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PRESIDENT'S VIEWS

Training: Think Outside the Cubicle

BY MARSHALL P. ADAIR

Virtually every major study of the Foreign Service since the 1970s has stressed the need to improve training. Sadly, most of those recommendations are still waiting to be implemented.

The Foreign Service Institute has made many adjustments over the years. It does an exemplary job, providing the best foreign language training in the country, excellent area studies courses, an intensive economics course, and, most recently, strengthened management training. Nevertheless, the State Department and the Foreign Service have never managed what the military does so well: to provide coherent, developmental education at each stage of an individual's career in preparation for progressively higher levels of responsibility.

There are substantial obstacles. Shortages of financial resources, and of FSOs to fill positions while others study are two of the most important. They will require constant attention. However, there is also an important obstacle within our own system: insufficient incentives for members of the Foreign Service to seek training.

In 1970, the report "Diplomacy for the '70s" noted the reluctance of Foreign Service officers to accept extended training that would take them out of the mainstream. That problem still exists. As former FSI Director Teresita Schaeffer commented in a 1997 *FSJ* article, "Diplomats ...

Marshall P. Adair is the president of the American Foreign Service Association.

*Arranging
academic credit
for FSI courses
would make
training much
more attractive.*



don't like to go to school." In fact, part of Foreign Service culture brands training as a "break" or "goofing off."

The Foreign Service needs stronger incentives, reliable over time, to encourage its officers and specialists to make the investment in training. Requiring training is not enough, because the service does not have the discipline to enforce such a mandate over time. Policies which include training as part of promotion precepts aren't enough, because policies often change. The recently implemented financial incentives for advanced language training are great, but not broad enough, and they may not last either.

It is time to provide academic credit for courses taken at or through FSI. Credits which could be put towards degrees elsewhere would be an incentive isolated from the vagaries of policy. In addition to preparing employees to do better work in the Foreign Service, such credits could be viewed as an investment for the future. After many years the Defense Department

decided accreditation was necessary for the National Defense University, and this was completed in 1997. The diplomatic profession is no less demanding than the military. Its professional education should be as good.

The idea of accreditation has been raised in the past and rejected with different arguments: employees would earn degrees and then leave; FSOs really aren't interested in academic degrees; and accrediting FSI is too complicated and expensive. But other government departments do offer degrees, and State needs to be competitive. If degrees make one more marketable, Foreign Service officers and specialists are likely to be interested. And, credit would not necessarily have to come from FSI. It might be provided by another accredited institution, such as the National Defense University or private universities.

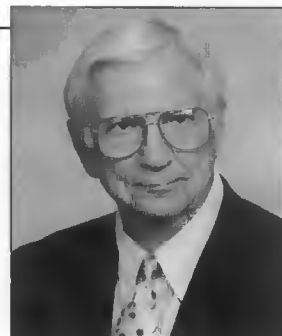
The ambivalence of Americans towards international affairs today limits resources and perforce reduces the consistency of personnel policies. In this environment, the Foreign Service will be progressively less able to rely on its own devices to ensure an effective profession. It must find ways to build more channels of support to the service from other government agencies and the private sector. Forging a more dynamic relationship with academia would help move training for the Foreign Service into a new dimension, and build a stronger foundation for the future. If this requires changing FSI's traditional approach to professional education, then let's get on with it. ■



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JOURNAL DESPATCH

The FSJ and Professional Standards

By EDWARD MARKS AND BOB GULDIN

The *Foreign Service Journal* has two fundamental charges given it by the Governing Board of AFSA. One is to be "a primary means of communicating AFSA news and views to the membership," largely a function of the *AFSA News* section. A second is "to be a forum for the lively debate of relevant issues in foreign policy." These objectives are not intended, nor are they seen, as contradictory. To be a forum for debate of relevant issues in foreign policy means that the *Journal* should be receptive to controversial subjects and controversial articles — and certainly not to reflect only one predetermined *Journal* position. As our masthead says, "Material appearing herein represents the opinions of the writers and does not necessarily represent the views of the *Journal*, the Editorial Board, or AFSA."

As we hope all of our readers are aware, *Journal* articles are not subject to clearance by any governmental body, and not even by the AFSA Governing Board. The Editorial Board and the editorial staff together generally review and approve articles and we rely on our authors to marshal evidence for their conclusions. We attempt to obtain a range of opinion on what we call "focus issues," such as a dis-

Edward Marks, a retired FSO, is the chairman of the Journal's Editorial Board. Bob Guldin is the editor of the Journal.

*The article
"Why We Got Out"
by Anthony
Ieronimo and
Nikolai Wenzel has
attracted much
attention,
both positive and
negative.*



cussion of the Foreign Service as a career. We do not usually solicit opposing opinions to a specific article for publication in the same issue, but we do always offer a right to respond in the next available issue.

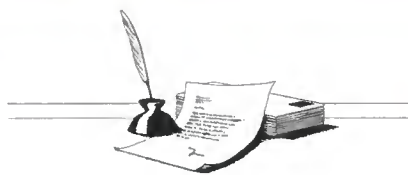
Controversy and personal opinion often mean criticism, of people (if only by implication) as well as institutions. Still, the *Journal*, as the publication of the Foreign Service community, should be considerate and careful of the personal reputation of our colleagues in the Foreign Service. We should not avoid criticizing, but we are not in the business of trashing our colleagues.

However, some of our readers have argued that the article in the

December *Journal*, "Why We Got Out" by Anthony Ieronimo and Nikolai Wenzel, did precisely that. These readers asserted that, by publishing an article in which those who were the objects of accusations were easily identified, the *Journal* became a party to character assassination. While others have indicated that the authors were not alone in their views, we take this criticism very seriously.

We at the *Journal* do not wish to avoid responsibility or evade criticism. If, in providing a forum for professional comment and criticism, we inadvertently crossed any boundary line of responsible journalism, we deeply regret that. We are reviewing, and will revise if necessary, our procedures to ensure that criticism is relevant and appropriate.

The *Journal* will continue to seek comment on subjects of interest to our community, including those that arouse controversy. We count on our readership to keep us honest on these matters, and earnestly solicit articles of opinion, "Speaking Out" pieces and letters to the editor on any subject, including the contents, style and general performance of the *Journal* itself. And, of course, as the "Letters to the Editor" section of the *Journal* for this month and future months will demonstrate, we are glad to publish comments, corrections, and criticisms on the Ieronimo-Wenzel article in particular. ■



LETTERS

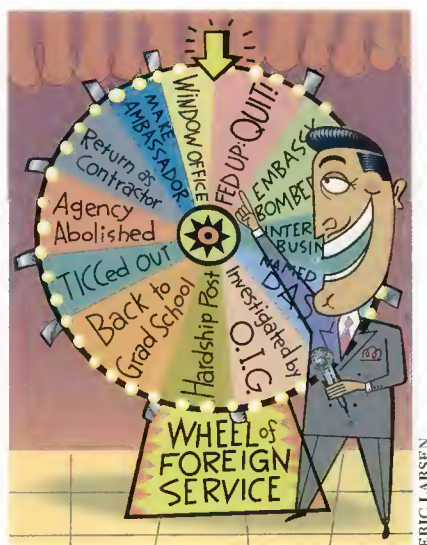
Surprised and Disappointed

I was surprised and disappointed that the *FSJ* chose to publish the article "Why We Got Out" by Anthony Ieronimo and Nikolai Wenzel (December '99 issue) without affording the many officers depicted in the article an opportunity to comment or respond.

I take a back seat to no one in my defense of open debate about any element of the Foreign Service. And while I disagree with the broad brush used by the authors to paint virtually all FSOs as obsequious sycophants, I support their right to express that opinion. At the same time, principles of fundamental fairness — not to mention the mutual respect inherent in a collegial organization such as ours — would dictate that a full and fair picture should have been presented by offering those mentioned in the article a chance to present their views alongside those of the authors.

Maura Harty
Principal DAS
Bureau of Consular
Affairs

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ERIC LARSEN

Don't Leave Now

I am impressed that Anthony Ieronimo and Nikolai Wenzel have so accurately captured the many warts of the Foreign Service in only one tour abroad as junior officers. Their choice to leave is unfortunate, because the service needs more officers who have the knowledge, skills and abilities to change its abysmal personnel and management systems by voicing constructive dissent and applying themselves from within.

Their article focuses on State's system, and in so doing is guilty of a myopic view of the Foreign Service. The Foreign Service is more than the State Department, and the problems they describe apply to most, if not all of the other agencies housed in U.S. embassies, such as Agriculture, Commerce, USIA, AID, ACDA, Defense and the intelligence agencies.

We all suffer from some degree of bad management in our home agencies. But truth be told, things are getting better. The longest journey begins with a small step, and those of us plugging away in the ranks choose to stay on for many reasons, including a desire to leave the Foreign Service a better place.

Scott E. Bleggi
FAS Outreach Office
Des Moines, Iowa

Maligned Integrity

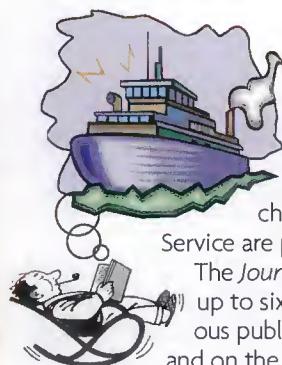
During my fourth tour in the Foreign Service, I viewed a film by Constantin Costa-Gavras entitled "Missing." From my experience, I realized that I was not viewing history, but someone's interpretation of it. I understand a number of Foreign Service officers eventually won court cases against the film's producers for the film's misinterpretation of their factual role during and after the overthrow of the Allende government in Chile in 1973.

I sensed the same inability to separate fact from fiction in an article in

Correction

Due to a copy-editing error, a crucial "not" was omitted from a sentence in "I Would Do It All Again" by Phyllis Oakley in the December *FSJ*. Oakley originally wrote: "I served as assistant secretary in the State Department twice. I never served overseas as an ambassador, but did not miss it, having been an ambassador's wife." The *Journal* apologizes for the error.

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The *Foreign Service Journal* is seeking works of fiction of up to 3,000 words for its annual summer fiction issue. Stories should have an overseas setting. Story lines or characters involving the Foreign Service are preferred, but not required.

The *Journal's* editorial board will select up to six stories in May for simultaneous publication in the July/August issue and on the *Journal's* web site. All stories must be previously unpublished. Submissions should be unsigned and accompanied by a cover sheet with the author's name, address, telephone numbers and email address.

Deadline for submissions is May 1, 2000. No Exceptions.

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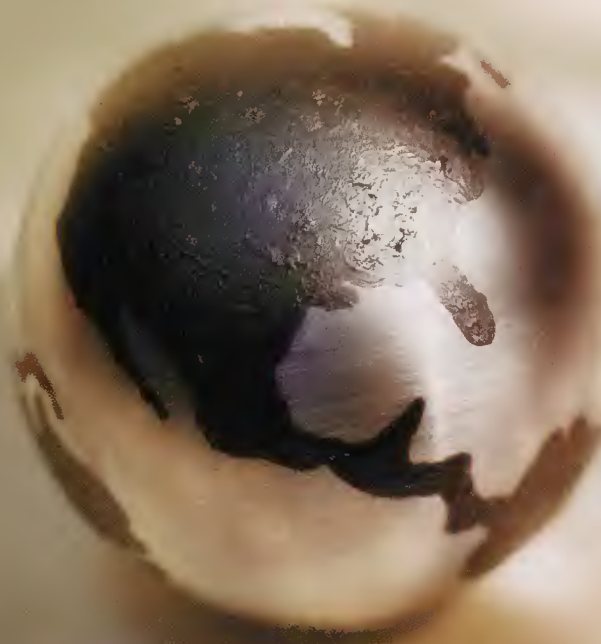
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LETTERS

the December edition entitled "Why We Got Out." The article had a basis in historical events, but then flowed into misrepresentations and conjectures that, like the film "Missing," maligned the integrity and performance of many officers and spouses who have dedicated their lives to the Foreign Service.

The authors were obviously disillusioned with the Foreign Service and perhaps presently are seeking work writing for Oliver Stone. But what I cannot comprehend is the *Journal's* failure to query stateside or at-post officers identified directly or indirectly in the article about the authors' claims. To what journalistic standard does the *Foreign Service Journal* adhere? Regrettably, I now question the integrity of every article I read in the *Journal*, past and future.

Consequently, I wish to discontinue my membership of some 20 years in AFSA. If ever I have a future desire to read the *Foreign Service Journal*, I anticipate, unless it improves its journalistic standards, to conveniently find a copy of the latest edition next to the *News of the World* at a local supermarket's checkout line.

Jim Lane
 FSO
 Embassy Mexico City

The Rot is Deep

I can only praise Ieronimo and Wenzel who spoke up in "Why We Got Out." They have brought to the light of day a key structural problem in the Foreign Service. Morale doesn't matter to those who run State. Getting the job done and looking good does. The best career path is to be a superstaff and have a senior enough mentor to shove you into fast-track jobs.

In my 25 years in the Foreign Service, I've read and heard a lot of fine words on improving morale,

making people better managers, more sensitivity ... it was blather.

