax rate is 4 percent if income is less than $10,000; $400 plus 6 percent of excess over $10,000 if between $10,000 and $40,000; $2,200 plus 8.5 percent of excess over $40,000; and $29,945 + 8.95 percent of any excess above $350,000. Write: Office of Tax and Revenue, Customer Service Center, 1101 4th St. SW, Suite W270, Washington DC 20024.
Phone: (202) 727-4TAX (4829)
Email: taxhelp@dc.gov
Web site: www.cfo.dc.gov/cfo

FLORIDA: Florida does not impose personal income, inheritance or gift taxes. Beginning in Tax Year 2007, individuals, married couples, personal representatives of estates and businesses were no longer required to file an annual intangible personal property tax return reporting their stocks, bonds, mutual funds, money market funds, shares of business trusts and unsecured notes. Write: Taxpayer Services, Florida Department of Revenue, 5050 W. Tennessee St., Bldg. L, Tallahassee FL 32399-0100.
Phone: toll-free 1 (800) 352-3671, or (850) 488-6800.
E-mail: Link through Web site. Go to "Taxes," then "Tax Information," then "Questions?"
Web site: http://dor.myflorida.com/dor

David L. Mortimer, CPA, has over twenty years of experience in tax planning, research and compliance. This experience includes developing tax minimization strategies, planning business transactions, and tax audit representation.

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Web site: www.mytaxcpa.net

GEORGIA: Individuals domiciled in Georgia are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Georgia has a graduated tax rate rising to a maximum of 6 percent of taxable income of $10,000 and above for joint married filers and $7,000 for single filers. Write: Georgia Department of Revenue, Taxpayer Services Division, 1800 Century Blvd. NE, Atlanta GA 30345-3205.
Phone: (404) 417-4480.
E-mail for questions:
taxpayer.services@dor.ga.gov
E-mail for forms: taxforms@dor.ga.gov
Web site: https://etax.dor.ga.gov

HAWAII: Individuals domiciled in Hawaii are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. For 2011, Hawaii's lowest rate is 1.4 percent rising in six steps to, for married couples, 9 percent on income between $300,000 and $350,000; 10 percent between $350,000 and $400,000; and 11 percent on income above $400,000. Write: Oahu District Office, Taxpayer Services Branch, P.O. Box 259, Honolulu HI 96809-0259.
Phone: toll-free 1 (800) 222-3229, or (808) 587-4242.
E-mail: Taxpayer.Services@hawaii.gov
Web site: www.state.hi.us/tax

IDAHO: Individuals domiciled in Idaho for an entire tax year are considered residents and are subject to tax on their entire income. However, you are considered a non-resident if: 1) you are an Idaho resident who lived outside of Idaho for at least 445 days in a 15-month period; and 2) after satisfying the 15-month period, you spent fewer than 60 days in Idaho during the year; and 3) you did not have a personal residence in Idaho for yourself or your family during any part of the calendar year; and 4) you did not claim Idaho as your federal tax home for deducting away-from-home expenses on your federal return; and 5) you were not employed on the staff of a U.S. senator; and 6) you did not hold an elective or appointive office of the U.S. government other than the armed forces or a career appointment in the U.S. Foreign Service (see Idaho Code Sections 63-3013 and 63-3030). Idaho's tax rate rises in eight steps from a minimum of 1.6 percent to a maximum of $7,465 plus 7.8 percent on the amount of Idaho taxable income over $100,000. A non-resident must file an Idaho income tax return if his or her gross income from Idaho sources is $2,500 or more. Write: Idaho State Tax Commission, P.O. Box 36, Boise ID 83722-0410.
Phone: toll-free 1 (800) 972-7660.
E-mail: taxrep@tax.idaho.gov
Web site: www.tax.idaho.gov

ILLINOIS: Individuals domiciled in Illinois are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. It appears that under some circumstances, however, domiciliaries absent from the state throughout the year may not be subject to tax, so they should check with the Illinois Department of Revenue in advance. The Illinois tax rate has increased to a flat 5 percent of Illinois taxable income for 2011. Write: Illinois Department of Revenue, P.O. Box 19001, Springfield IL 62794-9001.
Phone: toll-free 1 (800) 732-8866, or (217) 782-3336.
E-mail: Link through "Contact Us," then "Taxpayer Answer Center"
Web site: www.revenue.state.il.us

INDIANA: Individuals domiciled in Indiana are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Indiana's tax rate remains a flat 3.4 percent for 2011. Some counties also charge a county income tax. Write: Indiana Department of Revenue, Individual Income Tax, P.O. Box 7207, Indianapolis IN 46207-7207.
Phone: (317) 232-2240.
E-mail: Link through the Web site's "Contact Us" tab.
Web site: www.in.gov/dor

IOWA: Individuals domiciled in Iowa are considered residents and are subject to tax on their entire income to the extent that income is taxable on the person's federal income tax returns. Iowa's 2011 tax rate rises in nine steps from 0.36 percent to a maximum of $4,091 plus 8.98 percent of taxable income over $64,755, depending on income and filing status. Write: Taxpayer Services, Iowa Department of Revenue, P.O. Box 10457, Des Moines IA 50306-0457.
Phone: (515) 281-3114.
E-mail: idr@iowa.gov
Web site: www.iowa.gov/tax

KANSAS: Individuals domiciled in Kansas are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. The Kansas tax rate rises from a minimum of 3.5 percent on Kansas taxable income under $15,000 to a maximum of $2,925 plus 6.45 percent of excess over $60,000 for joint filers, or $1,463 plus 6.45 percent of excess over $30,000 for single filers. Write: Kansas Taxpayer Assistance Center, Room 150, 915 SW Harrison, Topeka KS 66612.
Phone: (785) 368-8222.
E-mail: tac@kdor.ks.gov
Web site: www.ksrevenue.org

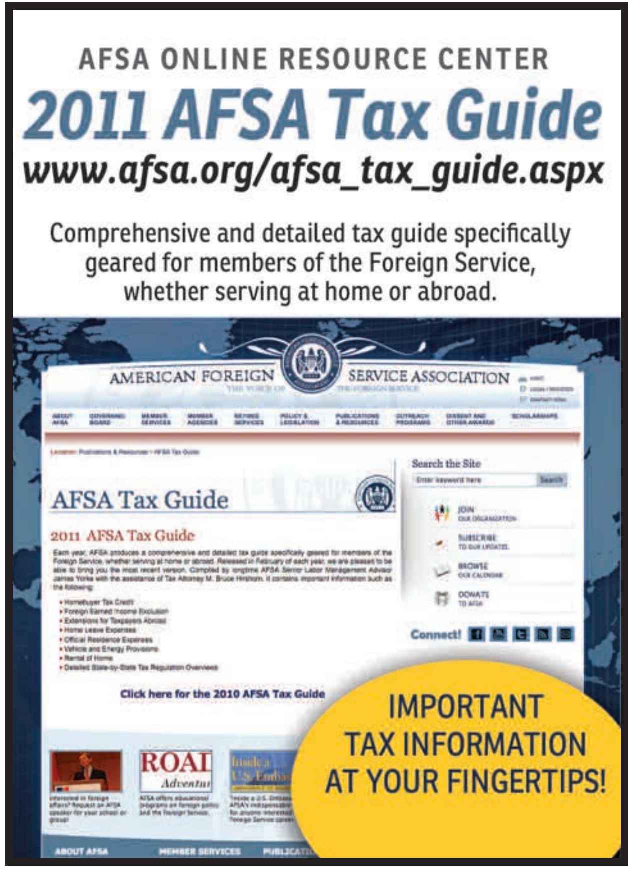
KENTUCKY: Individuals domiciled in Kentucky are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Kentucky's tax rate ranges from 2 percent on the first $3,000 of taxable income to $4,166 plus 6 percent on all taxable income over $75,000. Write: Kentucky Department of Revenue, Frankfort KY 40602.
Phone: (502) 564-4581.

E-mail: Link through the Web site's "Contact Us" tab.
Web site: revenue.ky.gov

LOUISIANA: Individuals domiciled in Louisiana are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Louisiana's tax rate for 2011 starts at 2 percent on the first $12,500 for single filers or $25,000 for joint filers, rising to 6 percent on more than $51,000 for single filers or $101,000 for joint filers. Write: Taxpayer Services Division, Individual Income Tax Section, Louisiana Department of Revenue, P.O. Box 201, Baton Rouge LA 70821-0201.
Phone: (225) 219-0102.
E-mail: Link through the Web site's "Contact Us" tab.
Web site: www.revenue.louisiana.gov

MAINE: Individuals domiciled in Maine are considered residents and are subject to tax on their entire income. Since Jan. 1, 2007, however, there have been "safe harbor" provisions. Under the General Safe Harbor provision, Maine domiciliaries are treated as non-residents if they satisfy all three of the following conditions: 1) they did not maintain a permanent place of abode in Maine for the entire taxable year; 2) they maintained a permanent place of abode outside Maine for the entire taxable year; and 3) they spent no more than 30 days in the aggregate in Maine during the taxable year. Under the Foreign Safe Harbor provision, Maine domiciliaries are treated as non-residents if they are present in a foreign country for 450 days in a 548-day period and do not spend more than 90 days in Maine during that period. Maine's tax rate in 2011 rises in three steps from a minimum of 2 percent to a maximum of $1,023 plus 8.5 percent of Maine taxable income over $19,950 for single filers or $2,045 plus 8.5 percent over $39,900 for married filing jointly. Write: Maine Revenue Services, Income Tax Assistance, P.O. Box 9107, Augusta ME 04332-9107.
Phone: (207) 626-8475.
E-mail: income.tax@maine.gov
Web site: www.maine.gov/revenue