First, the examination process itself weeds out anyone who won't be a "good soldier." What the system wants is an "ambitious elite" who have no other goal in life than getting ahead, fitting in with the system and jumping where they're told to jump. Originality and brilliance are fine — so long as they are tools to support what those in charge want.

There's tremendous social and professional pressure against anyone who dares to question or speak out. Think of what that leaves behind.

I have also served on a mid-level promotion panel and on innumerable review panels and I can swear to the irrelevancy and inaccuracy of EER ratings on management skills. In case after case, officers who were nightmare supervisors, who had active grievances against them, were not only given kudos for their "management" skills but occasionally even awards. The rot is deep.

So far, only AID has even considered a rating system where peers and supervisors get to rate their supervisors. Even when FSOs are candidates for significant management positions (e.g., DCMs, principal officer positions or ambassadors), no one actually polls the people they supervised.

Only a heart and brain transplant at the top three or four tiers would give me hope for a better service.

So, to the authors of "Why We Got Out" — thank you for speaking out. May at least someone read it with an open mind. I am waiting for a day when the Foreign Service will value all its junior officers enough to try to fix the system's errors when they leave. Let's leave behind the attitude that it's always the officer's fault and never the system's.

Teresa Chin Jones,
 FSO, retired
 Arlington

LETTERS

Grow Up

I am writing in response to the article "Why We Got Out." As a third-tour officer whose first tour was a consular stint in Lima (where we also dealt with bad management, internal and external fraud, and overwork), whose second tour was a Pol/GSO rotation in Abidjan (where the entire mission dealt with an exceptionally difficult and unrealistic management team, understaffing, and overwork), and who is midway through a third tour in Washington (where I work in a superb office, love my job and go home at five o'clock every day), I would say that Wenzel and Ieronimo were correct to get out during their first tour.

To answer some of the authors' points:

1. I have never been servile in my life and have to laugh when trying to match that description to the FSOs I know, unless the authors define servile as being polite and respectful to one's superior officers.

2. Administrative nightmares: Well, no argument there. But they did, after all, willingly and knowingly go to work for a government bureaucracy.

3. Nepotism: I find the situations described in this article unacceptable. Even if these arrangements work well in a specific situation, among specific people, the general policy regarding nepotism should be strictly enforced.

4. Corridor reputation: Grow up. A corridor reputation, whatever it may be called, exists in every aspect of professional and personal life.

5. Don't Rock the Boat: I and other FSOs I know have rocked the boat often and hard. We didn't always win, but then we weren't always right either. Pick your battles, do the best you can, and know when to let go.

6. Malfeasance: The guilty sometimes go unpunished. We should fight this sad fact with all our energy and

will, in society and in the Foreign Service. Having seen an unfortunately high number of internal fraud investigations in my short career, I can attest that all these situations, if not actually caused by, were at least encouraged by lack of internal controls and/or management interest. Sadly, FS managers often view internal controls as a demonstration of a lack of trust, instead of as simply good management and caring enough about one's employees to protect them.

I agree that bad management is the State Department's greatest problem and challenge. What can I do about that? I can fight to get the training I need. I can work to produce results that management at all levels sees as accomplishing stated goals. I can contribute my ideas and opinions to AFSA and encourage it to work with management. I can treat my colleagues and those I supervise as a part of the process of change. I can recognize that nothing worthwhile ever comes easily. I can become the kind of officer that a good supervisor will allow to have input into the decision-making process. I can stick around and devote the talents I bring to the Foreign Service to making these changes happen.

Or I could leave — and believe me I have seriously considered that option. However, I did not join the Foreign Service expecting to immediately (or ever, really) negotiate peace treaties in Bosnia or change world economic or political policy. I joined the Foreign Service because I wanted to serve my country in an organization that I think has unique value and can provide me with unique opportunities. I have worked for and with some of the best and the brightest, most motivated and inspiring people I've met in my 42 years — and some of the worst.

Jennifer L. Schools
Consular Officer
Washington, D.C.



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LETTERS

Now Follow Up

I have been reading the *Journal* for 15 years and the December 1999 issue is undoubtedly the best yet.

You identified most of the problems with the Foreign Service. Now the hard part: follow-up. I have often said that the Foreign Service is a multi-national corporation that does not function like one. Not only does the right hand not know what the left hand is doing, the right hand often does not know that the left hand exists. There may be rational explanations for this condition, but we need to become more integrated, accountable, responsive and efficient. Perhaps the *Journal* can serve as a vehicle to help us achieve that goal.

Lewis K. Elbinger
Personnel Officer
Embassy New Delhi

Turks and Armenians

Regarding Patrick Allitt's "Disobedient Diplomats and Other Heroes" (October '99 *FSJ*), his section on Leslie Davies, an American diplomat in Eastern Turkey in 1915-1916, necessitates a footnote. This footnote is not intended to be exculpatory, but rather to shed light on the historical circumstances in which Davies operated.

First, Allitt fails to make the distinction between the current Republic of Turkey and the Ottoman Empire; these regimes are as different as Schroeder's government in Germany today and the Second Reich of Kaiser Wilhelm II. Second, Allitt glosses over Turco-Armenian relations in the Ottoman Empire, as if the incidents of 1915-16 were the starting point of their

relationship. He implies that the Ottoman Turks just decided one day to pick up their cudgels capriciously and persecute their Christian subjects. But this is not the case.

Prior to World War I, Armenian merchants, artisans, architects, and stock traders enjoyed a fairly affluent existence in the Ottoman Empire, especially relative to the Turkish Anatolian peasant. True, Christians and Jews were exempt from military and police service and were forced to pay a higher tax than the Muslim Turks, Arabs, Bosnians, etc. Yet, they enjoyed a high degree of commercial success and freedom of worship.

Brutal as the Ottomans were, they did not practice systematic ethnic cleansing. They protected the Jews and maintained order in the



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Holy Lands. The Ottomans did suppress dissent ferociously when necessary, as did the Russians, British, Chinese and any other imperial hegemon. But Ottoman suppression did not discriminate, whether the rebel was a Bosnian, Egyptian, Circassian, or Greek. In 1492, when the Sephardic Jews of Spain were being persecuted during the Inquisition, the Ottoman sultan sent his fleet to pick them up and offer them refuge.

When the Ottoman Empire blundered into the First World War, it was fighting for survival on three fronts: Thrace/Bosphorus Straits; the Caucasus and Palestine. With the Ottoman military stretched thin, and an already dilapidated economy exhausted, every able-bodied Muslim male was being mustered to the fronts.

During this period, the Allied Powers instigated the Armenians (as well as the Greeks and Arabs) to revolt against the Ottomans. With the promise of a homeland, training, supplies and weapons, many Armenian nationalists jumped at this opportunity. Suddenly, the Ottoman Empire was facing a fourth, internal front: an armed insurrection within its homeland from once-loyal subjects. The Ottoman Empire, a military dictatorship since 1908, under duress, and enraged at this treachery, reacted swiftly. Lacking the professional soldiers and know-how to pacify this insurrection without causing injury to innocents, the Ottoman Empire called on its Kurdish Irregulars to forcibly remove the bulk of the Armenian population from the Turkish population. These irregulars lacked the ability to discern the loyal Armenian from the rebellious Armenian. They moved the Armenians en masse, regardless of the consequences. The Ottoman government passed dra-

conian measures against aiding and abetting the enemy.

This forced march is a brutal chapter in Ottoman history and whatever the circumstances, there is no excuse for any government to brutalize the elderly, women, or children. However, this incident is not a reflection on the current Turkish Republic or the Turkish people. When Allitt refers to "the Turkish massacre of their Armenian population," he subtly and unfairly indicts the Turkish people.

Whatever the Turkish Republic's current position on this episode, it is not liable for the actions of a despotic and deposed regime. The U.S. diplomat Leslie Davies courageously saved untold lives at great risk to himself, as Allitt points out. But the historical background in which Davies operated needs to be described as well.

Zofar Gali
Bureau of Diplomatic
Security
Frankfurt, Germany

Priority to Domestic Partners?

I am responding to the letter from FSO Bryan Dalton (November '99 FSJ) regarding the "need" for his same-sex partner to receive full benefits.

I am an information management specialist who has served for over 20 years, in nine countries. In that time I have received area studies only once, had one six-week language course, and have never enjoyed diplomatic immunity. I have had CD plates on my car in two countries, and only because the local government issued CD plates to all U.S. Embassy employees, not just those on the diplomatic list.

Now Dalton feels his partner should be given these things as a matter of course. I am appalled, but in all

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honesty, would not be too surprised if the department were to actually start giving same-sex partners these benefits over direct-hire staff personnel. I've lost count of the times I was told there was no room for me in language or area studies because they were being filled by spouses. Now these hard-to-get slots are to be filled by same-sex partners.

Before the department starts in on extra benefits for same-sex partners, I feel they should try harder to give benefits to direct-hire staff employees. I would love to get the same benefits as a Foreign Service officer. Maybe in spite of being heterosexual, I should find an officer of the same sex and call myself her partner?

It's time that AFSA sees that staff employees stop being treated as sec-

ond-class citizens. Take care of your direct-hire staff first!

*Carol P. Burris
Information Management
Specialist
Guatemala City*

Kept In the Dark

I commend Arthur Lowrie's criticism (November '99 Letters) of Henry Kissinger's "justification" for withdrawing U.S. support from the Iraqi Kurds. Like Lowrie I was kept in the dark about what was going on while I was political counselor at Embassy Tehran (1972-74).

The issue is less the withdrawing of aid than the beginning of it in the first place. No sensible rationale for helping a foredoomed Kurdish revolt against Baghdad

can ever be found. Perhaps that's the reason it was kept secret.

*Andrew Killgore
FSO, retired
Washington, D.C.*

Asian Values?

David Hitchcock was a wonderful area director to work for, one for whom I have an enormous amount of respect. It was therefore all the more disappointing to read his apologetic for "Asian values" in the December '99 FSJ ("The Bulldozer and the Olive Tree"). Those values are, for the most part, simply an excuse for maintaining the privileges and immunities of the oligarchic kleptocracy that runs too many countries.

Modernizing, reforming, and developing "too fast" have nothing to do with any social unrest that the

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developing world may experience. If anything, its problems stem from modernizing and freeing up economies and societies too slowly. What the proponents of Asian values want is to make millions without the inconvenience of paying their workers living wages or giving them decent living conditions (including a healthy environment).

What they fail to account for is that educating workers doesn't just make them better wage slaves, it enables them to become dissatisfied with the way they are treated. I refuse to accept that this is a bad thing.

Factory owners in many countries say that the wages they pay their workers are a matter of cultural context and economic necessity. Are we to think the same of the

obscene profits that these owners, in the name of the traditional values of deference to elders, pile up in their Swiss bank accounts? The predations of the Marcos and Suharto families have much more to do with the violence and disruption that their countries experienced than do the uncertainties of modernization. The Asian value of mass theft is not one for which I have any sympathy.

*C. David Noziglia
Bureau of South Asia
Affairs
Office of Public Diplomacy
Washington, D.C.*

Missing Fourth Leg

On reading David Hitchcock's article ("The Bulldozer and the Olive Tree," December issue) I noted the author's reference to "the missing

'fourth leg'" of U.S. foreign policy and wanted to call your readers' attention to our Office's new *Electronic Journal* (EJ) on Language and Civil Society, which can be accessed through <http://e.usia.gov/forum/journal>.

Although this EJ is primarily designed for English teachers around the world many public diplomacy sections at U.S. embassies worldwide are making it available to other key audiences.

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*George Wilcox
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"Consider our relationship with Russia. Ten years ago, Ronald Reagan was being toasted in Moscow. Today, the prevailing wind is anti-Americanism. Not our fault, the Clintonites say. But who broke America's word to the Russians that if they withdrew the Red Army from Europe, we would not move NATO an inch closer to their frontiers?"

— PATRICK J.

BUCHANAN,

SPEAKING AT THE
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HAITI: FIVE YEARS LATER

One segment of the Nov. 14, 1999 edition of "60 Minutes" took a hard look at whether U.S. aid to Haiti since the restoration of democracy has been squandered. As correspondent Mike Wallace put it in his introduction, "Five years ago, President Clinton spent \$1 billion when he sent some 20,000 American troops down to Haiti to restore the government of President Jean-Bertrand Aristide... To make sure that investment wasn't wasted, the U.S. has spent millions more in foreign aid to help that Caribbean nation's fledgling democracy learn to observe the rule of law. Fact is, the U.S. has spent more money in the past five years trying to establish the rule of law in Haiti than anywhere else in the world."

So what has the U.S. gotten for its money? Not very much, according to most of the people the program interviewed. For example, Wallace interviewed former Justice Department attorney Maurice Geiger, an expert on court reform who went to Haiti four years ago to help an American contractor, Checchi & Co., launch a justice reform program. Today, Geiger is one of that program's harshest critics, and a visit to the national penitentiary made clear why.

The prison was built for 300-400 inmates but houses 1,800 people, in terrible conditions. Even worse, some 90 percent of the inmates are pretrial detainees, not convicted criminals, and many are teenagers. Four years after the U.S. began pouring millions of dollars into reforming the Haitian legal system, almost none of the prisoners have lawyers and many do not even know the charges against them.

Asked to comment, Phyllis Forbes, head of USAID's office in Port au Prince for the past two years, emphasized that journalists were able to enter the jail and insisted that conditions were better than they had been. Pressed to explain why the detainees had no lawyers, Forbes responded, "I don't know what their situation is; I don't know which prisoners you were talking to." USAID subsequently did its own investigation and found that only 3 percent had received lawyers through the legal aid program Checchi & Co. has been administering since 1995.

Michel Jacobs, who oversees the program for the firm, defends its record and dismisses Geiger as a disgruntled former employee. He asserted that the program has assisted about 15,000 prisoners since its inception and should be rated a success, but Geiger points out that it is still common for Haitians to spend a year or two in jail awaiting trials for offenses that only carry a 30-day sentence. "60 Minutes" next went to a neighborhood court in the capital, where the court clerk's case management system — after training given by Checchi & Co. — consisted of stacks of unnumbered files stuffed into drawers and heaped all over the floor.

Delving deeper, Geiger found that Checchi's top man in Haiti, Jim Smith, had been disbarred from the California Bar following conviction on several felonies related to attempts to defraud the U.S. USAID had never investigated Smith's background, and when Geiger informed them of it, they made no effort to have him removed, though Checchi & Co. did force him to resign four months later. In fact, Wallace reported, it was USAID which insisted that Smith be hired in the first place, though no one



CLIPPINGS

would talk to him on camera about it. The agency is now in the process of selecting a new contractor, and the Haitian justice minister, Camille LeBlanc, says he wants his government more involved in the program.

NSA INTELLIGENCE BREAKDOWN

The National Security Agency, America's premier code-breaking and electronic eavesdropping organization, is rapidly losing its effectiveness, according to an article by investigative reporter Seymour Hersh in the Dec. 6, 1999 *New Yorker*:

"Through mismanagement, arrogance, and fear of the unknown," Hersh writes, "the senior military and civilian bureaucrats who work at the agency's headquarters in Fort Meade, Md., have failed to prepare fully for today's high-volume flow of e-mail and fiber-optic transmissions — even as nations ... have begun exchanging diplomatic and national-security messages encrypted in unbreakable digital code."

Or, to put it more bluntly, "The dirty little secret is that fiber optics and encryption are kicking Fort Meade in the nuts," as an unnamed retired CIA official told Hersh.

U.N. HEADQUARTERS SHOWS ITS AGE

Writing in the Oct. 22 *New York Times*, Christopher S. Wren reports that just half a century after its cornerstone was laid, the United Nations headquarters is almost literally falling apart. In fact,

the building needs so many repairs and renovations that if it had to meet city building regulations (from which diplomatic immunity shields it), it might well be shuttered.

The litany of structural and environmental problems is as long as it is depressing. The 39-story U.N. Secretariat is without a sprinkler system and one of the emergency exits has deteriorated beyond repair and needs to be rebuilt. Most areas of the U.N. complex are contaminated with asbestos and many employees believe the building is "sick" from a variety of hazards. The gasoline tank used to refuel vehicles in the underground garage does not meet current environmental standards and must be replaced. Roofs leak, and a marble wall in the Dag Hammarskjöld Library is so near collapse that plastic sheeting was installed to protect library desks and computers from dripping water. Some motors and water pumps that keep the building running are so antiquated that parts for them are no longer made.

Wren reports that the massive decay of the headquarters facilities dates from the mid-1980s, when the United Nations began experiencing perennial budgetary shortfalls and the Reagan administration refused to increase its contributions. The resulting cash shortage, aggravated by Congress's long-standing unwillingness to pay back dues, has forced the organization to finance peacekeeping and other critical tasks at the expense of maintenance.

U.N. sources said a master plan for capital improvement would be submitted to the General Assembly's administrative and budget committee by the end of 1999. One option is to upgrade the headquarters building perhaps 10 floors

50 YEARS AGO

"Foreign Service officers who visit Lake Success while the United Nations General Assembly is in session usually come away with a bewildered feeling that they have just witnessed the strangest seven-ring circus in diplomatic history. Or they may echo an observer's historic comment: 'Never have so many men come so far to say so little.'"

—JOHN D. HICKERSON
IN THE FEB. 1950
FOREIGN SERVICE
JOURNAL



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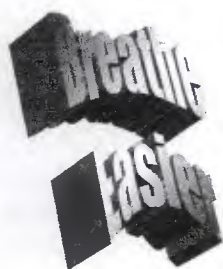
"Not for one moment do I think that the purpose of the State Department is to make friends. The purpose...is to look out for the interests of the United States."

—JOHN FOSTER DULLES

at a time, relocating personnel temporarily to office space outside the Secretariat. This approach would interfere less with normal operations and would also require less money up front, but it would also cost a great deal in property rental. Another possibility is to renovate the entire complex at once, which would be efficient but would also force the General Assembly to meet in Geneva or another location for a year or two.

Either way, Wren notes, the U.N. will not be able to depend on American dollars to underwrite the project, since the recent congressional agreement to pay most of Washington's arrears stipulates

that the U.S. assessment not rise in the future. (Instead, one unnamed U.S. official proposes, the needed renovations should be subsidized with donations from foundations and the general public.) That indifference to the plight of the United Nations, coupled with New York Mayor Rudolph Giuliani's often-expressed hostility to the organization (as exemplified by his support for Donald Trump's plan to erect a high-rise apartment tower at United Nations Plaza that would dwarf the U.N.) may render a drastic solution more attractive: pulling the U.N. out of New York altogether and moving it to Bonn or another site. ■



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SPEAKING OUT

How to Write Foreign Service Fiction

BY DIANA DEVERELL

For years during and after my Foreign Service career, I'd been entertaining people with tales of my life overseas, so I figured it wouldn't take much effort to turn those anecdotes into published fiction. I started to put my thoughts into action three years after leaving the Foreign Service, when I enrolled in a class at Lane Community College in Eugene, Ore. to learn how to write short stories. As is typical of writing classes, it was a writing workshop in which students shared copies of finished work so that we could critique each other.

My first piece was based on a day I spent with the CIA station chief's right hand woman in an outpost on the eastern edge of El Salvador. I jammed spooks, guerrillas, Contras and Navy Seals into fewer than ten pages. *Hot stuff*, I thought, as I daydreamed about who would play my heroine in the movie version.

Puzzling stuff, was the reaction of my classmates. I had expected them to pepper me with questions about Salvadoran politics and geography. Instead, they wanted to know why my heroine had agreed to accept the CIA operative's glib explanation and make the trip with her? Why was she so sur-

*In fiction,
veracity doesn't
automatically
confer
verisimilitude.*



prised to learn that the spook had a hidden agenda, and so on?

My heroine's behavior didn't make sense to readers. Her motivation was fuzzy, so the story wasn't believable. Never mind that I'd stuck to the facts as I remembered them. I'd come up against the hard truth of fiction writing: veracity doesn't automatically confer verisimilitude. When I'd related the same events aloud, my listeners knew I was talking about something that Really Happened, and gave me instant credibility. Readers, I learned, are harder to please.

Readers don't care about what really happened if a story is not written to fulfill their expectations. They expect main characters to be changed in credible and convincing ways by events. When a character undergoes this type of change — usually referred to as an "epiphany" — readers are convinced that the emotional life depicted in the story is real, which is more important than whether the details of that life are accurate. Even in genres like mystery and science fiction where there is more emphasis on plot, editors are looking for a

character-driven fiction. In short pieces, character alteration can be subtle. In his book on writing, *Esquire* magazine fiction editor Rust Hills calls fiction with faint shifts of attitude "come-to-realize" stories. By the final page of the story, because of what happens to him in the story, the hero "comes to realize" a truth of which he was previously unaware. If he were sent back to page one to repeat the initial scene, it would not play out in precisely the same way. Applying this test, my first effort wasn't fiction, but was "a slice of life in El Salvador." Because the characterization was muddy, the piece lacked a satisfying conclusion.

I needed more readers willing to give me honest feedback. Luckily, I wasn't alone. A half-dozen of us from that first class formed a support group and began meeting on alternate Thursday nights for in-depth critiques of each other's work. Seven years later, we're still meeting. I credit these painstaking "first readers" with teaching me where my Foreign Service experience works as story — and where it doesn't.

One of the benefits of living overseas is becoming intimately familiar with a foreign setting. The challenge for an author is to use those intriguing details effectively. In *The Art of Fiction*, novelist and renowned teacher of writing John Gardner argues that it is the writer's job to create a vivid and continuous dream in the reader's mind. The writer makes the dream believable by piling up concrete images and authenticating details. Except, as I learned, that pile

Diana Deverell, an FSO from 1981 to 1989, served in San Salvador, Warsaw and Washington D.C. She's published two novels and short stories featuring FSO Katherine "Casey" Collins. Her first novel, 12 Drummers Drumming, is available in paperback. The sequel, Night on Fire, was published in July 1999.

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The Foreign Service Journal is seeking works of fiction of up to 3,000 words for its annual summer fiction issue.

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can't be too big, or readers get confused and overwhelmed.

Mystery novelist James Lee Burke showed me one way to handle the problem.

In his detective series set in Louisiana, Burke's hero lunches on boudin, admires an improbably colored sky, smells rotting tropical flowers with peculiar names, takes his family out to a crab boil and crunches to a crime scene over a road surfaced with crushed shell. Descriptive material is larded throughout the story in one- and two-line bursts. The sights, scents and sounds of Burke's Louisiana remain in the background so that readers can follow the plot without knowing what boudin looks like or how crab gets boiled. The resulting atmosphere is both exotic and mysterious. Still, despite the untranslated expressions, the reader always knows what's going on. Quite an achievement — one I work hard to emulate when I write about places where my readers have never been.

My critique group also demanded that description do more than catalog what the main character looks at. They weren't satisfied when my heroine drove by a McDonald's Restaurant in San Salvador and saw a teenage guard with an M-16 beneath the Golden Arches. They wanted me to show — not tell — what she was feeling. I didn't really understand their criticism until I reread Joan Didion's famous essay, "In El Salvador," from the November 4, 1982 *New York Review of Books*. Didion also noticed the ubiquitous, gun-toting Salvadoran guards, but she saw them fingering their triggers, clicking their safeties on and off and taking aim "as if to pass the time." Her edgy images went beyond my snapshot and conveyed an oppressive sense of menace.

Another aspect of setting is peculiar to Foreign Service fiction. If the

characters are State Department or other government employees, the writer must include accurate information about the way the U.S. government operates abroad. Despite — or maybe because of — having worked in an embassy, including these kinds of details effectively was far more difficult than I imagined.

Six months into my new career, I took a second class on writing book-length fiction. I hoped to pull my story ideas into a novel set at my first post, El Salvador. To guarantee accuracy, I made my heroine a vice-consul, just as I'd been. My classmates were intrigued, but they didn't understand consular work. The harder I labored to answer their questions, the more questions they asked. I showed my heroine in action, interviewing non-immigrant visa applicants. I showed her complaining to her friends, being scolded by her boss and trying to explain immigration law via telephone to an irate caller. I wrote pages of prose conscientiously portraying the daily tedium, stress and illogic of my heroine's job. I was accurate, but I was also boring. And not one page I wrote was essential for the story I wanted to tell. Choosing to write what I knew best had gotten in my way.

I tried to avoid that mistake when I started another novel. I gave my heroine the kind of budget-and-finance job I could summarize in a few lines. And I kept her moving around inside the embassy, carrying on high-energy dialogues with a paranoid security officer, a hormonally charged Marine, a slimy CIA type and a talkative communicator. In 1995, that second "practice novel" won first place in a contest sponsored by the Pacific Northwest Writers Association. Yet, it didn't win the heart of a publisher. As one put it in a rejection letter, "Your novel needs more dramatic tension and momentum; it's handicapped by your attempt

SPEAKING OUT

to realistically portray the responsibilities of your main character."

I knew this critic wasn't looking for an unrealistic story. State Department procedures have to be correct. If readers spot mistakes, they'll lose interest in the story. But to hold reader attention, the writer has to choose authenticating details that are fresh, intriguing and compelling. Alas, my own undramatic career was top heavy with information about packout, language training and EERs. I could make those details accurate, but I couldn't make them interesting.

I was starting my third novel by then and I realized that the time had come to cut my heroine loose from the specifics of my own experience. I assigned her to the Secretary's Counterterrorism Office, where I'd never worked. I gave her a job tracking terrorist threats against American personnel — the kind of sexy work that somebody ought to be doing at State. I lifted most of the authenticating detail I needed from *State Magazine's* "Bureau of the Month" department, where every word is unclassified. When I finished that manuscript, I sent it to a New York literary agent. She suggested a few editorial changes, including a new title. In November 1996, ten days after putting *12 Drummers Drumming* on the market, I not only sold it, but also sold an unwritten sequel.