MARYLAND: Individuals domiciled in Maryland are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Individuals domiciled elsewhere are also considered residents for tax purposes for the portion of any calendar year in which they are physically present in the state for an aggregated total of 183 days or more. Maryland's tax rate is $90 plus 4.75 percent of taxable income over $3,000 up to $150,000 if filing singly and $200,000 if filing jointly; it then rises steeply to $52,323 plus 5.5 percent on taxable income over $1,000,000. In addition, Bal-



timore City and the 23 Maryland counties impose a local income tax, which is a percentage of the Maryland taxable income, using Line 31 of Form 502 or Line 9 of Form 503. The local factor varies from 1.25 percent in Worcester County to 3.2 percent in Baltimore City and in Montgomery, Prince George's and Howard counties (see Web site for details for all counties). Write: Comptroller of Maryland, Revenue Administration Center, Taxpayer Service Section, Annapolis MD 21411.
Phone: toll-free 1 (800) 638-2937, or (410) 260-7980.
E-mail: taxhelp@comp.state.md.us
Web site: www.marylandtaxes.com

MASSACHUSETTS: Individuals domiciled in Massachusetts are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Salaries and most interest and dividend income are taxed at a flat rate of 5.3 percent. Some income (e.g., short-term capital gains) is taxed at 12 percent. Write: Massachusetts Department of Revenue, Taxpayer Services Division, P.O. Box 7010, Boston MA 02204.
Phone: (617) 887-6367.
E-mail: Link through the Web site's "Contact Us" tab.
Web site: www.dor.state.ma.us

MICHIGAN: Individuals domiciled in Michigan are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Michigan's tax rate remains 4.35 percent. Some Michigan cities impose an additional 1- or 2-percent income tax. Detroit imposes an additional 2.5-percent tax. Write: Michigan Department of Treasury, Lansing MI 48922.
Phone: toll-free (517) 373-3200.
E-mail: treasIndTax@michigan.gov
Web site: www.michigan.gov/treasury

MINNESOTA: Individuals domiciled in Minnesota are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Minnesota's tax rate is either 5.35 percent, 7.05 percent, or a maximum of 7.85 percent on taxable income over $75,891 for single filers or $134,171 for married filing jointly in 2011. Write: Minnesota Department of Revenue, 600 N. Robert St., Saint Paul MN 55101.
Phone: (651) 296-3781.
E-mail: indinctax@state.mn.us
Web site: www.taxes.state.mn.us

MISSISSIPPI: Individuals domiciled in Mississippi are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Mississippi's tax rate is 3 percent on the first $5,000 of taxable income, 4 percent on the next $5,000 and 5 percent on taxable income over $10,000 for all taxpayers, whether filing singly or jointly. Write: Department of Revenue, P.O. Box 1033, Jackson MS 39215-1033.
Phone: (601) 923-7000.
E-mail: Link through the Web site's "Contact Us" tab.
Web site: www.dor.ms.gov

MISSOURI: An individual domiciled in Missouri is considered a non-resident, and is not liable for tax on Missouri income if the individual has no permanent residence in Missouri, has a permanent residence elsewhere and is not physically present in the state for more than 30 days during the tax year. Missouri calculates tax on a graduated scale up to $9,000 of taxable income. Any taxable income over $9,000 is taxed at a rate of $315 plus 6 percent of the excess over $9,000. File a return yearly with Form MONRI. Write: Individual Income Tax, P.O. Box 2200, Jefferson City MO 65105-2200.
Phone: (573) 751-3505.
E-mail: income@dor.mo.gov
Web site: www.dor.mo.gov

MONTANA: Individuals domiciled in Montana are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Montana's tax rate for 2011 rises in six steps from 1 percent of taxable income under $2,700 to a maximum of 6.9 percent of taxable income over $16.000. See the Web site for various deductions and exemptions. Write: Montana Department of Revenue, P.O. Box 5805, Helena MT 59604.
Phone: (406) 444-6900.
E-mail: Link through the Web site's "Contact Us" tab at the bottom of the page.
Web site: mt.gov/revenue

NEBRASKA: Individuals domiciled in Nebraska are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. The 2011 individual income tax rates range in four steps from a minimum of 2.56 percent to a maximum of 6.84 percent of the excess over $54,010 for single and joint filers. If AGI is over $169,550 (both single and joint filers), an additional tax rate of between 0.172 and 0.428 percent is imposed. Write: Department of Revenue, 301 Centennial Mall South, P.O. Box 94818, Lincoln NE 68509-4818.
Phone: (402) 471-5729.
E-mail: Link through the Web site "Contact Us" page.
Web site: www.revenue.state.ne.us

NEVADA: Nevada does not tax personal income. There is a sales-and-use tax that varies from 6.85 percent to 8.1 percent depending on local jurisdiction. Additional ad valorem personal and real property taxes are also levied. Write: Nevada Department of Taxation, 1550 College Pkwy., Suite 115, Carson City NV 89706.
Phone: (775) 684-2000.
Web site: www.tax.state.nv.us

NEW HAMPSHIRE: The state im-

poses no personal income tax on earned income and no general sales tax. The state does levy, among other taxes, a 5-percent tax on interest and dividend income of more than $2,400 annually for single filers ($4,800 annually for joint filers) and an 8.5-percent tax on business profits, including sale of rental property. The inheritance tax was repealed in 2003. Applicable taxes apply to part-year residents. Write: Central Taxpayer Services, 109 Pleasant St., Concord NH 03301.
Phone: (603) 230-5920.
Web site: www.nh.gov/revenue

NEW JERSEY: A New Jersey domiciliary is considered a non-resident for New Jersey tax purposes if the individual has no permanent residence in New Jersey, has a permanent residence elsewhere and is not physically in the state for more than 30 days during the tax year. Filing a return is not required (unless the non-resident has New Jersey-source income), but it is recommended in order to preserve domicile status. Filing is required on Form1040-NR for revenue derived from in-state sources. Tax liability is calculated as a variable lump sum plus a percentage from a minimum of 1.4 percent of taxable gross income up to $20,000, 6.37 percent between $75,000 and $500,000, and a maximum of 8.97 percent on taxable gross income over $500,000. Write: State of New Jersey, New Jersey Division of Taxation, Technical Information Branch, P.O. Box 281, Trenton NJ 08695-0281.
Phone: (609) 292-6400.
E-mail: Link through the Web site's "Contact Us" page.
Web site: www.state.nj.us/treasury/taxation

NEW MEXICO: Individuals domiciled in New Mexico are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. The basis for New Mexico's calculation is the Federal Adjusted Gross Income figure. Rates rise from a minimum of 1.7 percent to a maximum of 4.9 percent on New Mexico taxable income over $16,000 for single filers and $24,000 for married filing jointly. Write: New Mexico Taxation and Revenue Department, Tax Information and Policy Office, P.O. Box 25122, Santa Fe NM 87504-5122
Phone: (505) 827-0700.
E-mail: Link through "E-mail Us" tab at bottom of home page.
Web site: www.tax.state.nm.us

NEW YORK: There is no tax liability for out-of-state income if the individual has no permanent residence in New York, has a permanent residence elsewhere and is not present in the state more than 30 days during the tax year. Filing a return is not required, but it is recommended to preserve domicile status. The tax rate rises in four steps from a minimum of 4 percent to a maximum of 6.85 percent of taxable income over $20,000 for single filers and $40,000 for married filing jointly. For the 2011 tax year, however, taxable income over $200,000 (singles) or $300,000 (joint filers) will be taxed at 7.85 percent; over $500,000 (single and joint filers) will be taxed at 8.97 percent. In New York City the maximum rate is 3.648 percent over $90,000 and 3.876 percent over $500,000. Filing is required on Form IT-203 for revenue derived from New York sources.

A 2001 opinion from the New York tax authorities stated that Foreign Service employees not domiciled in New York state but assigned to the U.S. United Nations office for a normal tour of duty would not be considered to be maintaining a permanent place of abode in New York state. Therefore, such individuals are not treated as resident individuals and are taxed as non-residents in New York state. Write: New York State Department of Taxation and Finance, Personal Income Tax Information, W.A. Harriman Campus, Albany NY 12227.
Phone: (518) 457-5181.
E-Mail: Link through Web site's "Answer Center" tab.
Web site: www.tax.ny.gov

NORTH CAROLINA: Individuals domiciled in North Carolina are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. For 2010, the tax rate rises in three steps from 6 percent of taxable income up to $12,750 for single or $21,250 for joint filers, to 7.75 percent of North Carolina taxable income over $60,000 for single filers and over $100,000 for joint filers. The surtax in 2009 and 2010 is no longer applicable in 2011. Residents must also report and pay a "use tax" on purchases made outside the state for use in North Carolina. Write: North Carolina Department of Revenue, P.O. Box 25000, Raleigh NC 27640-0640.
Phone: toll-free 1 (877) 252-3052.
From overseas, call 1 (252) 467-9000.
Web site: www.dor.state.nc.us

NORTH DAKOTA: Individuals domiciled in North Dakota and serving outside the state are considered residents and are subject to tax on their entire income. For 2011 and later tax years, the tax rate ranges in five steps from 1.51 percent on North Dakota taxable income up to $34,500 for singles and $57,700 for joint filers, 3.13 percent over $83,600 for singles and over $139, 350 for joint filers, to a maximum of 3.99 percent on taxable income over $379,150 for singles and joint filers. Write: Office of State Tax Commissioner, State Capitol, 600 E. Boulevard Ave., Dept. 127, Bismarck ND 58505-0599.
Phone: (701) 328-1247.
E-mail: individualtax@nd.gov
Web site: www.nd.gov/tax

OHIO: Individuals domiciled in

Ohio are considered residents and their income is subject to tax, using the Federal Adjusted Gross Income figure as a starting base. Ohio's 2011 tax rate starts at a minimum of 0.587 percent on taxable income under $5,100, rising in eight steps to a maximum of $9,281 plus 5.925 percent on taxable income over $204,200. Write: Ohio Department of Taxation, Taxpayer Services Center, P.O. Box 530, Columbus OH 43216-0530.
Phone: toll-free 1 (800) 282-1780 or (614) 387-0224.
E-mail: Link through Web site's "Contact Us" tab.
Web site: www.tax.ohio.gov