I also managed to publish my thoughts on that long ago day-trip in El Salvador. After a half-dozen attempts to turn it into fiction, I finally re-wrote it as a first-person anecdote. It appeared on my publisher's web site as an essay entitled, "I Never Worked for the CIA." So that's the end to my happy story? I doubt it. Even now, in my writerly heart, I don't want to believe what I know to be true: Real life often stubbornly refuses to become good story. Instead, you have to make it up as you go along. ■

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Contest Winners: Best and

Journal readers' choices for best and worst diplomatic moves of the century.

Last fall, in an effort to get into the fin de siècle Y2K spirit, the Journal sponsored a contest, in which we asked readers to submit entries describing the best and worst diplomatic moves of the 20th century. While we received only 10 submissions in each category, the editorial board carried out its solemn duty and chose first and second place winners in both categories. Here are those winners, along with two honorable mention submissions.



BEST DIPLOMATIC MOVE OF THE CENTURY

Winner, First Place

The Marshall Plan

*Submitted by Robert G. Morris;
Ashland, Ore.*

The Marshall Plan of 1947 led to recovery and development vital to a ravaged Europe and the rest of the world. It ushered in a new era of cooperation and competition that underpinned international economic growth and political stability.

The Marshall Plan was carried out by countries associated in the Organization for European Economic Cooperation (OEEC). By 1949, many participants joined with others to form NATO in defense against the military threat of the Soviet Union, which rebuffed the Marshall Plan.

After 1951, Europeans rallied to form supranational economic communities, which led to the current European Union. In 1961, continuing their cooperation and coordination, the OEEC countries formed the Organization for Economic Cooperation and Development, which now includes most economic powers worldwide and which promotes social as well as economic welfare, financial stability and efforts on behalf of developing countries.

With their emphasis on democratic values and cooperation, the Marshall Plan and the OECD decisively altered the face of the 20th century for the better.



BEST DIPLOMATIC MOVE OF THE CENTURY

Winner, Second Place

*MacArthur
in Japan
Submitted by
Jose Armilla;
Vienna, Va.*

The "emperor of heaven," Hirohito, negotiated with the American consul in occupied Japan, Gen. Douglas MacArthur, a win-win agreement still unmatched in 20th century diplomacy.

For 38 minutes on Sept. 28, 1945, both men communicated to each other some universal values that, as Gen. MacArthur later reported, "moved me to the very marrow of my bones." They were:

- Contrition: Both men knew who concurred in the bombing of Pearl Harbor, yet the emperor did not plea-bargain.
- Compassion: Over Russian and British dissent, MacArthur had already decided before the meeting not to try to execute the emperor.
- Filial piety: The older general and the younger emperor developed a father-son relationship.
- Positive agent for change: The State Department had previously advised the general about the emperor's key role in promoting U.S. policies in Japan: democratization, women's suffrage, land reform, breakup of cartels and adoption of a peace constitution to demilitarize the country.

Enthusiastic Japanese support for U.S. foreign policy over time shows that this diplomatic move was an extraordinary success.

Best Move (Honorable Mention)

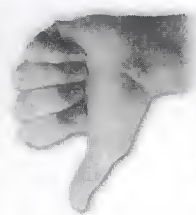
Thailand in Two World Wars

Submitted by John Blackton; Cairo, Egypt

In WWI, Siam chose to send military units to serve alongside both French and German units, with local Siamese commanders pledging allegiance to the appropriate side. In the summer of 1918, when the outcome seemed clear, Siam officially declared against Germany and earned a victor's chair at Versailles.

In 1941, Siamese military forces welcomed the Japanese forces ashore in southern Thailand and the Bangkok administration cooperated fully with the Japanese Army. At the same time, the Siamese Foreign Office instructed their ambassadors in Washington and London to declare themselves representatives of the anti-Japanese "Free Thai." Siam was spared occupation by the Japanese and in 1945 Thailand was again recognized as a victorious allied nation.

Worst of the 20th Century



WORST DIPLOMATIC MOVE OF THE CENTURY

**Winner,
First Place**

*The Munich Pact
of 1938*

*Submitted by
Melissa Sargent;
Katy, Texas*

The year is 1938 and Adolph Hitler is determined to go to war with Czechoslovakia, the first step in his plan to conquer Europe. British Prime Minister Neville Chamberlain, whose main goal in office was to avoid a European war at all cost, offered to go to Germany to appease Hitler. He successfully managed to persuade the Czechs to yield to all of Hitler's demands. As a result Hitler gained 11,000 square miles of territory.

Giving in to Hitler's demands not only encouraged Hitler to view his enemies as "little worms," but also prompted him to demand more. After his acquiescence, commonly referred to as the Munich Pact of 1938, Chamberlain returned to Great Britain proclaiming "peace in our time." Shortly after Munich, Hitler set into motion his plans to achieve total domination of Europe.

Chamberlain realized that in his fervor to avoid war with Hitler he actually encouraged it. In 1939, Chamberlain had no choice but to watch his country go to war with the German aggressor.



WORST DIPLOMATIC MOVE OF THE CENTURY

Winner, Second Place

The U.S. in Indochina, 1946
*Submitted by Timothy L. Bertotti;
USAID/Cambodia*

In the aftermath of World War II in the Pacific, the U.S. government took a subservient and passive step backward in aiding and abetting French efforts to retain their colonies in Cambodia, Vietnam and Laos. Even though OSS agents gained rapport with and knew the motives of pro-independence intellectuals in that area, we ended up helping the French right up through Dien Bien Phu (1954).

In siding with the French, we lost the esteem of a generation of Asians living in that area. Worse still, instead of an economic development program, we ended up in one of the bloodiest conflicts in the history of warfare.

Worst Move

(Honorable Mention)

Britain Rebuffs Turkey, 1911

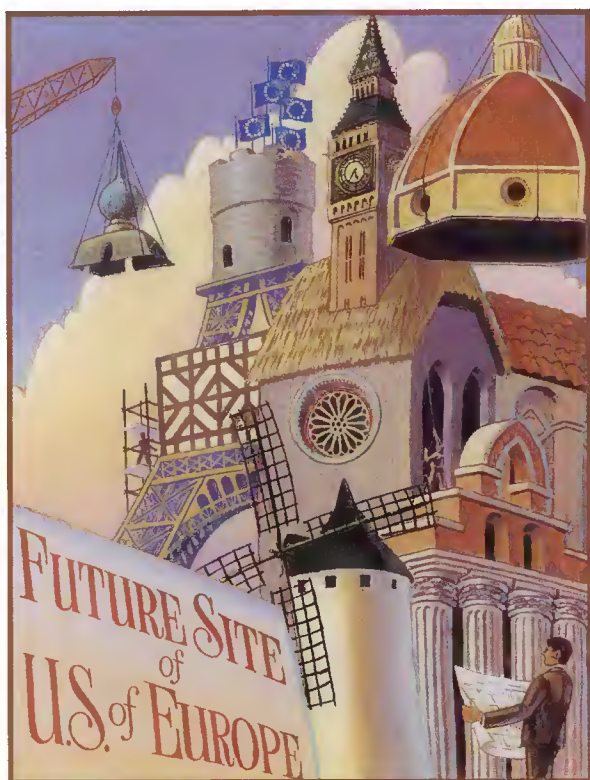
Submitted by Kevin Michael Derby; New York City

Winston Churchill's rejection of a British military alliance with Turkey in 1911 ranks as the worst diplomatic decision of the century. While Turkey may have been a declining power, it still controlled the Dardanelles, and was thus able to strangle Russia's only warm water ports.

In 1914, when the Great War began, Turkey joined with

the Central Powers and effectively blockaded Russia. Military supplies and rations became scarce in Russia, hindering her army and sowing the seeds of revolution. To remedy this situation, Churchill masterminded the Gallipoli campaign, which wasted valuable manpower that should have been used on the Western Front. Over half of the British forces, including many of her best and brightest young men, engaged in the battle and ended up as casualties. This could have been avoided had Churchill not spurned Turkish overtures in 1911.

THE DOLLAR VS. THE EURO: DO WE CARE?



Connie McJannet

I ONLY IN THE U.S. HAS THE BIRTH OF THE EURO BEEN GREETED WITH YAWNS. BUT THE NEW CURRENCY IS A RISING FORCE IN THE WORLD.

BY BARRY EICHENGREEN

In Europe, the debut of the euro is widely hailed as the most important event affecting the international monetary landscape since the breakup of the Bretton Woods System in 1971 to 1973, or since the Bretton Woods Agreement in 1944, or maybe even since the founding of the Federal Reserve System in 1913. It has become a contest for European officials and commentators to see who can push the analogy back furthest in time. Eminences elsewhere in the world have similarly greeted the euro with high hopes and great expectations. Even Fidel Castro has praised Europe for creating a currency which finally confronts the dollar with a "prospective adversary" and promises to bring to a close the long postwar period of U.S. monetary hegemony.

Only in the United States has the euro been greeted with a yawn. It is not hard to see why. So far, its advent has

not weakened the international financial position of the dollar; if anything the opposite has been true. The dollar has been strong against the euro rather than weak; for much of last autumn the fear was that the euro, which had started out being worth well more than a dollar, might plunge through the dreaded psychological barrier of one to one. There has been no sign of Asian and Latin American central banks replacing their dollars with euros en masse, as prominent commentators had predicted. The United States has not had to change the way it does business at Group of Seven summits, the OECD, or the IMF. Many Americans thus cannot help but feel that the euro is a tempest in a teapot.

The Euro's Slow Start

Perhaps Asian and Latin American central banks have been waiting to dump their dollars until the euro stabilizes. Through much of 1999 the euro was weak because the European economy was weak; governments and private investors were understandably reluctant to overweight a currency that seemed to be losing value by the day. Investors were slow to move into euros because they thought that Europe was less well prepared than the United States for Y2K. They worried about the stability of the European banking system because European banks had lent much more aggressively than their American counterparts to Indonesia, Korea, Malaysia and Thailand. But now that European growth is finally accelerating, the euro could strengthen, and the anticipated shift into euros at last could get under way.

Perhaps governments and investors have been reluctant to embrace the euro because of a series of missteps by the European Central Bank. In the early months of 1999, ECB officials issued a series of confusing and contradictory statements, and on several occasions the ECB board's decision on whether or not

There is some basis for both the high hopes of Europeans and the abiding skepticism of Americans.

to raise interest rates leaked to the press in advance of the official announcement. In April the ECB cut interest rates faster than most market participants thought wise in response to signs of weakness in the European economy. Now that the ECB has apparently concluded that less is more (by issuing fewer public statements and moving interest rates less frequently) and has begun to demonstrate the priority it attaches to price stability, skepticism about its ability to act as the steward of a strong currency may be about to fade.

Learning to Think European

And perhaps it is simply taking time for Europe to learn to speak with one monetary voice. It is understandable that an extended process of acculturation should be required in order for the national central bank governors on the ECB board to learn to think and talk as representatives of Europe and to frame policy with Europe-wide conditions in mind. Similarly, not until well into 1999 was real progress made on reorganizing European representation at G-7, G-10 and OECD meetings. Europe, unlike the United States, has not been able to effectively represent its views on how best to reform the international financial architecture because it is still creating mechanisms for conveying its views and, more importantly, forming those views. Given time, however, this will change.

There is some basis for both the high hopes of Europeans and the abiding skepticism of Americans. With time, the euro will significantly alter the international monetary and financial landscape. Europe's new money will develop into a serious rival to the dollar as a reserve currency for central banks, an invoicing currency for importers and exporters, and a financial asset for international investors. But this will take more time than suggested even by many "euro-skeptics." Because changes in the international monetary and financial landscape tend to occur at glacial speed, the exaggerated hopes of euro-enthusiasts like Fidel Castro are likely to be disappointed. More likely than not, the dollar's reign will outlast the Cuban president's.

Similarly, Europe will eventually learn to speak with

Barry Eichengreen is George C. Pardee and Helen N. Pardee Professor of Economics and Political Science at the University of California, Berkeley. Among his books is European Monetary Unification: Theory, Practice, Analysis (MIT Press).

one monetary voice. But the political changes needed to make that level of financial solidarity possible will take many years to complete. Just as the dollar will continue to dominate the international financial arena for the foreseeable future, the United States will retain the loudest single voice in international monetary debate.

A Rival to the Dollar?

A world where the euro rivaled or even surpassed the dollar would represent a major change from the status quo. At the moment, the dollar is far and away the leading currency. Sixty-seven percent of the foreign exchange reserves of central banks around the world are in dollars, compared to less than a quarter of the total for all Euroland — the area comprising the 11 E.U. member states currently participating in the monetary union — currencies and a meager 6 percent for the Japanese yen. Forty percent of the minor currencies that are pegged to one of their major counterparts are pegged to the U.S. dollar, a far larger percentage than any of its rivals. At last report (in the spring of 1998), the dollar was bought or sold in fully 87 percent of all trades in foreign exchange markets and is the invoicing currency (the unit of account) in nearly half of all trade-related transactions. The dollar is used to denominate more than half of all private financial transactions.

Less is known about whose cash is held outside the home country, since much of it is used for purposes like drug smuggling, tax evasion and money laundering. But the best guess of the Federal Reserve and the German Bundesbank is that perhaps 80 percent of the total is dollars.