OKLAHOMA: Individuals domiciled in Oklahoma are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. The 2011 tax rate rises in eight stages to a maximum of 5.5 percent on taxable income over $8,700 for single filers and $15,000 for married filing jointly. Write: Oklahoma Tax Commission, Income Tax, P.O. Box 26800, Oklahoma City OK 73126-0800.
Phone: (405) 521-3160.
E-mail: otcmaster@tax.ok.gov
Web site: www.oktax.state.ok.us

OREGON: Individuals domiciled in Oregon are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Under a 1999 law, however, Oregon exempts domiciliaries who meet the foreign residence requirement for the Foreign Earned Income Exclusion, even though they may be federal employees. For 2011, Oregon's tax rate is 9 percent on taxable income over $7,600 for single filers and over $15,200 for married filing jointly, 10.8 percent on taxable income over $125,000 (single filers) and $250,000 (joint filers), and 11 percent for taxable income over $250,000 (single filers) and $500,000 (joint filers). Contact the Oregon Department of Revenue for up-to-date information. Oregon has no sales tax. Write: Oregon Department of Revenue, 955 Center St. NE, Salem OR 97301-2555.
Phone: (503) 378-4988.
E-mail: questions.dor@state.or.us
Web site: www.oregon.gov/DOR

PENNSYLVANIA: Pennsylvania tax authorities have ruled that Pennsylvania residents in the U.S. Foreign Service are not on federal active duty for state tax purposes, and thus their income is taxable compensation. For non-Foreign Service state residents, there is no tax liability for out-of-state income if the individual has no permanent residence in the state, has a permanent residence elsewhere, and spends no more than 30 days in the state during the tax year. However, Pennsylvania does not consider government quarters overseas to be a "permanent residence elsewhere." Filing a return is not required, but it is recommended to preserve domicile status. File Form PA-40 for all income derived from Pennsylvania sources. Pennsylvania's tax rate is a flat 3.07 percent. Write: Commonwealth of Pennsylvania, Department of Revenue, Taxpayer Services Department, Harrisburg PA 17128-1061.
Phone: (717) 787-8201.
E-mail: Link through the Web site's "Contact Us" tab.
Web site: www.revenue.state.pa.us

PUERTO RICO: Individuals who are domiciled in Puerto Rico are considered residents and are subject to tax on their entire income regardless of their physical presence in the commonwealth. Normally, they may claim a credit with certain limitations for income taxes paid to the United States on income from sources outside Puerto Rico, and for any federal taxes paid. Taxes range from 7 percent of taxable income up to $17,000 to 33 percent of the taxable income over $50,000 for all taxpayers. Write: Departamento de Hacienda, P.O. Box 9024140, San Juan PR 00902-4140.
Phone: toll-free 1 (800) 981-9236, or (787) 721-2020, ext. 3611.
E-mail: infoserv@hacienda.gobierno.pr
Web site: www.hacienda.gobierno.pr

RHODE ISLAND: Individuals domiciled in Rhode Island are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. The new 2011 Rhode Island tax rate ranges from 3.75 percent of taxable income up to $55,000 for all filers, and 5.99 percent of taxable income over $125,000 for all filers. Also, a 2010 change treats capital gains as ordinary taxable income. Refer to the tax division's Web site for current information and handy filing hints, as well as for forms and regulations. Write: Rhode Island Division of Taxation, Taxpayer Assistance Section, One Capitol Hill, Providence RI 02908-5801.
Phone (401) 574-8829.
E-mail: txassist@tax.state.ri.us
Web site: www.tax.state.ri.us

SOUTH CAROLINA: Individuals domiciled in South Carolina are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. South Carolina imposes a graduated tax rising in six steps from 3 percent on the first $5,480 of South Carolina taxable income to a maximum of 7 percent of taxable income over $13,700. Write: South Carolina Tax Commission, 301 Gervais St., P.O. Box 125, Columbia SC 29214.
Phone: (803) 898-5709.
E-mail: iitax@sctax.org or through the Contact Us tab.
Web site: www.sctax.org

SOUTH DAKOTA: There is no state income tax and no state inheritance tax. State sales and use tax is 4 percent; municipalities may add up to an additional 2 percent. Write: South Dakota Department of Revenue, 445 E. Capitol Ave., Pierre SD 57501-3185.

Phone: (605) 773-3311.
E-mail: Link through the Web site's "Contact Us" tab.
Web site: www.state.sd.us/drr2/revenue.html

TENNESSEE: Salaries and wages are not subject to state income tax, but Tennessee imposes a 6-percent tax on most dividends and interest income of more than $1,250 (single filers) or $2,500 (joint filers) in the tax year. Write: Tennessee Department of Revenue (Attention: Taxpayer Services), 500 Deaderick St., Nashville TN 37242.
Phone: (615) 253-0600.
E-mail: TN.Revenue@tn.gov
Web site: www.state.tn.us/revenue

TEXAS: There is no state personal income tax. Write: Texas Comptroller, P.O. Box 13528, Capitol Station, Austin TX 78711-3528.
Phone: toll-free 1 (877) 334-4112.
E-mail: comptroller.help@cpa.state.tx.us
Web site: www.window.state.tx.us

UTAH: Individuals domiciled in Utah are considered residents and are subject to Utah state tax. Utah requires that all Federal Adjusted Gross Income reported on the federal return be reported on the state return regardless of the taxpayer's physical presence in the state. Utah abolished variable tax rates in 2008 and now levies a flat tax of 5 percent on all income. Some taxpayers will be able to claim either a taxpayer tax credit or a retirement tax credit, or both (see Web site for explanation). Write: Utah State Tax Commission, Taxpayer Services Division, 210 North 1950 West, Salt Lake City UT 84134.
Phone: toll-free 1 (800) 662-4335, or (801) 297-2200.
E-mail: Link through the Web site's "Contact Us" tab.
Web site: tax.utah.gov

VERMONT: Individuals domiciled in Vermont are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. The 2011 tax rate ranges from 3.55 percent on taxable income under $34,500 for singles and $57,560 for joint filers to a maximum of 8.95 percent on taxable income over $379,150 for singles and joint filers. Write: Vermont Department of Taxes, Taxpayer Services Division, 133 State St., Montpelier VT 05633-1401.
Phone: (802) 828-2865.
E-mail: Link through the Web site's "Contact Us" tab.
Web site: www.state.vt.us/tax

VIRGINIA: Individuals domiciled in Virginia are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Individuals domiciled elsewhere are also considered residents for tax purposes for the portion of any calendar year in which they are physically present in the state for 183 days or more. These individuals should file using Form 760. In addition, Virginia requires non-residents to file Form 763 if their Virginia Adjusted Gross Income (which includes any federal salary paid during time they are residing in Virginia) exceeds $11,650 for single filers and married filing separately, or $23,300 for married filing jointly in tax year 2011. (These amounts will increase to $11,950 and $23,900, respectively, for Tax Year 2012 and beyond.) Individual tax rates are: 2 percent if taxable income is less than $3,000; $60 plus 3 percent of excess over $3,000 if taxable income is between $3,000 and $5,000; $120 plus 5 percent of excess over $5,000 if taxable income is between $5,000 and $17,000; and $720 plus 5.75 percent if taxable income is over $17,000. In addition, for tax years after 2009, Virginia is allowing employers of household help to elect, using Form R-1H, to pay state unemployment tax annually instead of quarterly. Write: Virginia Department of Taxation, Office of Customer Services, P.O. Box 1115, Richmond VA 23218-1115.
Phone: (804) 367-8031.
E-mail: Link through the Web site's "Contact Us" tab.
Web site: www.tax.virginia.gov

WASHINGTON: There is no state income tax and no tax on intangibles such as bank accounts, stocks and bonds. Residents may deduct Washington sales tax on their federal tax returns if they itemize deductions. Write: Washington State Department of Revenue, Taxpayer Services, P.O. Box 47478, Olympia WA 98504-7478.
Phone: toll-free 1 (800) 647-7706.
E-mail: Link through the Web site's "Contact Us" tab.
Web site: www.dor.wa.gov

WEST VIRGINIA: There is no tax liability for out-of-state income if the individual has no permanent residence in West Virginia, has a permanent residence elsewhere and spends no more than 30 days of the tax year in West Virginia. However, non-resident domiciliaries are required to file a return on Form IT-140 for all income derived from West Virginia sources. Tax rates rise in four steps from $150 plus 4 percent of taxable income over $5,000 for single filers and $300 plus 4 percent of taxable income over $10,000 for joint filers, to $1,387.50 plus 6.5 percent of taxable income over $30,000 for single filers and $2,775 plus 6.5 percent of taxable income over $60,000 for joint filers. Write: Department of Tax and Revenue, Taxpayer Services Division, P.O. Box 3784, Charleston WV 25337-3784.
Phone: toll-free 1 (800) 982-8297, or (304) 558-3333.
E-mail: TaxWVTaxAid@wv.gov or through the "Contact Us" page on the Web site.
Web site: www.wvtax.gov

WISCONSIN: Individuals domiciled

in Wisconsin are considered residents and are subject to tax on their entire income regardless of where the income is earned. Wisconsin's current tax rate ranges from 4.6 percent on income up to $10,180 for single filers or $13,580 for joint filers, to a maximum of 7.75 percent on income over $224,210 for single filers or $298,940 for joint filers. Write: Wisconsin Department of Revenue, Individual Income Tax Assistance, P.O. Box 8906, Madison WI 53708-8906.
Phone: (608) 266-2772.
E-mail: income@revenue.wi.gov
Web site: www.dor.state.wi.us

WYOMING: There is no state income tax and no tax on intangibles such as bank accounts, stocks or bonds. Write: Wyoming Department of Revenue, Herschler Building, 122 West 25th St., Cheyenne WY 82002-0110.
Phone: (307) 777-7320.
E-mail: DirectorOfRevenue@wy.gov
Web site: revenue.state.wy.us

State Pension & Annuity Tax

The laws regarding the taxation of Foreign Service annuities vary greatly from state to state. In addition to those states that have no income tax or no tax on personal income, there are several states that do not tax income derived from pensions and annuities. Idaho taxes Foreign Service annuities while exempting certain categories of Civil Service employees. Several Web sites provide more information on individual state taxes for retirees, but the Retirement Living Information Center at www.retirementliving.com/RLtaxes.html is one of the more comprehensive.

ALABAMA: Social Security and U.S. government pensions are not taxable. The combined state, county and city general sales and use tax rates range from 7 to as much as 12 percent.

ALASKA: No personal income tax. Some municipalities levy sales, property and/or use taxes.

ARIZONA: Up to $2,500 of U.S. government pension income may be excluded for each taxpayer. There is also a $2,100 exemption for each taxpayer age 65 or over. Arizona does not tax Social Security. Arizona state sales and use tax is 5.6 percent with additions depending on county and/or city.

ARKANSAS: The first $6,000 of income from any retirement plan or IRA is exempt. Social Security is not taxed. There is no estate or inheritance tax. State sales and use tax is 6 percent; city and county taxes may add another 6.5 percent.

CALIFORNIA: Pensions and annuities are fully taxable. The sales and use tax rate varies from 8.25 percent (the statewide rate) to 10.50 percent in some areas.

COLORADO: Up to $24,000 of pension income is exempt if individual is age 65 or over. Up to $20,000 is exempt if age 55 to 64. State sales tax is 2.9 percent; local additions can increase the total to as much as 9.9 percent.

CONNECTICUT: Pensions and annuities are fully taxable for residents. Social Security is exempt if Federal Adjusted Gross Income is less than $50,000 for singles or $60,000 for joint filers. Statewide sales tax is 6 percent. No local additions.

DELAWARE: Pension exclusions per person: $2,000 is exempt under age 60; $12,500 if age 60 or over. There is an additional standard deduction of $2,500 if age 65 or over if you do not itemize. Social Security income is excluded from taxable income. Delaware does not impose a sales tax.

DISTRICT OF COLUMBIA: A pension or annuity exclusion of $3,000 is applicable if 62 years or older. Social Security is excluded from taxable income. Sales and use tax is 6 percent, with higher rates for some commodities.

FLORIDA: There is no personal income, inheritance or gift tax. Florida repealed the "intangibles tax" in 2007. Florida imposes state sales tax and a use tax of 6 percent. Counties impose further taxes from 0.5 to 3.5 percent.

GEORGIA: $35,000 of retirement income is excluded for those who are 62 years or older, or totally disabled. Beginning in tax year 2012, up to $65,000 of retirement income will be excludable for taxpayers who are 65 or older. Social Security is excluded from taxable income. Sales tax is 4 percent statewide, with additions of up to 5 percent depending on jurisdiction.

HAWAII: Pension and annuity distributions from a government pension plan are not taxed in Hawaii. Social Security is not taxed. Hawaii charges a general excise tax of 4 percent instead of sales tax.

IDAHO: If the individual is age 65 or older, or age 62 and disabled, Civil Service Retirement System and Foreign Service Retirement and Disability System pensions qualify for a deduction in 2011 of up to $27,876 for a single return and up to $41,814 for a joint return. Up to $27,876 may be deducted by the unmarried survivor of the annuitant. The deduction is not available if married, filing separately; nor do Federal Employees' Retirement System or Foreign Service Pension System pensions qualify for this deduction. The deduction is reduced dollar for dollar by Social Security benefits. Social Security itself is not taxed. Idaho state sales tax is 6 percent; some local jurisdictions add as much as another 3 percent.

ILLINOIS: Illinois does not tax U.S. government pensions or Social Security. State sales tax is 6.25 percent. Local additions can raise sales tax to 11.5 percent

in some jurisdictions.

INDIANA: If the individual is over age 62, the Adjusted Gross Income may be reduced by the first $2,000 of any pension, reduced dollar for dollar by Social Security benefits. There is also a $1,000 exemption if over 65, or $1,500 if Federal Adjusted Gross Income is less than $40,000. There is no pension exclusion for survivor annuitants of federal annuities. Social Security is not taxed in Indiana. Sales tax and use tax in Indiana is 7 percent.

IOWA: Generally taxable. For 2009 and later tax years, however, a married couple with an income for the year of less than $32,000 may file for exemption, if at least one spouse or the head of household is 65 years or older on Dec. 31, and single persons who are 65 years or older on Dec. 31 may file for an exemption if their income is $24,000 or less. Over age 55, there is a pension/retirement income exclusion of up to $6,000 for single, head of household or qualifying widower filers and up to $12,000 for married filing jointly. The same income tax rates apply to annuities as to other incomes. Iowa is phasing out taxation of Social Security benefits, but a portion is still subject to tax in 2011. Statewide sales tax is 6 percent, with no more than 1 percent added in local jurisdictions.

KANSAS: U.S. government pensions are not taxed. Social Security is exempt if Federal Adjusted Gross Income is under $75,000. State sales tax is 6.3 percent, with additions of between 1 and 4 percent depending on jurisdiction.

KENTUCKY: Government pension income is exempt if retired before Jan. 1, 1998. If retired after Dec. 31, 1997, pension/annuity income up to $41,110 remains fully excludable for 2011. Social Security is exempt. Sales and use tax is 6 percent statewide, with no local sales or use taxes.

LOUISIANA: Federal retirement benefits are exempt from Louisiana state income tax. There is an exemption of $6,000 of other annual retirement income received by any person age 65 or over. Married filing jointly may exclude $12,000. State sales tax is 4 percent with local additions up to a possible total of 10.75 percent. Use tax is 8 percent regardless of the purchaser's location.

MAINE: Recipients of a government sponsored pension or annuity who are filing singly may deduct up to $6,000 ($12,000 for married filing jointly) on income that is included in their Federal Adjusted Gross Income, reduced by all Social Security and railroad benefits. For those age 65 and over, there is an additional standard deduction of $1,400 (single), $1,100 (married filing singly) or $2,200 (married filing jointly). General sales tax is 5 percent.

MARYLAND: Those over 65 or permanently disabled, or who have a spouse who is permanently disabled, may under certain conditions be eligible for Maryland's maximum pension exclusion of $26,100. Also, all individuals 65 years or older are entitled to an extra $1,000 personal exemption in addition to the regular $3,200 personal exemption available to all taxpayers. Social Security is exempt. See the worksheet and instructions in the Maryland Resident Tax Booklet. Maryland sales tax is 6 percent.

MASSACHUSETTS: Distributions made to a retiree from a federal employee contributory plan are excluded from Massachusetts gross income. Social Security is not included in Massachusetts gross income. Each taxpayer over age 65 is allowed a $700 exemption on other income. Sales tax is 6.25 percent.

MICHIGAN: In 2011, federal government pensions remain exempt from taxation in Michigan. For Tax Year 2012, there will be changes for those born after 1946, and greater changes for those born after 1952. Details at: www.michigan.gov/treasury. In 2011, pension benefits included in Adjusted Gross Income from a private pension system or an IRA are deductible to a maximum of $45,120 for a single filer, or $90,240 for joint filers. This maximum is reduced by the deduction taken for the government pension. Those age 65 or over may also be able to deduct part of their interest, dividends or capital gains included in the AGI up to $10,058 for single filers and to $20,115 for joint filers. Michigan has no city, local or county sales tax. The state sales tax rate is 6 percent.

MINNESOTA: Generally all pensions are taxable, but single taxpayers who are over 65 or disabled may exclude some income if Federal Adjusted Gross Income is under $33,700 and non-taxable Social Security is under $9,600. For a couple, the limits are $42,000 for Adjusted Gross Income and $12,000 for non-taxable Social Security. Statewide sales and use tax is 6.875 percent; some local additions may increase the total to 9.53 per cent.

MISSISSIPPI: Social Security and qualified retirement income from federal, state and private retirement systems are exempt from Mississippi tax. There is an additional exemption of $1,500 on other income if over 65. Statewide sales tax is 7 percent; local additions may add another 3 percent.

MISSOURI: In 2011, 80 percent of public pension income may be deducted if Missouri Adjusted Gross Income is less than $100,000 when married filing jointly or $85,000 for single filers, up to a limit of $33,703 for each spouse. In 2011 you may also deduct 80 percent of Social Security income if over age 62 and Federal Adjusted Gross Income is less than the limits above. Sales tax is from 5.1 to 8.8 percent, depending on location.

MONTANA: There is a $3,760 pen-

sion income exclusion if Federal Adjusted Gross Income is less than $31,370. This exclusion can be claimed by each spouse if both have retirement income, and it is reduced by $2 for every $1 over $30,320. Those over 65 can exempt an additional $800 of interest income for single taxpayers and $1,600 for married joint filers. Social Security is subject to tax. Montana has no general sales tax, but tax is levied on the sale of various commodities.

NEBRASKA: U.S. government pensions and annuities are fully taxable. Social Security is taxable. State sales tax is 5.5 percent, with local additions of up to 1.5 percent.

NEVADA: No personal income tax. Sales and use tax varies from 6.85 to 8.1 percent, depending on local jurisdiction.

NEW HAMPSHIRE: No personal income tax. The inheritance tax was repealed in 2003. There is a 5-percent tax on interest/dividend income over $2,400 for singles ($4,800 married filing jointly). A $1,200 exemption is available for those 65 or over. No general sales tax.

NEW JERSEY: Pensions and annuities from civilian government service are subject to state income tax, with exemptions for those who are age 62 or older or totally and permanently disabled. Singles and heads of households can exclude up to $15,000; those married filing jointly up to $20,000; those married filing separately up to $10,000 each. These exclusions are eliminated for New Jersey gross incomes over $100,000. Residents over 65 may be eligible for an additional $1,000 personal exemption. Social Security is not taxed. State sales tax is 7 percent.