Those who hope or fear that the euro will quickly rival or overtake the dollar as an international currency point to the size of the European market for which it will soon be the exclusive unit of account and means of payment. The population of Euroland approaches 300 million. The euro area is the single largest importer and exporter in the world, accounting for 19 per cent of world exports, followed by 15 percent for the U.S. and 9 percent for Japan. Its share of world GDP is 16 per cent, far higher than Japan's and not very far behind the United States. And as Euroland expands its domain as E.U. member states like Greece, Denmark, Sweden and the UK that are now outside the monetary union decide to participate and the E.U. itself admits new

Eastern European members, its share of global GDP will quite possibly surpass that of the United States. Moreover, the advent of the euro has created an immense European financial market. To be sure, stock market capitalization is higher in the United States — more than twice Euroland's at the time of writing. But Europe has much larger bank liabilities and assets. The market value of the bonds, equities and bank assets issued in E.U. countries at the end of 1995 amounted to roughly \$27 trillion, whereas the comparable figure for the United States was only \$23 trillion. In the first half of 1999, bonds denominated in euros accounted for fully 40 per cent of the bonds issued in international markets. This lagged only slightly the share denominated in dollars (46 per cent in the same period) and was about double the share that had been denominated in the "legacy currencies" of the 11 founding European Monetary Union members over comparable periods in the past.

With so much economic activity taking place in Europe and so much of it denominated in euros, the euro should become increasingly convenient for use in international transactions by governments, banks and traders in other parts of the world. Increasingly, importers and exporters in Latin America and Asia will invoice their transactions in euros rather than dollars because so many European importers and exporters will be invoicing in euros. Multinational corporations and governments will grow even more enthusiastic about denominating their international bond issues in euros, given the large and growing volume of euro-denominated transactions on European securities markets. Latin American and Asian central banks will shift the currency composition of their international reserves from dollars to euros as they see other central banks moving in that direction and as the liquidity of European financial markets continues to improve.

The Dollar as Powerful Incumbent

These arguments are plausible enough. The question is not whether they are right or wrong, however, but how quickly their effects are apt to show up. There are several reasons for thinking that the answer is "not very fast." International currency usage is habit-forming, and old habits die hard. This is evident in the continued dominance of various reserve currencies long after the governments issuing them had ceased to dom-

inate international markets; witness the continued importance of the pound sterling well into the 20th century, long after Britain had passed her economic primacy. In deciding what international currency to use, it pays for an international trader, investor or central bank to use the same currency as other traders, investors and central banks, for that will be the currency with the deepest, most liquid markets. Transactions costs will be lowest, and it will be possible to get in and out of the market without disturbing the level of prices.

Just as it pays to use the same personal computer and word processing software as your colleagues, because this makes it easy to exchange files and obtain technical advice, it pays to use the same international currency as one's economic neighbors. Even when a better alternative comes along, individuals may be slow to switch unless they think others are going to switch at the same time. In the economics profession's lingo, both the choice of word processing software and the choice of an international currency give off network externalities. Consequently, these choices tend to remain locked in even after a plausible alternative comes along.

Thus, a reserve currency seeking to retain its status, like a politician campaigning for reelection, has the advantage of incumbency. But incumbency is not everything, in politics or in international finance. The situation could change suddenly if U.S. monetary policy were seriously mismanaged. A financial crisis or an inflationary explosion in the United States could precipitate a scramble out of dollars and into euros by central banks, investors and traders around the world. But most observers would regard such serious mismanagement of the dollar as improbable. More likely than not, 10 years from now Latin American and Asia exporters and commercial banks doing business across continents will still be doing it in dollars.

Who Represents Europe?

Some might object that the euro and the European Central Bank will have roles not just in international markets but in a variety of international fora as well and

***Fidel Castro has
praised Europe for
creating a currency
which challenges the
world dominance of
the dollar.***

that the conviction with which they represent European interests in the latter will largely determine the speed with which the euro comes to rival the dollar. Here early reviews are mixed. Part of the problem is the difficulty of accommodating the ECB, which is an international entity, in meetings of national officials. Consider for example G-7 summits of finance ministers and central bank governors. It has been agreed that the president of the ECB will be the

sole representative of the Eurosystem (as the ECB and its 11 subsidiary national central banks are known) when G-7 central bank governors meet to discuss multilateral surveillance and exchange rate issues. But many of the important decisions are taken by G-7 finance ministers in parallel meetings, not by the central bank governors. It is not clear who will represent the Eurosystem there in the absence of a Euroland finance ministry responsible for the budgets of the 11 participating E.U. member states. The interim solution is that these meetings will be attended by the rotating president of the Euro-11 Group (made up of the finance ministers of the 11 founding members of the monetary union), but it is yet to be seen how effectively he can exert their authority.

The president of the ECB will also participate in meetings of G-10 central bank governors organized by the Bank for International Settlements, where issues such as bank regulation and capital standards are discussed. However, he will not replace France, Germany and Italy's national central bank governors. Rather than one European voice there will be a cacophony.

And at the International Monetary Fund, there is no sign of change in the venerable constituency system, in which the 11 E.U. countries are represented by several separate executive directors who are simultaneously responsible for various countries in other parts of the world. Even if the Euro-11 could be reorganized as one constituency, there is the problem that the IMF's Articles of Agreement make provision only for membership and consultation with individual countries, not groups of countries or their collective central bank. To be sure, the ECB has been granted permanent observer status in the fund. The ECB observer attends all

meetings of the executive board that are relevant to the Eurosystem, and the president of the ECB participates in the meetings of the fund's interim committee, which makes its long-range strategic decisions. But again, it is not clear how much authority a mere observer can exert. Votes will still be cast by executive directors answerable to Euroland's national governments, not by a representative of the Euro-11 group or the ECB.

Creating a Euro-Agenda

Even if these structural problems magically dissolve and the Euro 11 acquire the vocal cords needed to speak with one voice, it is not clear what they will say. A single money and a single central bank do not automatically create a single agenda. Indeed, agreement on that agenda has been sorely lacking.

Consider the debate over how to reform the international financial architecture to solve the "moral hazard" problem created by IMF rescue packages. The fear since the fund's rescue of Mexico in 1995 has been that IMF assistance which goes to pay off private investors encourages reckless lending and over-borrowing. Solving this problem, American and European officials agree, requires a mechanism for ensuring that private investors "take a hit" — that in the event of a crisis they do not get off scot-free. The U.S. Treasury has emphasized the need to approach this problem on a case-by-case basis, given the very different circumstances in which financial crises can occur. In some cases, international banks might be asked to roll over their maturing loans. In others, bondholders might be asked to accept a reduction in interest payments. In still others, creditors might be asked to kick in additional money in return for the maintenance of debt service.

But European governments worry that this will allow the U.S., which tends to take the lead in such negotiations, to determine how each case is addressed, and that its solution will serve American diplomatic and financial interests. They have expressed a preference for a more standardized approach to private-sector burden-sharing, in which hard-and-fast rules determine how much money private investors have to kick in or how much income they have to forgo. But beyond

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financial terms.*

expressing a preference for rules over discretion, European officials have not been able to agree on a common approach to the problem. They have not been able to elaborate a common point of view.

Or consider exchange rate policy. Soon after the ECB opened for business, the French and German governments expressed a preference for a new international monetary arrangement that would stabilize the

exchange rates governing the euro, the dollar and the yen. ECB officials, fearing that their freedom to adjust the rates would be hamstrung by such an agreement, reacted with alarm. This spat was one (admittedly, not the main) factor behind the resignation of German Finance Minister Oskar Lafontaine, one of the leading proponents of a new global exchange rate system.

More fundamentally, this dispute was symptomatic of the problematic division of labor laid down in the Maastricht Treaty and the Statute of the European System of Central Banks. While the ECB is exclusively responsible for the monetary policy of the Euroland and the members of the ECB Board are prohibited from taking advice from the national governments that appointed them, national heads of state and not the ECB Board have the power to take the decision of whether Euroland will participate in any new global international monetary system involving pegged exchange rates. Of course, it is not possible to give governments control of the exchange rates and the ECB control of interest rates, because the two variables are not independent. Interest rates are the instrument used to influence exchange rates. Some read the Maastricht provision giving heads of state the final say over Euroland's participation in any new global monetary system as giving governments a weapon to hold over the heads of the ECB Board if the latter fails to direct monetary policy to political ends.

If economic rationality carries the day, then we should expect to see the euro continue to float against the dollar and the yen. We should expect to see the ECB continue to set interest rates, not in an attempt to stabilize the euro-dollar exchange rate, but at whatever levels are needed to maintain price and financial stability in Europe. With the advent of the euro, Euroland

F O C U S

has become more like the United States in monetary and financial terms. It is a large, economically diverse monetary area. Ignoring trade within Euroland itself (in the same way we ignore trade among the 50 states when constructing the U.S. foreign trade statistics), external trade will matter less for the Euroland of the future than it mattered for the constituent economies in the past. For all these reasons, fluctuations in the euro-dollar and euro-yen exchange rates will be less disruptive to Euroland than fluctuations in the exchange rate of the escudo or the punt once were to Portugal or Ireland.

In the end, European leaders will probably agree on a policy of benign neglect toward the external value of the euro and focus their attention on maintaining internal price stability. The ECB may intervene when euro-

Changes in the international monetary and financial landscape tend to occur at glacial speed.

dollar and euro-yen exchange rates move so far from their fundamental equilibria as to lose touch with reality, but such intervention will be sporadic, not continuous. This implies that Europe is no more likely than the United States, another large, relatively closed economy that has learned to live with exchange rate fluctuations, to become a strong proponent of radical international monetary reform leading to, say, a new Bretton Woods System of currency pegs. But the members of Euroland have yet to settle on this point of view.

Is Political Union Next?

All bets are off if monetary integration occasions a forced march to political integration. If monetary union leads the member states to augment significantly the powers of the European Parliament and to create other



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powerful Europe-wide institutions to supplement the European Central Bank, a truly European policy agenda will surely develop. The emergence of this "United States of Europe" would obviously force the United States of America to fundamentally rethink its economic and foreign policies.

The idea of a United States of Europe may seem patently unrealistic. But it is important to recall that monetary unification has long been seen both as a practical and symbolic step toward deeper political integration and as a way of fostering the E.U.'s capacity to formulate pan-European social and foreign policies. This is why the founders of the European Economic Community were attracted to monetary integration in the first place: They saw it as a driver for the larger process of political integration. This is also why Euroskeptics, in the U.K. and elsewhere, have deep reservations about European monetary

The United States and Europe are practically equal these days in the size of their capital markets.

union. They appreciate the attractions of the single market, and can perhaps even tolerate a single currency, but they are strongly opposed to any notion of a single polity.

There are some signs that the single currency is having political effects along the lines anticipated by its architects. Monetary integration has intensified the pressure to harmonize budgetary policies, in order to avoid placing pressure on the ECB to use its printing presses to bail out governments that encounter debt problems. Hence, the participating countries have negotiated a Growth and Stability Pact, which provides E.U.-level oversight of their national fiscal policies. This is not a fiscal union, but it is one more small step in that direction. Monetary integration has intensified the pressure for tax harmonization to prevent tax competition in a Europe now blessed with the transparency that a single

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AFSA NEWS

American Foreign Service Association • February 2000

HOW THE FOREIGN SERVICE FARED

1999 Legislation

Once the dust settled from the year-end legislative stampede in Congress, 1999 turned out to be a decent year for the Foreign Service. According to Ken Nakamura, AFSA's Congressional Affairs Director, even the disappointments represented some progress. For instance, in 1998 AFSA struggled to convince Congress that the tax break for capital gains exclusion on the sale of a principal residence should include Foreign Service personnel serving abroad. By 1999, Congress had agreed that we should be included. Although the final tax bill containing the provision succumbed to a presidential veto, prospects for success next year are bright.

While the overall figures for embassy security are far lower than recommended by the Crowe report, they are higher than the administration originally requested. AFSA was a part of the effort to convince the administration to raise its request. As Nakamura put it, "We succeeded in keeping embassy security on people's screens."