NEW MEXICO: All pensions and annuities are taxed as part of Federal Adjusted Gross Income. Taxpayers 65 and older may exempt up to $8,000 (single) or $16,000 (joint) from any income source if their income is under $28,500 (individual filers) or $51,000 (married filing jointly). The exemption is reduced as income increases, disappearing altogether at $51,000. New Mexico has a gross receipts tax, instead of a sales tax, of 5.375 percent; county and city taxes may raise this to 8.6875 percent in some jurisdictions.

NEW YORK: Social Security, U.S. government pensions and annuities are not taxed. For those over age 59½, up to $20,000 of other annuity income (e.g., Thrift Savings Plan) may be excluded. See N.Y. Tax Publication 36 for details. Sales tax is 4 percent statewide. Other local taxes may add up to 5 percent.

NORTH CAROLINA: Pursuant to the "Bailey" decision, government retirement benefits received by federal retirees who had five years of creditable service in a federal retirement system on Aug.12, 1989, are exempt from North Carolina income tax. Those who do not have five years of creditable service on Aug. 12, 1989, must pay North Carolina tax on their federal annuities. In this case, up to $4,000 ($8,000 if filing jointly) of any federal annuity income is exempt. For those over 65, an extra $750 (single) or $1,200 (couple) may be deducted. Social Security is exempt. State sales tax is 4.5 percent; local taxes may increase this by up to 2.5 percent.

NORTH DAKOTA: All pensions and annuities are fully taxed, except for the first $5,000, which is exempt minus any Social Security payments. Sales tax is 5 percent. Local jurisdictions impose up to 2.5 percent more.

OHIO: Taxpayers 65 and over may take a $50 credit per return. In addition, Ohio gives a tax credit based on the amount of the retirement income included in Ohio Adjusted Gross Income, reaching a maximum of $200 for any retirement income over $8,000. Social Security is exempt. State sales tax is 5.5 percent. Counties and regional transit authorities may add to this, but the total must not exceed 8.5 percent.

OKLAHOMA: Individuals receiving FERS/FSPS or private pensions may exempt up to $10,000 if the Federal Adjusted Gross Income is under $100,000 for single filers or $200,000 for married filing jointly. Alternatively, in 2011 and later years, 100 percent of a federal pension paid in lieu of Social Security (i.e., CSRS and FSRDS — "old system" — including the CSRS/FSRDS portion of an annuity paid under both systems) is exempt. Social Security included in FAGI is exempt. State sales tax is 4.5 percent. Local and other additions may bring the total up to 9.5 percent.

OREGON: Generally, all retirement income is subject to Oregon tax when received by an Oregon resident. However, federal retirees who retired on or before Oct. 1, 1991, may exempt their entire federal pension; those who worked both before and after Oct. 1, 1991, must prorate their exemption using the instructions in the tax booklet. A tax credit of up to 9 percent of taxable pension income is available to recipients of pension income, including most private pension income, whose household income was less than $22,500 (single) and $45,000 (joint), and who received less than $7,500 (single)/ $15,000 (joint) in Social Security benefits. The credit is the lesser of the tax liability or 9 percent of taxable pension income. Oregon does not tax Social Security benefits. Oregon has no sales tax.

PENNSYLVANIA: Government pensions and Social Security are not subject to personal income tax. Pennsylvania sales tax is 6 percent. Other taxing entities may add up to 2 percent.

PUERTO RICO: The first $11,000 of income received from a federal pension can be excluded for individuals under 60. For those over 60 the exclusion is $15,000. If the individual receives more

than one federal pension, the exclusion applies to each pension or annuity separately. Social Security is not taxed.

RHODE ISLAND: U.S. government pensions and annuities are fully taxable. Sales tax is 7 percent.

SOUTH CAROLINA: Individuals under age 65 can claim a $3,000 deduction on qualified retirement income; those 65 years of age or over can claim a $10,000 deduction on qualified retirement income. A resident of South Carolina who is 65 years or older may claim a $15,000 deduction against any type of income ($30,000 if both spouses are over 65), but must reduce this figure by any retirement deduction claimed. Social Security is not taxed. Sales tax is 6 percent plus 1 percent in some counties. Seniors 85 and over pay 5 percent.

SOUTH DAKOTA: No personal income tax or inheritance tax. State sales and use tax is 4 percent; municipalities may add up to an additional 2 percent.

TENNESSEE: Social Security, pension income and income from IRAs and TSPs are not subject to personal income tax. Most interest and dividend income is taxed at 6 percent if over $1,250 (single filers) or $2,500 (married filing jointly). However, those over 65 with total income from all sources of less than $16,200 for a single filer and $27,000 for joint filers are completely exempt from all taxes. State sales tax is 7 percent with between 1.5 and 2.75 percent added, depending on jurisdiction.

TEXAS: No personal income tax or inheritance tax. State sales tax is 6.25 percent. Local options can raise the rate to 8.25 percent.

UTAH: In 2008, Utah instituted a flat tax rate of 5 percent of all income. The previous retirement income exclusion has been replaced for taxpayers over 65 by a retirement tax credit of $450 for single filers and $900 for joint filers. This is reduced by 2.5 percent of income exceeding $25,000 for single filers and $32,000 for joint filers. See the state Web site for details. State sales tax is 4.7 percent; local option taxes may raise the total to as much as 7.95 percent.

VERMONT: U.S. government pensions and annuities are fully taxable. State general sales tax is 6 percent; local option taxes may raise the total to 7 percent (higher on some commodities).

VIRGINIA: Individuals over age 65 can take a $12,000 deduction. The $12,000 deduction is reduced by one dollar for each dollar by which Adjusted Gross Income exceeds $50,000 for single, and $75,000 for married, taxpayers. All taxpayers over 65 receive an additional personal exemption of $800. Social Security income is exempt. The estate tax was repealed for all deaths after July 1, 2007. The general sales tax rate is 5 percent (4 percent state tax and 1 percent local tax).

WASHINGTON: No personal income tax. State sales tax is 6.5 percent; rates are updated quarterly. Local taxes may increase the total to 9.5 percent.

WEST VIRGINIA: $2,000 of any civil or state pension is exempt. Social Security income is taxable only to the extent that the income is includable in Federal Adjusted Gross Income. Taxpayers 65 and older or surviving spouses of any age may exclude the first $8,000 (individual filers) or $16,000 (married filing jointly) of any retirement income. Out-of-state government pensions qualify for the $8,000 exemption. State sales tax is 6 percent.

WISCONSIN: Pensions and annuities are fully taxable. Those age 65 or over may take two personal deductions totaling $950. Benefits received from a federal retirement system account established before Dec. 31, 1963, are not taxable. Since Tax Year 2008, Wisconsin has not taxed Social Security benefits included in Federal Adjusted Gross Income. For tax years after 2009, those over 65 and with a FAGI of less than $15,000 (single filers) or $30,000 (joint filers) may take a $5,000 deduction on income from federal retirement systems or IRAs. State sales tax is 5 percent. Most counties charge an extra 0.5 percent.

WYOMING: No personal income tax. State sales tax is 4 percent. Local taxes may increase the total to 6 percent. ❑

New for 2011

Energy credit: In 2011, the maximum non-business energy property credit is $500 minus amounts taken in 2006 through 2010. There are also other, lesser energy credits. For more on these and other provisions, go to www.irs.gov.

Capital gains and losses: Schedule D will look different for 2011. A new Form 8459 will be used to list all of the short-term and long-term capital gains and losses. The totals on Form 8459 flow to page 1 of Schedule D.

The AFSA Tax Guide is also available online at www.afsa.org/afsa_tax_guide.aspx

AFSA Hosts Expert Panel on the 20th Anniversary of the Fall of the USSR

BY STEFAN GEYER AND SHAWN DORMAN, AFSA STAFF

AFSA commemorated the 20th anniversary of the dissolution of the Soviet Union with a panel discussion event on Tuesday, Dec. 6, attended by more than 150 people.

The distinguished panel comprised four individuals who were highly involved in Soviet affairs as diplomats and journalists: Thomas Pickering, former under secretary for political affairs and U.S. ambassador to the United Nations from 1989 to 1992; Mark Palmer, former deputy assistant secretary of State for the Soviet Union and Eastern Europe, a former U.S. ambassador to Hungary and one of the State Department's top Soviet experts; and Marvin Kalb, celebrated journalist, reporter for CBS and NBC and former host of "Meet the Press."

Former "Nightline" anchor and broadcast journalism pioneer Ted Koppel served as moderator and shared stories of his own. As a bonus, former Ambassador to the Soviet Union Arthur Hartman attended the event and offered his insights on Russia today.

The participants drew on a tremendous wealth of experience managing and covering U.S.-Soviet and U.S.-Russian relations over the last two decades. The journalist/diplomat combination made for a lively discussion, which finished up with a 30-minute question-and-answer session. The talk was especially timely as panelists were able to offer insights into where they believe Russia is heading given recent elections and internal politics there.

The discussion began with anecdotes about the final days of the Soviet Union, with Ted Koppel telling about watching the flag of the Soviet Union come down over the Kremlin and the flag of the new Russian Federation being raised for the first time. He described being in the room with General Secretary Mikhail Gorbachev, noting that he, as an American journalist, was invited to stay in the Kremlin through this historic event to bear witness in much the same way John Reed, a journalist best remembered for his first-hand account of the Bolshevik Revolution, had been present at the birth of the Soviet Union in 1917.

(L to R) Veteran journalists Marvin Kalb and Ted Koppel recall the events surrounding the dissolution of the USSR.

(L to R) On Dec. 6, Amb. Mark Palmer, Marvin Kalb, Ted Koppel and Amb. Thomas Pickering discuss the fall of the Soviet Union.

Photos by Donna Ayerst

This theme of transition led the conversation, with some disagreements as to just how possible democracy is for Russia. The panelists also discussed the other former Soviet states and the ongoing challenges they face. The limited success of democratization efforts and the struggles these new states face in reconciling communist-era traditions and nationalism in an increasingly interconnected world were among the central questions that arose.

While there was overall agreement among the panelists that progress toward democracy in Russia has been extremely limited over the last 20 years, Amb. Palmer left the audience with the silver lining of hope that the younger generation today may lead the way to real change.

AFSA was honored to be able to bring together this panel and to join them in reflecting on the past and looking to the future.

Support for the event came from Booz Allen Hamilton, which generously sponsors AFSA's Speakers Program. ❑

AFSA's High School Essay Contest Offers New Prize

BY PERRI GREEN, SPECIAL AWARDS AND OUTREACH COORDINATOR

This year's 14th annual AFSA High School Essay Contest will be extra special, offering a much bigger prize for the winner than ever before, generating more entries and teaching more students about the Foreign Service in the process. AFSA is now partnering with Booz Allen Hamilton and Semester at Sea to offer this exciting competition.

The student who writes the winning essay will be awarded $2,500, a trip to Washington, D.C., with his or her parents to meet the Secretary of State, and a fully-funded Semester at Sea (upon acceptance to an accredited college).

Semester at Sea is administered by the Institute for Shipboard Education, with the University of Virginia serving as academic sponsor. The *M.V. Explorer* is the campus, taking students on a voyage traveling the world while completing a semester of classes.

On Dec. 2 and 3, AFSA staff members Perri Green and Shawn Dorman, along with Semester at Sea Assistant Director of Admissions Holly Tawil, managed an information table at the National Council on Social Studies Conference in Washington, D.C. The conference draws more than 4,000 social studies teachers and school administrators from every state.

(L to R) A conference participant stops by the AFSA/Semester at Sea table, managed by AFSA staff Perri Green and Shawn Dorman, and SAS staff member Holly Tawil.

The event offered a terrific opportunity to get the word out about the essay contest, as well as highlighting AFSA's *Inside a U.S. Embassy*, a key resource for students learning about the Foreign Service. Several hundred high school teachers and representatives from professional academic organizations came by the AFSA/Semester at Sea table to pick up information and talk to our representatives.

As many teachers asked how they could participate in the Semester at Sea program, AFSA is now considering the possibility of creating a competition for teachers to submit a curriculum on American diplomacy, a subject not currently taught in most high schools.

Please tell the high schoolers in your life (who are not children of Foreign Service, Booz Allen Hamilton or Semester at Sea employees) about AFSA's essay contest. Information on the contest may be found at www.afsa.org/essaycontest; information on *Inside a U.S. Embassy* for the classroom at www.afsa.org/inside; and more about Semester at Sea at www.semesteratsea.org. ❑

Donna Ayerst

Each year, the Associates of the American Foreign Service Worldwide honors outstanding volunteers serving abroad by presenting the Secretary of State Awards. In December, the awards ceremony added the Dorman Award for extraordinary, sustained volunteerism on behalf of the Foreign Service to former AAFSW President Faye Barnes. (L to R) Barnes, Sosa winner Matthew David Meredith; Jessa Farquhar, accepting for her mother, SOSA winner Chong O. Farquhar; SOSA winner Edward "Mick" Davis; Deputy Secretary of State William J. Burns; SOSA winner Nam Anandaroopa Nguyen; SOSA winner Maria Del Carmen Miller; and SOSA winner Sean P. Myers.

Rivkin • Continued from page 31

by bestowing an annual award on a mid-level Foreign Service officer who best exemplifies the practice of constructive dissent, a practice we are deeply proud of.

I have now served at Embassy Paris for more than two years, and have come to discover that the word "dissent" has no direct translation in French. In an effort to explain the concept to my French interlocutors, I describe the American Foreign Service Association's annual awards ceremony, which, in part, honors FS employees who have shown independent judgment by challenging the hierarchy on their own.

This description never fails to interest and impress my counterparts — a real compliment in the country of l'esprit critique. Not only does the word "dissent" appear to be quintessentially American, but presenting awards to men and women who criticize policy and offer solutions is, as well.

Encouraging Rigorous Debate

My father encouraged (some might say demanded) rigorous debate among the dedicated FSOs with whom he worked. He particularly wanted to hear from those who disagreed with him. In a tribute to President John F. Kennedy — who first appointed him ambassador — he praised the president's insistence on that too-rare quality of the "open mind." The president "… surrounded himself with persons of high intellect, as well as those of dogged practicality, and relished both the exposition and the rebuttal of views," recalled my father.

> My father encouraged (some might say, demanded) rigorous debate among the dedicated FSOs with whom he worked.

Perhaps JFK best articulated this notion in one of his last speeches: "Men who create power make an indispensable contribution to the nation's greatness, but the men who question power make a contribution just as indispensable, for they determine whether we use power or power uses us." (To which I would, of course, add women.)

As ambassador, I have developed an even deeper appreciation for those officers who show leadership by bringing intellectual courage and constructive dissent to policymaking. Someone like Joel Ehrendreich, the winner of last year's Rivkin Award, who, each year, submitted his dissent against a de facto policy until a representative of the U.S. government attended the annual Peace Memorial Ceremony at Hiroshima; or Rachel Schneller, who — afflicted with Post-Traumatic Stress Disorder resulting from service in Basra, Iraq — committed herself to correcting the State Department's failure to provide adequate mental health care to diplomats serving in war zones.

Ahead of Their Time

My brother and I have been proud to honor such individuals, whose intellectual courage is the real legacy of our family's award. They are, in Ambassador Edward Peck's words, individuals who "have demonstrated the courage to challenge the system from within, no matter the issue or the consequences of their actions."

Often ahead of their time, Rivkin Award winners have paved the way for new and innovative policies that have helped to define the role and place of the United States in an ever-changing world. Many have gone on to lead some of our most important diplomatic missions

AFSANEWSBRIEFS

"Serving Abroad … Through Their Eyes"

In 2012, the Department of Defense and the Department of State will recognize and celebrate the 50th anniversary of the Office of ART in Embassies (art.state.gov) through a collaborative photography exhibition, "Serving Abroad … Through Their Eyes." The exhibition will serve as a visual record of the experiences of U.S. military and Foreign Service members while abroad. The images — captured from their daily lives showing friendship, places, faces, loss or triumph — will bring their personal perspective and voice to a global audience.

Each photograph submitted may be one of up to a thousand selected for display in numerous venues, including the Smithsonian American Art Museum, the Pentagon and other prominent locations. Submissions will be accepted through Presidents' Day, Feb. 20. For full rules and instructions on how to submit an image, please visit www.ourmilitary.mil.

A panel of noted American experts will review the photographs and announce the selections on Armed Forces Day, May 19. The 10 "best in show" photographers will be invited to Washington, D.C., where they will participate in the exhibition's November VIP opening celebration.

Panel on State of European Union and the Euro

On Thursday, Feb. 16, at 2:30 p.m., AFSA, in conjunction with the *Foreign Service Journal*, will convene a panel discussion focusing on the state of the European Union and the euro as a common currency.

This event, which will be held at AFSA headquarters, could hardly be more timely, as this year marks the 20th anniversary of the Maastricht Treaty and the 10th anniversary of the adoption of the euro.

abroad, like Ryan C. Crocker, our current ambassador to Afghanistan.

Constructive dissent is in the best tradition of American diplomacy and is, as our father believed, "the highest form of patriotism." Please strengthen this tradition by considering nominating a mid-career officer (FS-3 – FS-1) for AFSA's William R. Rivkin Award.

Anyone May Nominate

For more than 40 years, AFSA has sponsored the dissent awards program, a program that is unique within the U.S. government. Four dissent awards are offered: The F. Allen "Tex" Harris Award for a Foreign Service specialist; the W. Averell Harriman Award for a junior officer (FS-7 – FS-4), the William R. Rivkin Award for a mid-level officer (FS-3 – FS-1) and the Christian A. Herter Award for a member of the Senior Foreign Service (FE-OC – FE-CA).

Anyone may nominate any individual or group of individuals. For nomination procedures, please see www.afsa.org/awards or e-mail Perri Green, AFSA's Coordinator for Special Awards and Outreach, at green@afsa.org. Deadline for nominations is Feb. 28. ❑

Leave a Legacy with a Real Estate Planned Gift

BY LORI DEC, SCHOLARSHIP DIRECTOR

Many donors who establish perpetual scholarships through AFSA's scholarship fund do not consider themselves wealthy. They are simply individuals who want to give back to a profession that served them well, or honor a loved one in a way that lives on in perpetuity.

AFSA's need-based financial aid scholarships and merit awards help undergraduate students of Foreign Service employees meet their college expenses. Planned giving also allows donors to receive estate planning benefits while fulfilling philanthropic goals.

A gift of real estate is a great way for active-duty and retired Foreign Service employees to support AFSA without stretching their finances thin. Such gifts can include personal residences, rental properties, overseas homes and undeveloped land. Like monetary gifts, real estate can be given outright through a bequest in a will or trust or to fund a charitable remainder trust or charitable gift annuity, to provide lifetime income for the donor or someone they designate.

Planned gifts (real estate or not) can provide additional income for yourself or your spouse, save on future estate taxes, transfer assets to your heirs efficiently to minimize estate taxes and avoid capital gains tax on appreciated assets. Such gifts become even more attractive when taking into account ongoing property taxes, maintenance costs and income taxes. It is often financially beneficial to donate properties to nonprofit organizations like the AFSA Scholarship Fund.

We encourage any AFSA members interested in making a deferred gift to the AFSA Scholarship Fund to consult their legal and financial advisers. Lori Dec, AFSA scholarship director, is also available to help you determine the planned gift option best suited to meet your needs and goals. You can contact Lori at (202) 944-5504 or dec@afsa.org. ❑

The Ambassador of the European Union to the United States, the Honorable João Vale de Almeida, has confirmed his participation as a panelist. Two additional experts, to be announced soon, will join him on the panel.