Authorization bills signed by the president contained language on several issues pertinent to Foreign Service employees:

- **Workforce planning** – The State Department must now project personnel needs by grade and skill five years ahead;

- **Post education allowance** – Families will be permitted to apply the allowance toward tuition, room, board

and transportation at the school of their choice either at or away from post;

- **Study on Diplomatic Status for Foreign Service Specialists** – Congress left this issue to the discretion of the secretary of State, resolving that the secretary of State should (not shall) study and make recommendations on relieving the financial hardships visited on FS specialists due to lack of diplomatic status. AFSA will urge the secretary to act;

- **Management Training** – AFSA supported a congressional initiative to require the State Department to provide management training to all career grades for FS personnel. The department must present a feasibility study by April 1, 2000;

- **Discipline and Grievance Procedures** – AFSA was able to modify the language on several procedures to insure improved due process for members;

- **Security** – The secretary of State will be held directly responsible for the safety of FS personnel. Employees will receive better security training. More emergency response equipment, such as aircraft on standby, will be funded. (For details on embassy security funding see *AFSA News*, Jan. 2000, page 5.); and

- **Embassy Construction** – The

This Issue in Brief:

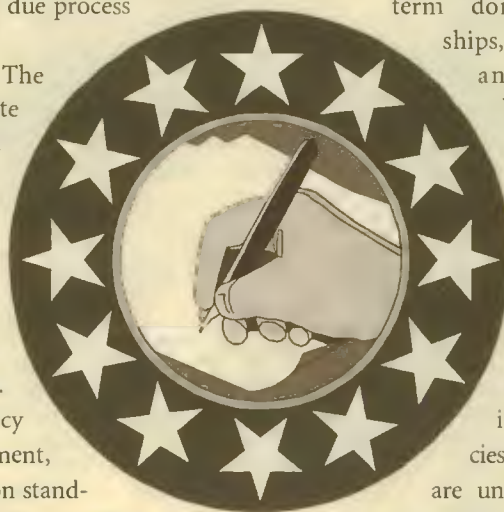


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ADDRESSING THE ISSUE OVERSEAS

Domestic Partners

American society is constantly changing and AFSA, like other U.S. institutions, has been grappling with the issue of domestic partner rights. Acknowledging that long-term domestic relationships, both same-sex and opposite-sex, between unmarried domestic partners are a fact of life in this country and likewise in embassy communities overseas; and that inconsistent policies from post to post are unfair to employees and a headache for post management, the AFSA governing board voted on Dec. 1, 1999 to recommend the implementation of 13 measures.



Continued on page 3

Continued on page 5

AFSA NEWS BRIEF



AFSA Welcomes New Staff Members

•Lauren McCuen has been named to the position of Communications Coordinator. A graduate of the University of Maryland in international relations, Lauren served an internship at the Foreign Service Institute before coming to AFSA. She hopes to eventually become a Foreign Service Officer.

•AFSA News has a new editor. Rita Colorito recently finished her masters in international affairs from the Columbia University School of International and Public Affairs. While at Columbia, she edited the alumni newsletter and has edited other association newsletters.



AAFSW Takes a New Name

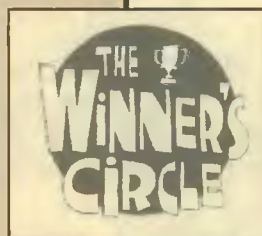
AAFSW took the opportunity to announce their new name at an end-of-century fete to honor the contributions that the organization has made to improving the lives of Foreign Service families. Retaining the same acronym, they will now be known as the Associates of the American Foreign Service Worldwide.

Sinclair Winners Announced

AFSA salutes the 1999 winners of the AFSA Matilda W. Sinclair Awards for achievement in the study of hard languages and their associated cultures. Each winner receives \$1000.

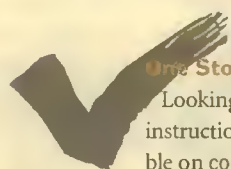
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Czech
Hindi
Arabic
Urdu



Roundtable Honors Former AFSA Staffer

The Public Employees Roundtable has awarded Dick Thompson, who recently retired as AFSA Coordinator for Professional Issues, the Board of Directors Award. Dick represented AFSA for 12 years on the Board of the Roundtable, which comprises 32 management and professional organizations with the mission of informing Americans about the quality of people in government and the services they provide, and encouraging young people to consider careers in the public service.



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State Says, "Just Charge It"

The State Department has finally caught up with the rest of U.S. society by recognizing that the best way to pay your bills is with a credit card. However, State is more ingenious than the rest of us.

With the help of Congress they have found a way to legitimately use other people's charge cards to pay their bills. State has even managed to justify their action as a service to those very card holders. Diplomacy, if not



downright cunning, is clearly alive and well in the twenty-first century State Department.

"AFSA has informed State that the mandatory requirement to use credit cards is a negotiable issue."

Congress enacted legislation in 1998 that made use of a travel charge card mandatory for expenses of official government travel. As a result, the Citibank Visa card has been in use for travel in the U.S. by government agencies since December 1998. The complaints AFSA expected about late payment of vouchers didn't materialize, because Congress also required agencies to promptly reimburse employees "no later than 30 days after the submission of the claim." If the agency is late in reimbursing an employee, the

legislation stipulates that "the agency pay a late payment fee as prescribed by [GSA]."

This year State announced plans to extend the use of personal credit cards to overseas employees (State 36083, Feb. 1999). As of January 1, 2000 all employees must apply for Citibank Visa cards and use them for official travel expenses, including food and lodging as well as travelers checks for travel advances. Some overseas posts have already alerted employees to submit their Citibank Visa card applications immediately.

While there is no doubt that the department will "benefit from universal charge cards used by employees" and that domestic use of them has created few problems, the mandatory requirement to use them overseas may create considerable hardship for employees. We are all familiar with the delays in receiving mail overseas as well as the challenges of resolving billing errors from the far corners of the globe. Presumably, the late payment fee is designed to meet any penalties that may be imposed. But, this does not address the question of what happens when a late payment is so late that your credit rating is affected or there is an unresolved discrepancy in the bill.

In response to these concerns and others by Foreign Service employees, AFSA has informed State that the mandatory requirement to use credit cards is a negotiable issue under our contract because the legislation does allow agencies discretion in implementing this requirement. AFSA's position is that use of credit cards overseas should be optional.

Employees overseas are afraid the "just charge it" decree at State will be followed with assurances that "the check is in the mail." ■

department received an authorization of \$900 million each year for each of the next five years for construction and enhancement for security purposes – an amount close to the Crowe report request for construction. However, the appropriation provided sufficient funds for four new facilities and for the design and purchase of property for eight additional posts in FY2000. The fight now is to seek sufficient appropriations. The following separate legislation also passed:

•*D.C. College Access Act* – Students who are residents of the District of Columbia attending state colleges in Maryland and Virginia may now be able to pay in-state tuition with the District picking up the difference. (Universities and colleges may choose whether to participate in this program.) The bill also grants scholarships to students attending private schools in the metropolitan area. AFSA worked to ensure that the term "domiciled" in the District applies to children of D.C. residents serving abroad in the Foreign Service. We met with the mayor's office to lobby for FS inclusion. They are reviewing the issue, but seemed inclined to agree; and

•*75th Anniversary* – The House passed a resolution commemorating the achievements and contributions of the Foreign Service over the last 75 years.

AFSA is pushing these issues:

•*Long term health care* – The House Government Reform Civil Service Sub-committee will continue to work on long term health care;

•*Wrong Retirement System* – A bill to ensure that people in the wrong retirement system are not penalized has passed both houses. The two versions are under discussion and will have to be reconciled;

•*Thrift Savings Plan Bill* – This bill allowing new hires to sign up immediately for TSP instead of waiting until

Continued on page 6

Retiree Speakers Needed for Faculty

AFSA Elderhostel Graduates its 1,000th Student

The AFSA Elderhostel program has proved to be an outstanding vehicle for spreading the word about the Foreign Service to the general public. Thanks to retirees who contribute their time as speakers at these seminars, AFSA



Right, Retired FSO Terry Arnold holds the audience's rapt attention speaking on international terrorism, and left, Elderhostelers hear about UN funding from Ambassador Ed Marks.

is now reaching a far larger audience. Like the presentations that retirees in our speakers bureau give at schools, Kiwanis, Lions and other clubs, the Elderhostel program has become a key means of broadcasting AFSA's message.

Elderhostel is a non-profit continuing education organization. While its early emphasis was on travel, it now offers strong academic programs. Its students, who must be at least age 55, tend to be dynamic retirees from professional careers, well-educated citizens eager to add to their knowledge. They come to selected sites from all over the country to attend one-week courses on specific topics.

AFSA Elderhostel has confused some members, who thought it was an Elderhostel for AFSA members. In fact, AFSA retirees participate in great numbers, but as faculty rather than students. Over 100 colleagues have collaborated in presenting the 24 one-week programs that we have sponsored since 1996.

The role of AFSA speakers is the same as in other speaking engagements. The format calls for a 90-minute session,

including lots of informal discussion. Each speaker has an assigned topic relating to his or her expertise.

Some tell about the organization and functions of the Foreign Service. Others discuss America's relationship with a specific country, region or organization. (For instance, our October 1999 course covered the United



Nations — see photographs.) Others present case studies based on their experiences at posts abroad. The time is filled easily, since the audience is fascinated to hear what life is like in the Foreign Service, no matter how long the speaker has been retired. All of our members have exciting stories to tell, and

AFSA provides them with new information on their topics to make their presentations current. There is also a session in which Foreign Service spouses and children discuss their experiences abroad.

What makes these programs especially worthwhile is that the students come from such a wide geographic area. To date, we have reached well over 1,000 Americans from 42 states. Most of them take careful note of our message about the importance of American diplomacy and pass it on in conversations with friends and relatives.

AFSA has scheduled 10 courses in 2000, in Florida, San Diego and Arlington, Va. But we may well be called on to do more. We are talking with Elderhostel headquarters about programs that could use our speakers in New England, Central California and elsewhere. I will be calling on colleagues in these areas to participate in these programs.

If you can help, please get in touch with me at the AFSA address or by e-mail at retirees@afsa.org. Or call Ward Thompson on AFSA's toll-free number, 1-800-704-2372. ■



1,000th AFSA Elderhosteler Dick Skoda, with wife Louise (center) of Illinois are congratulated by program co-founders retired FSO Petey Mullin, left and Ambassador Bill De Pree, right.



Retired FSO Petey Mullin, left, with F.S. spouse Margaret Teich and her sons Matthew, left, and Aaron, right, who spoke about Foreign Service families.

These measures were designed to improve living conditions overseas for unmarried domestic partnerships (same-sex and opposite-sex) at little or no cost to the U.S. government.

Before forwarding this proposal to Under Secretary of State for Management Bonnie Cohen, AFSA sent a cable (State 211732) and an AFSANET message asking for members' reaction. In the largest response we have ever received to a request for feedback, 85 percent of the respondents supported AFSA's stand.

The following measures were forwarded to the department:

- Administrative and logistical support from the department and missions abroad in seeking appropriate visas for the domestic partners of employees to allow those partners to remain legally in the employee's country of assignment;

- Identification badges permitting access to unclassified areas of U.S. facilities abroad, like those given to spouses, local and third country national employees;

- Inclusion in mission warden systems;

- Inclusion in mission emergency evacuation plans;

- Emergency family notification services;

- Appropriate training opportunities at the National Foreign Affairs Training Center and posts abroad on a space-available basis, as is permitted for eligible family members;

- Use of unclassified pouch facilities at posts where employees' families are permitted to use the pouch for personal correspondence;

- Access to post medical facilities abroad on a cost-reimbursable basis;

- Permission to apply for part-time intermittent (PIT) employment at posts abroad;

- Access to the services of the Family Liaison Office and

Continued on page 6

V.P. VOICE: FAS ■ BY EVANS BROWNE

Despite Mid-term Transition, AFSA FAS Is Hard at Work



For most normal, well-adjusted people, transitions are difficult. We in the Foreign Service must have a masochistic gene to choose such a profession. At AFSA/FAS we are going through a transition due to a midterm change in officers.

Maggie Dowling, recently elected to her second term as AFSA/FAS vice president, has been selected for a posting to Poland in the summer cycle of 2000. When she left to study Polish, I was chosen/volunteered to try and take up the reins as vice president. Similarly, Ed Porter has moved into the position of representative. Replacing Maggie is not so easy. She initiated unions into FAS in the early 90s. She led AFSA/FAS through a lengthy contract negotiation last year. And, she kept vigil over management. We will miss her leadership and protection.

Meanwhile, we are in the middle of our annual discussions about job placement for FAS Foreign Service Officers returning to Washington. FAS is somewhat

unique in that almost all of our professional positions are classified for both civil service and Foreign Service."

unique in that almost all of our professional positions are classified for both civil service and Foreign Service. Our main AFSA battle is to protect our FS colleagues from losing interesting Washington positions to civil servants who are stationed here permanently.

On a more pleasant note, we are working with our civil service union on two new programs of benefit to FSOs. One is a pilot program on flexiplace. Those currently taking advantage of flexiplace, including FSOs, work up to two days at home, or at a service center closer to their home than headquarters at 14th and Independence Avenue. We are hoping that next year this pilot will become permanent. The second new program is the development of a leave bank. A leave bank is in addition to the leave transfer program one finds in most agencies. The leave bank has an open window toward the end of the year. Anyone may join by donating, say, eight hours of leave. Then, members may apply for emergency medical leave from the bank during the next year if all other sources of their leave have been exhausted. This avoids the public notice method of the Leave Transfer Program.

We will keep you informed as discussions progress on these issues. Anyone wishing to contact me with comments or concerns may do so at tel.:202-720-3650; fax: 202-690-2637; or e-mail: BrowneEvans@fas.usda.gov. ■

Dirty Laundry

If you missed last December's *Foreign Service Journal*, you ought to track down a copy. Its theme was "Focus on the Foreign Service as a Career." A passage from the article by retired Ambassador Cresencio Arcos pretty much summarizes the whole issue: "The corporate culture and the management of the Foreign Service are in serious disrepair, if not entirely broken. While the service continues to attract and recruit many outstanding individuals, it often fails to make good use of them."