This program is offered as part of our ongoing AFSA/*Foreign Service Journal* panel series, focusing on important foreign affairs topics, and is made possible by donations to the Fund for American Diplomacy, AFSA's 501(c)(3) charitable organization. Please send your RSVPs to events@afsa.org.

INTERAGENCY WRITING COMPETITION

The Col. Arthur D. Simons Center for the Study of Interagency Cooperation is sponsoring a nationwide Interagency Writing Competition. This contest is open to the public and recognizes papers that provide insight and fresh thinking in advancing the knowledge, understanding and practice of interagency coordination, cooperation and collaboration at the tactical or operational level. Participants are encouraged to submit papers focused on one of two special topics: The interagency role in preventing conflict when dealing with failing or failed states; or the validity of the "whole of government" approach in dealing with the full range of homeland and national security threats.

First-place winners will receive a certificate, an engraved plaque and a $2,000 cash award, along with publication in one of the Simons Center's publications. Second- and third-place winners will receive $1,000 and $500 cash awards, respectively. A panel of judges will evaluate the entries on originality, substance of argument, style and contribution to advancing the understanding and practice of interagency cooperation at the operational and tactical levels.

Manuscripts may be submitted through the Simons Center Web site at www.TheSimonsCenter.org/competition, or e-mailed to editor@TheSimonsCenter.org with the subject line "Interagency Writing Competition." The deadline for submitting papers is Friday, March 16.

TRANSITION CENTER SCHEDULE OF COURSES
February-March 2012

Feb. 3	MQ950	High-Stress Assignment Outbrief
Feb. 6-7	MQ911	Security Overseas Seminar
Feb. 8	MQ117	Tax Seminar
Feb. 11	MQ116	Protocol
Feb. 15	MQ220	Going Overseas: Logistics for Adults
Feb. 17	MQ115	Explaining America
Feb. 25	MQ914	Youth Security Overseas Seminar
Feb. 27-28	MQ911	Security Overseas Seminar
Feb. 27-March 1	RV101	Retirement Planning Seminar
March 1	MQ703	Post Options for Employment & Training Overseas
March 2	MQ950	High-Stress Assignment Outbrief
March 5-6	MQ911	Security Overseas Seminar
March 5- April 30	RV102	Job Search Program
March 8	MQ803	Realities of Foreign Service Life
March 10	MQ802	Communicating Across Cultures
March 19-20	MQ911	Security Overseas Seminar
March 24	MQ200	Going Overseas for Singles/Couples w/o Kids
March 24	MQ210	Going Overseas for Families
March 24	MQ220	Going Overseas Logistics for Adults
March 24	MQ230	Going Overseas Logistics for Kids
March 29-30	MQ104	Regulations, Allowances and Finances

To register or for further information, e-mail the FSI Transition Center at FSITCTraining@state.gov.

Expansion of *Foreign Service Journal* Archive

AFSA is pleased to announce that we have added significantly to our digital online archive of the *Foreign Service Journal.* As of Jan. 1, visitors to our Web site are now able to access issues dating back to January 2003. This latest update adds three years of issues to the archive. We are currently in the process of further expanding the archive and hope to soon announce the addition of *FSJ* issues spanning 2000-2002.

You can access the *FSJ* archives at www.afsa.org/fsj. We hope you will take advantage of this free benefit.

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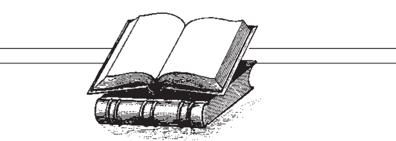

Books

The Beginning of the End?

The Unraveling: Pakistan in the Age of Jihad
John R. Schmidt, Farrar, Straus & Giroux, 2011, $27, hardcover, 288 pages.

Reviewed by Richard McKee

For years now, the news from Pakistan has been relentlessly confusing and grim: assassinations, suicide bombings, army assaults on and murky deals with militants, U.S. drones killing terrorists and civilians, CIA agents "outed" and contractors running amok. Behind all the violence looms a doomsday threat: jihadi seizure of the Pakistani nuclear arsenal.

Retired FSO John R. Schmidt has produced a superb guide for the perplexed. *The Unraveling: Pakistan in the Age of Jihad* is a fluidly written analysis of the mounting weaknesses of this "improbable state."

His primary sources, well-connected Islamabad contacts he cultivated as political counselor from 1998 to 2001, are impeccable. His survey of pervasive patron-client and clan relationships is also insightful, though it draws mainly on secondary sources, presumably reflecting the security risks awaiting U.S. diplomats who venture into the countryside.

> *Schmidt elucidates the tension between the two competing visions of Pakistan's future: inclusive and tolerant, or fundamentalist and harsh.*

Schmidt briskly furnishes curious observers with the background and context they need to understand how and why Pakistan evolved as it has since achieving independence in 1947. He cites the fundamental tension between the vision of the nation's founder, Mohammed Ali Jinnah, of a "homeland for the Muslims of the subcontinent" — which complements the tolerant Barelvi theology and Sufi practices of most Sunnis — and President Zia ul-Haq's imposition, during his 1977-1988 tenure, of laws embodying the harsh Deobandi interpretation of sharia.

He also elucidates the harmful impact of the refusal by the feudal landowners who dominate politics to permit their income to be taxed. For instance, once the army has consumed the lion's share of meager budget expenditures, little is left to fund public schools — a vacuum that is being filled by Deobandi madrassas. More generally, underpaid Pakistani bureaucrats demand bribes, alienating the poor and foreign investors alike.

Schmidt's profound understanding of Pakistan's military strategy is based on the views of retired generals whose confidence he gained. Because they remain obsessed with the perceived threat from India, most of the country's forces are deployed along the eastern border. As soon as the Soviets withdrew from Afghanistan in 1989, the notorious Inter-Services Intelligence Directorate pivoted to infiltrate Pakistani jihadis into Kashmir. There, they collaborated with local insurgents to pin down several Indian Army divisions.

Schmidt argues persuasively that there are no ISI rogues: whether they're training and equipping the Haqqani network militants who harass U.S. forces in Afghanistan or the Pakistani terrorists who ambush Indian troops in Kashmir, ISI officers

are following orders.

Similarly, after U.S. commandos killed Osama bin Laden last May, distrust between Islamabad and Washington threatened to disrupt U.S. economic assistance programs and delivery via Pakistani roads of materiel for U.S. forces in Afghanistan.

President (and General) Pervez Musharraf's decision to cast Pakistan's lot with the U.S. after 9/11 revealed the underlying contradictions in ISI manipulation of the militants. Schmidt recounts how jihadi groups, motivated by religious zeal, not Pakistani patriotism, turned on the government. They descended from the Waziristan mountains to threaten Islamabad, killed several thousand soldiers, terrorized the Shia and Ahmadi minorities, and almost assassinated Musharraf. The Lashkar-i-Taiba group further flaunted its disdain for his government by mounting a 2008 terrorist assault in Mumbai that almost led to war.

Schmidt rightly discounts some of the more neuralgic possible denouements: another army coup, jihadi control of the nuclear arsenal and ethnic or linguistic conflict (although he underestimates Sindhi, Baluchi and Pushtun resentment of Punjabi hegemony). Even so, Pakistan remains the South Asian state with the greatest capacity to harm U.S. interests, while India, to the Pakistanis' annoyance, offers the U.S. the greatest prospective benefits.

Authoritative and valuable as Schmidt's analysis is, he does not attempt to delve into Pakistanis' unresolved identity issues. So I recommend the insightful analysis in *Bangladesh and Pakistan: Flirting with Failure in South Asia* by Ambassador William Milam, who was his boss in Islamabad, as supplemental reading.

That lacuna aside, I cannot recommend this book highly enough to anyone seeking insights into Pakistan's complexity.

Retired FSO Richard McKee served as a political officer in Karachi, Pakistan desk officer, and consul general in Lahore. He is a member of the Foreign Service Journal Editorial Board.

Breaking Bad

The Pirates of Somalia: Inside Their Hidden World
Jay Bahadur, Pantheon Books, 2011, $26.95, hardcover, 320 pages.

REVIEWED BY DAVID DRINKARD

How *The Pirates of Somalia* came to be a book is almost as fascinating as its subject matter. In 2009 Jay Bahadur, 24, had just graduated from college and dreamed of becoming a journalist. But viewing the prospect of three years of journalism school as a "waste," he quit his market research job to fly to Somalia. There he started to interview pirates, Somali government officials and former hostages.

While fascinating, Bahadur's firsthand account makes clear that there is nothing exotic or entertaining about piracy. In fact, it is all about the bottom line — yet it's not a well-run business. Only profitable for a select few, it has accelerated Somalia's long descent into poverty and anarchy, and increased demand for qat, a narcotic leaf, and Toyota trucks.

What makes *The Pirates of Somalia* much more valuable than an extended blog entry is Bahadur's in-depth history and analysis. As he explains, the pirates do not see themselves as brigands, but as "saviors of the sea." And it is certainly true that Somali pirates started out trying to protect their traditional fishing areas from foreign fishermen, who came equipped with artillery to steal catches from local fishermen.

When those intruders began using fishing techniques that destroyed the reefs in the Puntland area of the country, the Somalis struck back. Following the collapse of President Mohammed Siad Barre's regime and his exile in 1991, Badahur notes, "The hodgepodge of rebel groups, militias and warlords that had inherited chunks of the Somali state began to arrest foreign fishing vessels and extort 'fines' for their release."

In 2003 Somali piracy underwent a metamorphosis when Mohamed Abdi Hassan, known as Afweney ("Big Mouth"), a former civil servant turned crime lord, became the first participant to realize the full potential of piracy as a business model. From 2003 to 2006, he and other pirates gradually accumulated capital and experience, continually reinvesting their ransom money in ongoing operations.