Anyone who read my September 1999 *Journal* article "Changing State's Corporate Culture" knows that I share those views. Many colleagues contacted me following the publication of the December *Journal* to applaud the fact that AFSA's flagship publication was forthrightly raising these issues. I completely agree. As another article in the same issue put it: "The first step in solving a problem is to admit that you have a problem." (That was two-time Assistant Secretary Phyllis Oakley quoting former Secretary of State George Shultz).

That said, one of the articles in the December issue did generate strong criticism from a number of colleagues: "Why We Got Out" by Anthony Ieronimo and Nikolai Wenzel. That article, by two former junior FSOs, began by making general points about poor management at State that few of us would challenge. From there, however, they launched into one-sided personal attacks on several individ-

ual members of the Foreign Service. The authors did not name names, but they cited specific duty positions and enough other identifying information to enable many of us to figure out whom they were indicting.

I see two problems with this:

- First, I do not believe that AFSA's *Journal* should be used as a vehicle for anyone to attack specific, identifiable AFSA members. Professional journals (unlike daily newspapers) simply do not have the staff resources needed to do the fact checking required by investigative reporting.

- Second, I believe that, if the *Journal* decides to publish allegations against a specific office or post, then that office should be invited to respond in the same issue — not two or three issues later. There are usually two sides to every story. By publishing both side by side, readers can draw their own conclusions. If this slows the publication of an article, then so be it. My position is motivated by a desire for fairness, not censorship. I would not apply this rule to articles discussing events more than a few years back.

AFSA is weighing possible adjustments to the guidance under which the *Journal*'s blue-ribbon editorial board and editorial staff manage day-to-day operations. Check this space or elsewhere in the *Journal* in the next few months for the outcome.

As always, I welcome your feedback. Contact me at NalandJ@state.gov or by fax to 202-647-0265. ■



1999 Legislation • Continued from page 3

the next open season has passed the house and is stalled in the Senate Government Affairs Subcommittee on International Security;

- **Presidential Merit Awards** – AFSA supports State's effort to change the Senior Foreign Service to the same system used by the Senior Executive Service which results in much higher dollar awards; and

- **Capital Gains Exclusion on the Sale of a Principal Residence** – After passing both houses, the bill allowing FS employees serving abroad to sell their principal residence without paying capital gains tax was included in a larger tax cut bill which was vetoed by the president.

AFSA will introduce the issue again next year. ■

Domestic Partners • Continued from page 5

Community Liaison Offices abroad;

- Access to government contract fares for travel where no cost is incurred to the Government;

- Inclusion in post telephone and address listings in those cases where spouses and other family members are routinely included; and

- Consideration for invitations to official representational events on a similar basis as the consideration given to spouses.

These measures are not intended to be a political statement on social mores in the United States, but rather, to assist Foreign Service employees to live their private lives overseas as much as possible within the context of existing law and U.S. policy. ■

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AFSA 1999 TAX GUIDE

Federal and State Tax Provisions for the Foreign Service

Federal Tax Provisions

Under the Tax Acts of 1997 and 1998, there are several tax relief segments that may apply to Foreign Service employees and their families. 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.

AFSA's Tax Guide is designed as an informational and reference tool. *It does not presume to be any more than that.* Although we try to be accurate, many of the new provisions of the tax code and implementing IRS 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.

For 1999, the five basic tax rates for individuals remain applicable: 15, 28, 31 and 36 percent, and a top rate of 39.6 percent. The 15 percent rate is for taxable income up to \$43,050 for married couples, \$25,750 for singles. The 28 percent rate is for income up to \$104,050 for married couples, \$62,45 for singles. The 31 percent rate is for income up to \$158,550 for married couples, \$130,250 for singles. The 36 percent rate is for income up to \$283,150 for both married couples and singles. In addition, there is a 10 percent surtax for certain high-income taxpayers. It is computed by applying the 39.6 percent rate to taxable income over \$283,150 for singles and married couples and for married couples filing separately whose income is over \$141,575. Long-term capital gains are taxed at a maximum rate of 20 percent and are reported on Schedule D. This rate is effective for all sales unless you fall within the 15 percent bracket, when the rate becomes 10 percent. Long-term capital gains is defined for property held for 12 months or more.

Personal Exemption

For each taxpayer, spouse, and dependent the personal exemption has been increased to \$2,700. There is, however, a personal exemption phaseout of two percent for each \$2,500 of adjusted gross income (AGI) over \$126,600 (singles), \$158,350 (head of household), \$189,950 (joint) and \$94,975 (married, filing

separately). For those taxpayers in the last category, the two percent is taken from each \$1,250 exemption.

Standard Deduction

The standard deduction is given to non-itemizers. It has been increasing steadily since 1987. For couples it is \$7,200; for singles the deduction is \$4,300. Married couples filing separately get a standard deduction of \$3,600 and head-of-household filers receive a \$6,350 deduction. An additional amount is allowed for taxpayers over age 65 or who are blind.

Most unreimbursed employee business expenses must be reported as miscellaneous itemized deductions, which are subject to a deduction of two percent of AGI. This includes professional dues and 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 no longer an itemized deduction. As of Jan. 1, 1994, moving expenses are an adjustment to income, which means that you get to deduct them even if you are taking the standard deduction. However, the deduction has been narrowed to include only the *unreimbursed* costs of moving your possessions and yourself and your family to your new location.

Medical expenses (including health insurance) are subject to a deduction equaling 7.5 percent of AGI. This means that any deductible medical cost would have to exceed \$2,250 for a taxpayer with a \$30,000 AGI. There is also an additional three percent reduction of itemized deductions (excluding medical, casualty, theft, and investment interest) if the AGI exceeds \$126,600. This three percent is applied to the AGI over \$126,600 and not to the total of itemized deductions on Schedule A. The maximum loss of deductions is capped at 80 percent.

State and local income taxes and real estate and personal property taxes remain fully deductible for itemizers, as are charitable contributions (to American charities only) for most taxpayers. Donations to the AFSA scholarship

fund are fully deductible as charitable contributions. Donations to AFSA via the Combined Federal Campaign are also fully deductible. Individuals may also dispose of any profit from the sale of personal property abroad in this manner.

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

Home Leave Expenses

Employee business expenses, such as home leave and representation, may be deducted as a miscellaneous itemized deduction. In addition to the two 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. Maintaining a travel log and retaining a copy of home leave orders will be helpful, should the IRS ever question claimed expenses. It is important to save receipts: without receipts for food, a taxpayer may deduct only \$30 to \$46 a day (depending upon the 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, 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 pos-

sible, 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 32.5 cents for miles driven through 3/31/99, and 31.0 cents for miles driven after that date. Those who use this optional mileage method need not keep detailed records of actual vehicle expenses. The only thing necessary will be a detailed odometer log to justify the business use of the vehicle and percentage of business use. This optional mileage method also applies to leased vehicles.

Official Residence Expenses (ORE)

Since Oct. 1, 1990, employees who receive ORE have not been allowed to reduce their reportable income by five percent. The IRS ruling regarding ORE states that "usual expenses," defined as five percent of salary, are not deductible. Therefore, the only expenses that are deductible are those above the five percent that are 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

Employees may deduct interest on up to \$1 million of acquisition debt for loans secured by a first and/or second home. This includes loans for major home improvements. On home equity loans, interest is deductible on up to \$100,000, no matter how much the home costs or for what the loan is used. The \$100,000 ceiling applies to the total of all your home equity loans. The same generally applies to refinancing a mortgage. Points paid to obtain a refinanced loan cannot fully be 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 examination.

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 are overseas and rented their homes in 1999 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 AGI does not exceed \$100,000 and the taxpayer is actively managing the property. Retaining a property manager does not mean losing this benefit.

Sale of a Principal Residence

There is a new capital-gains exclusion on the sale of a principal residence on or after May 7, 1997, that applies to all homeowners, regardless of their age. Previously, qualified individuals who were age 55 or older were allowed a one-time capital gains exclusion of \$125,000. Also, under previous law, if you had a gain when you sold your home, you could defer all or part of the gain if you purchased or built another home (of equal or higher value) within two years before or after the sale.

The new tax laws allow an exclusion of up to \$500,000 for couples filing jointly and up to \$250,000 for single taxpayers on the gain from the sale of their principal residence. All depreciation taken after May 7, 1997 will, however, be recaptured (added to income) at the time of sale.

The only qualification for this new capital-gains exclusion is that the house sold must have been the taxpayer's principal residence for at least two of the last five years prior to the date of the sale. 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 new exclusion replaces the earlier tax-law provision that allowed both the deferral of gain and a one-time exclusion of a principal residence sale.

Many Foreign Service employees are hurt by the "two out of five years" residence provision. Despite repeated attempts, AFSA has so far been unsuccessful in persuading Congress to grant an exemption for Foreign Service personnel who cannot meet this requirement due to prolonged overseas service.

Temporary rental of the home does not necessarily 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).

Under Internal Revenue Code 1031, taxpayers whose U.S. home may no longer qualify for the customary residence replacement rule 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 also is rented. In exchanging the properties, capital gains tax may be deferred. Technically, a simultaneous trade of invest-

ments occurs. Actually, owners first sell their property, place the equity 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 the 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 deducted from the sales price. 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 made; 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, 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 as "fixing-up costs."

State Tax Provisions

Every active 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, as each state has different rules about the conditions under which individuals are liable for taxes on such income.

This state guide briefly reviews the laws regarding income tax and tax on annuities and pensions as they affect Foreign Service personnel. *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. Information is also available on the states' websites listed below.*

Most Foreign Service employees have questions about their liability to pay state income taxes during periods posted overseas or

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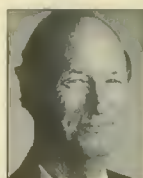
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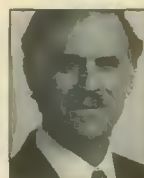
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assigned to Washington. It is a fundamental rule of law that all U.S. citizens, because they have the right to vote, retain a state of domicile even if residing abroad. There are many criteria used in determining which state is a citizen's domicile. 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 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.

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, less 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 area are required to pay income tax to the District, Maryland or Virginia in addition to paying tax to the state of their domicile. However, most states allow a credit, so that the taxpayer pays the higher tax rate of the two states, with each state receiving a share.

There are six states which, under certain conditions, do not tax income earned outside of the state: Connecticut, Missouri, New Jersey, New York, Pennsylvania and West Virginia. The requirements 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 spend more than 30 days in the state during the tax year. Also, please note that these six states require the filing of non-resident returns for all income earned from in-state sources.

Pennsylvania holds that "quarters provided by the government at no cost to Petitioner cannot be considered as maintaining a permanent place of abode." Thus, members of the Foreign Service domiciled in Pennsylvania who occupy

government housing overseas must pay income tax to Pennsylvania. If they rent their own home overseas, however, they will be exempt from these taxes. AFSA has not heard of a similar ruling in any of the other five states but Foreign Service employees should be aware that states could challenge the status of government housing in the future.

The following list gives a state-by-state overview of the latest information available on tax liability, with addresses and websites provided to write for further information or tax forms. Where available, telephone numbers are provided. Please note, 800-numbers can not be accessed outside the United States. 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 states' tax authorities.