The situation deteriorated further in 2008, when the Puntland government ran out of money to pay its security forces. After that, Bahadur reports, "Many members of the police and army naturally sought alternative employment, and there was hardly a more lucrative career than piracy for a young man possessing nothing but a gun and a desperate disregard for his own life."

In order to establish a rapport with his interviewees, Bahadur gave them qat, and even chewed the "flower of paradise" with them. That decision has led to understandable questions about his methods and integrity, but his analysis is spot on.

My favorite chapter of the book is

Bahadur predicts that piracy will become more lucrative, prevalent and bloody — which is already happening.

titled "The Freakonomics of Piracy." (I *am* an economic cone Foreign Service officer, after all.) In it, Bahadur breaks down a recent ransom of $1.5 million among the pirates, cooks, interpreters and the commander of the qat, a newly created rank known only among Somali pirates, to document how the profits of the enterprise are distributed. (Hint: Those who do the hard work of actually taking over foreign vessels, at the risk of capture or death, do not reap the lion's share of their ill-gotten gains.)

Bahadur predicts that the business of piracy will become more lucrative, the gangs will get better organized, and the encounters at sea will grow bloodier, all of which is already happening. There are no easy solutions to these developments, and Bahadur does a good job of pointing out the complexities of the problem.

This combination of background, personal insight and enthralling interviews makes *The Pirates of Somalia* well worth reading. ■

David Drinkard is an economic cone Foreign Service officer working in the Economic Bureau's Office of Intellectual Property Enforcement. He has served in Ankara and Tel Aviv.

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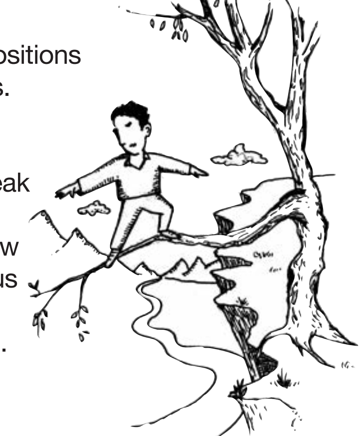

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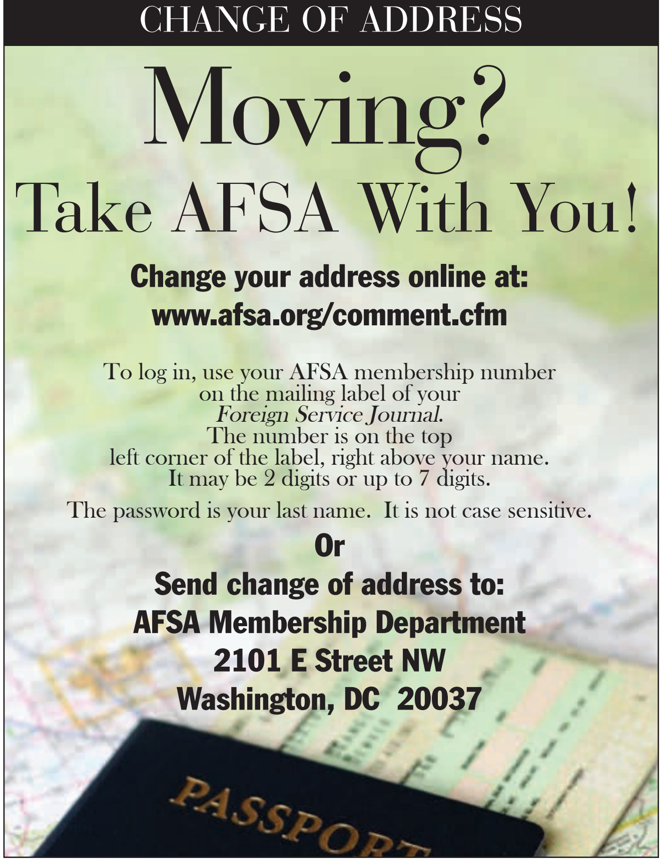

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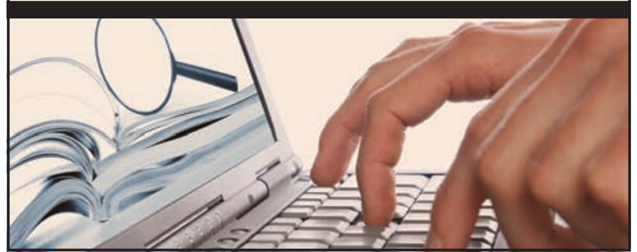

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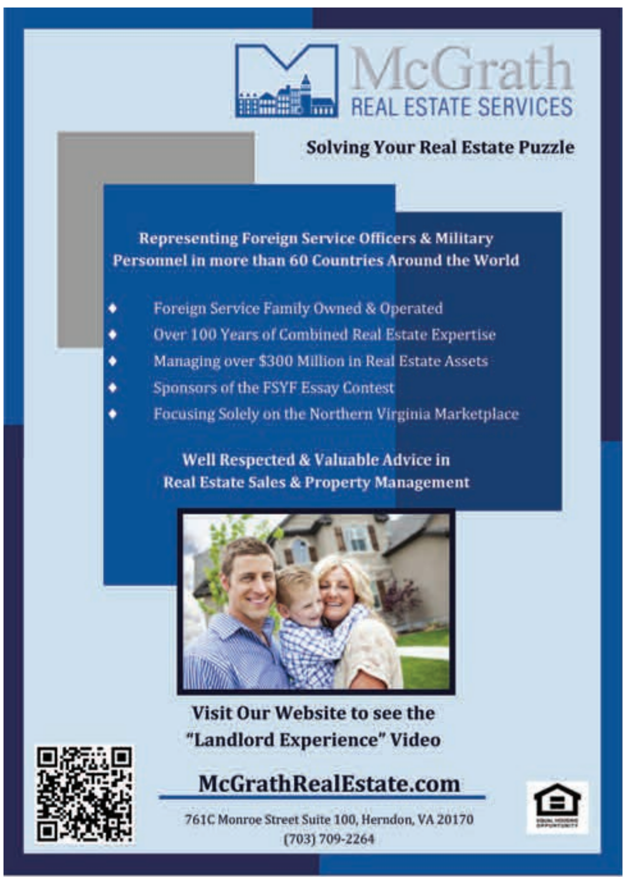

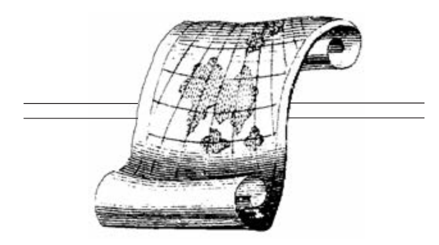

Reflections

Our Dog, the Spy

By Ginny Young

She was one of four Dalmatian puppies staring out from the trunk of a dilapidated Romanian car when my husband, Don, two friends and I went out one afternoon for a "lookey loo" in Bucharest. (That's an L.A. term for strolling around.)

It was the winter of 1988. We bought her for two packs of Kent cigarettes, and took her home to Dorbantz, where she pranced around in the feathery snow of our small backyard.

In remembrance of our stroll we named her Looky, which morphed into Lucky. That was occasionally awkward, as when a Romanian stopped to pet her as we walked in Herestrau Park, and asked her name. "Yes, lucky," he murmured. "She'll be going to USA."

Lucky came to our parties, a big red bow at her neck. She begged for peanuts, which she always received. (I know, I know; very bad for dogs.)

When the Romanian Revolution broke out in December 1989, Don was evacuated to the United States along with the other dependents. I brought Lucky into my office, where she drank water out of a brass vase I had for flowers.

But she absolutely refused even to taste either dry or canned dog food from the commissary, then the sole source of food and drink for all of us under siege in the embassy. (This may well have been due to the fact that every week, our maid, Emilia, cooked a special batch of chicken and rice for Lucky.)

After Nicolae Ceausescu and his wife were put to death and a new government took over, my office staff members were eager to tell me what their duties had been under the Communist Party government. We Americans knew, of course, that our government-supplied local employees were required to spy on us. But we didn't know what, specifically, they had been obliged to do.

We used to lament that they apparently didn't think we were important enough to spy on.

Radu, a tall, good-looking young man, had been a reliable embassy receptionist during the bad old days when Romanians had surged into the consular section, begging for consideration as potential refugees. We always believed that he was a captain, at least, in Romania's Department of State Security, universally known as Securitate. And now Radu confirmed that.

"Do you remember," he asked, "when you and Don were going away for the weekend, and I suggested that I could take care of Lucky for you?"

"Yes, of course," I responded. "That was very generous of you."

"Well," Radu said, "not really. My handler in Securitate ordered me to make that offer."

"Why, for God's sake?"

"They wanted me to plant a listening device on your dog."

I was stunned, dismayed at the idea of our dear little Lucky with some uncomfortable device under her silky, polka-dotted skin. Then I thought of the poor handler having to listen to tape after tape of "down, Lucky." "Sit, Lucky." "Stupid dog, come."

Since nothing had really happened to her, I was actually sort of pleased at Radu's news. All of my colleagues had described being followed by Securitate when they traveled, so Don and I used to lament that they apparently didn't think we were important enough to spy on. Now it turned out that we were.

After leaving Bucharest the next year, we took Lucky with us to Peru. There she again had a maid to feed her and walk her in the park. We then brought her home to Washington, D.C. (No maids here, so we did the honors.)

Did Lucky know that she'd come a long way from the trunk of that dented old car in the square of Bucharest, three years before?

I doubt it. She took red bows and peanuts for granted, and began to nip at the grandchildren. ■

Ginny Young accompanied her late husband, Jim Carson, on several Foreign Service tours before his death in 1973. She then joined the Foreign Service herself, serving in Hong Kong, Mexico and Romania. New Academia Publishers will release her memoir, Peregrina: Adventures of an American Consul, *later this year.*

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