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 tax rate ranges from 2.87 to 5.04 percent, depending on income and filing status. Write: Alabama Department of Revenue, Income Tax Forms, P.O. Box 327470, Montgomery, AL 36132-7470. Phone: (334) 242-1170. Website: <http://www.ador.state.al.us>

ALASKA: No state income tax. Website: www.revenue.state.ak.us

ARIZONA: Individuals domiciled in Arizona are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Arizona's tax rate ranges from 3 to 5.6 percent depending on income and filing status. Write: Arizona Department of Revenue, Attention: Forms, 1600 West Monroe, Phoenix, AZ 85007-2650. Website: <http://www.state.az.us/revenue>

ARKANSAS: Individuals domiciled in Arkansas are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Arkansas's tax rate ranges from 1 to 7 percent depending on income and filing status. Write: Department of Finance and Administration, Income Tax Forms Division, P.O. Box 3628, Little Rock, AR 72203. Phone: (501) 682-1100 or (800) 882-9275. Website: <http://www.state.ar.us/dfa/taxes/index.html>

CALIFORNIA: Recent changes in FTB Publication 1031 mean that Foreign Service officers domiciled in California must establish non-residency to avoid being liable for California taxes. However, a "safe harbor" provision was introduced in 1994 which provides that anyone who is domiciled in-state but is out of the state on an employment-related contract for more than 546 days will be considered a non-resident. This applies to FS employees and their

spouses, but California residents are advised to study FTB Pub 1031 for exceptions and exemptions. Non-residents use Form 540NR. Write: State of California, Franchise Tax Board, Taxpayer Services, P.O. Box 942840, Sacramento, CA 94280-0040. Website: <http://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 4.75 percent of federal taxable income attributable to Colorado sources. Write: Department of Revenue, Taxpayer Service Division, State Capitol Annex, 1375 Sherman St., Denver, CO 80261. Website: <http://www.state.co.us>

CONNECTICUT: Individuals who are domiciled in another state but who have a permanent place of abode in Connecticut and spend more than 183 days in Connecticut in the taxable year are considered residents and are taxed on all income, regardless of where it is earned. The tax rate ranges from 3 to 4.5 percent depending on income and filing status. Write: Department of Revenue Services, 25 Sigourney Street, Hartford, CT 06106. Phone: (860) 297-5962 or (800) 382-9463. Website: <http://www.drs.state.ct.us/index.html>

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 tax rate ranges from 2.6 to 6.4 percent depending on income and filing status. The first \$2,000 of income is exempt. Write: Division of Revenue, Taxpayers Assistance Section, State Office Building, 820 N. French St., Wilmington, DE 19801. Phone: (302) 577-8200. Website: <http://www.state.de.us/revenue>

DISTRICT OF COLUMBIA: Individuals domiciled in the District of Columbia are considered residents for tax purposes and are subject to tax on their entire income regardless of where they are living. 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 ranges from 6 to 9.5 percent. Write: Office of Tax and Revenue, 441 Fourth St, NW, Suite 550, Washington, D.C. 20001. Phone: (202) 727-4TAX. Website: <http://www.dcco.com/Taxpayers/taxpayers.html>

FLORIDA: No state income tax. However, Florida taxes "intangible assets," (which include stocks, bonds, mutual funds, etc), and real property. For details, write to Tax Information Services, Florida Department of Revenue, 1379 Blountstown Highway, Tallahassee, FL 32304. Phone: (805) 488-6800 or (800) 352-3671. Website: <http://sun6.dms.state.fl.us/dor/>

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's tax rate ranges from 1 to 6 percent depending on income and filing status. Write: Georgia Income Tax Forms, P.O. Box 740389, Atlanta, GA 30374-0389. Phone: (404) 656-4188. Website: <http://www2.state.ga.us/Departments/dor>

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. Hawaii's tax rate ranges from 1.6 to 8.75 percent depending on income and filing status. Write: Oahu District Office, Taxpayer Services Branch, P.O. Box 3559, Honolulu, HI, 96811-3559. Phone: (808) 587-4242 or (800) 222-3229. Website: <http://www.state.hi.us/tax/tax.html>

IDAHO: Individuals domiciled in Idaho for an entire tax year are considered residents and are subject to tax on their entire income. Idaho provides a safe harbor provision where a resident individual who is outside Idaho for a qualifying period of time will not be considered a resident. If an individual qualifies for the safe harbor, he would report as a nonresident and be taxed only on income from Idaho sources. A nonresident must file an Idaho income tax return if his gross income from Idaho sources is \$2,500 or more. Idaho's tax rate is between 2 and 8.2 percent depending on earned income. Write: Idaho State Tax Commission, P.O. Box 36, Boise, ID 83722. Phone: (800) 972-7660. Website: <http://www2.state.id.us/tax/index.html>

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. Illinois's tax rate is a 3 percent flat rate. Write: Illinois Department of Revenue, Forms Division, 101 West Jefferson St., Springfield, IL 62794-9044. Phone: (217) 782-3336 or (800) 732-8866. Website: <http://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. However, a credit is granted for any taxes paid to the state where the income was earned. Indiana's tax rate remains 3.4 percent. Write: Department of Revenue, 100 N. Senate Ave., Indianapolis, IN 46204. Phone: (317) 232-2240. Website: <http://www.state.in.us/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 tax rate ranges from 0.36 to 8.98 percent depending on income and filing status. Write: Department of Revenue and Finance, Forms Division, Hoover State Office

Building, Des Moines, IA 50319. Phone: (515) 281-3114 or (800) 367-3388. Website: <http://www.state.ia.us/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. Kansas' tax rate ranges from 3.5 to 6.45 percent depending on income and filing status. Write: Kansas Taxpayer Assistance Center, Docking State Office Building, 915 SW Harrison, Topeka, KS 66625-0001. Phone: (785) 368-8222. Website: <http://www.ink.org/public/kdor>

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 is 2 percent on the first \$3,000 of taxable income, plus 3 percent on the next \$1,000, plus 4 percent on the next \$1,000, plus 5 percent on the next \$1,000, plus 6 percent on all income over \$8,000. Write: Revenue Cabinet, PO Box 181, Station 56, Frankfort, KY 40602. Phone: (502) 564-4581. Website: <http://www.state.ky.us/agencies/revenue/revhome.htm>

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. Resident individuals are entitled to a tax credit for income tax paid to another state on the amount of income earned in the other state and included in the state's taxable income. Louisiana's tax rate ranges from 2 to 6 percent depending on income and filing status. Write: Department of Revenue and Taxation, Forms Division, P.O. Box 201, Baton Rouge, LA 70821-0201. Phone: (225) 925-4611. Website: <http://www.rev.state.la.us>

MAINE: Individuals domiciled in Maine are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Maine's tax rate ranges from 2 to 8.5 percent depending on income and filing status. Write: Bureau of Taxation, Forms Division, State Office Building, Augusta, ME 04333. Phone: (207) 626-8475. Website: <http://janus.state.me.us/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 six months or more. Maryland's tax rate is a graduated tax up to a maximum of 4.785 percent depending on income and county of residence. Cities also impose a surcharge which varies between 50 and 60 percent. Write: Revenue Administration, Income Tax Division, Annapolis, MD 21411. Phone: (410) 260-7980

or (800) MD-TAXES. Website: <http://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 dividends are taxed at 5.95 percent. Write: Massachusetts Department of Revenue, Supply Forms Section, 100 Cambridge Street, Boston, MA 02204-7033. Phone: (617) 887-MDOR. Website: <http://www.state.ma.us/dor>

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 is 4.4 percent. Write: Department of Treasury, Forms Division, Treasury Building, Lansing, MI 48922. Phone: (800) 587-7000. Website: <http://www.treas.state.mi.us>

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 exempts domiciliaries who meet the foreign residence requirements of foreign earned income exclusion, even though they are federal employees. Minnesota's tax rate ranges from 5.5 to 8 percent depending on income and filing status. Write: Department of Revenue, Forms Division, Mail Station 5510, Saint Paul, MN 55146-2220. Phone: (651) 296-3781 or (800) 652-9094. Website: <http://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. Write: State Tax Commission, Forms Division, P.O. Box 1033, Jackson, MS 39215. Phone: (601) 923-7390. Website: <http://mstc.state.ms.us>

MISSOURI: No tax liability for out-of-state 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. The tax rate ranges from 1.5 to 6 percent depending on income and filing status. File a return yearly with an attached "Statement of Non-Residency" (Form 1040C). Also use this form if you have income of more than \$600 from Missouri sources. Write: Tax Administration Bureau, Forms Division, PO Box 220, Jefferson City, MO 65105-2200. Website: <http://dor.state.mo.us>

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 ranges from 2 to 11 percent depending on income and filing status. Write: Montana Department of Revenue, Income Tax Division, PO Box 5805, Helena, MT 59604. Phone: (406) 444-6900. Website: <http://www.state.mt.us/revenue/index.htm>

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 with credit allowed for tax paid to other states. Nebraska's tax rate ranges from 2.51 to 6.68 percent depending on income and filing status. Phone: (800) 742-7474. Write: Department of Revenue, 301 Centennial Mall South, P.O. Box 94818, Lincoln, NE 68509-4818. Website: <http://www.nol.org/revenue>

NEVADA: No state income tax. Website: <http://www.state.nv.us/taxation>

NEW HAMPSHIRE: No personal income tax. No capital gains tax on sale of principal residence, 7 percent on sale of rental property, 5 percent on profits from in-state sources, including the sale of property and bonds. Write: Taxpayer Assistance Office, 61 So. Spring St., P.O. Box 2072, Concord, NH 03302-2072. Phone: (603) 271-2186. Website: <http://www.state.nh.us/revenue/index.htm>

NEW JERSEY: No tax liability for out-of-state income 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, but is recommended in order to preserve domicile status. Filing is required on Form 1040 NR for revenue derived from in-state sources. Write: Department of the Treasury, Division of Taxation, PO Box 266, Trenton, NJ 08625-0266. Website: <http://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. New Mexico's tax rate varies from 1.7 to 8.5 percent based upon income and filing status. Write: New Mexico Taxation and Revenue Department, Tax Information and Policy Office, 1100 S. St. Francis Drive, PO Box 630, Santa Fe, NM 87504-0630. Website: <http://www.state.nm.us/tax/>

NEW YORK: 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. Filing is required on Form IT-203-I for revenue derived from New York sources. The highest tax rate in New York state is 6.85 percent. Write: Department of Taxation

and Finance, Technical Services Bureau, W.A. Harriman Campus, Albany, NY 12227. Website: <http://www.tax.state.ny.us>

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. North Carolina's tax rate ranges from 6 to 7.75 percent depending on income and filing status. Write: Department of Revenue, PO Box 25000, Raleigh, NC 27640. Website: <http://www.dor.state.nc.us>

NORTH DAKOTA: Individuals domiciled in North Dakota are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Tax rates vary according to income and whether a short or long tax form is used. Write: Office of State Tax Commissioner, State Capitol, 600 E. Boulevard Avenue, Bismarck, ND 58505-0599. Phone: (701) 328-2770. Website: <http://www.state.nd.us/taxdpt>

OHIO: Individuals domiciled in Ohio are considered residents (including part year) and are subject to tax on their entire income. Ohio residents are given a tax credit to reduce the Ohio income tax due on income taxed by other states or the District of Columbia while an Ohio resident. Ohio's tax rate ranges from 0.743 to 7.5 percent depending on income and filing status. Write: Ohio Department of Taxation, Taxpayers Services, P.O. Box 2476, Columbus, OH 43266-0076. Website: <http://www.state.oh.us/tax>

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. Oklahoma's tax rate is based upon income and various exemptions. Write: Oklahoma Tax Commission, Taxpayer Services Division, 2501 Lincoln Blvd., Oklahoma City, OK 73194-0009. Phone: (405) 521-3160. Website: <http://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. However, under a 1999 law, Oregon exempts domiciliaries who meet the foreign residence requirements of foreign earned income exclusion, even though they are federal employees. Oregon's tax rates range from 5 to 9 percent of taxable income. Write: Department of Revenue, 955 Center Street N.E., Salem, OR 97310. Phone: (503) 378-4988. Website: <http://www.dor.state.or.us>

PENNSYLVANIA: 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. Filing a return is not required, but it is recommended to

preserve domicile status. File on form PA40-NR for all income derived from Pennsylvania sources. Pennsylvania does not consider government quarters overseas to be a "permanent place of abode elsewhere," so Foreign Service PA residents abroad in government quarters must continue to pay income tax. Pennsylvania's tax rate is a flat 2.8 percent. Write: Commonwealth of Pennsylvania, Department of Revenue, Taxpayer Services Department, Harrisburg, PA 17128-1061. Phone: (717) 787-8201. Website: <http://www.revenue.state.pa.us>

PUERTO RICO: Individuals who are domiciled in Puerto Rico are considered residents for tax purposes and must file a tax return and are subject to tax on their entire income regardless of their presence in the commonwealth. Under certain circumstances you may claim a credit against Puerto Rico tax for any federal taxes paid. E-mail: hacienda@www.hacienda.gov.pr Website: <http://www.hacienda.gov.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. Rhode Island's tax rate is 26.5 percent of the Federal tax. Write: Rhode Island Division of Taxation, Taxpayer Services Division, 289 Promenade St., Providence, RI 02908-5801. Phone: (401) 222-1040. Website: <http://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's tax rate ranges from 2 to 7 percent, depending on income. Write: South Carolina Tax Commission, Forms Division, 301 Gervais Street, P.O. Box 125, Columbia, SC 29214. Phone: (800) 763-1295. Website: <http://www.dor.state.sc.us>

SOUTH DAKOTA: No state income tax. Website: <http://www.state.sd.us/revenue>

TENNESSEE: No personal income tax. Tennessee does impose a 6 percent tax on dividends and certain types of interest income received by Tennessee residents. However, it is possible that legislative changes may have taken place after we have gone to press, so members are urged to check with the Department of Revenue, Andrew Jackson State Office Building, Nashville, TN 37242. Website: <http://www.state.tn.us/revenue>

TEXAS: No state income tax. Write: Tax Policy Division, Comptroller of Public Accounts, PO Box 13528, Austin, TX 78711-3528. Website: <http://www.window.state.tx.us>

UTAH: Individuals domiciled in Utah are considered residents and are subject to Utah state tax. The state requires that all federal adjusted gross income reported on the federal return be reported on the state return regardless of their physical presence in the state. Utah's

of their physical presence in the state. Utah's highest tax rate is 7 percent. Write: Utah State Tax Commission, Taxpayer Services Division, 210 North 1950 West, Salt Lake City, UT 84134. Phone: (801) 297-2200 or (800) 662-4335. Website: <http://www.tax.ex.state.ut.us>

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. Vermont's tax rate is 25 percent of the individual's Federal tax. Write: Vermont Department of Taxes, Taxpayer Services Division, Pavilion Office Building, Montpelier, VT 05609-1401. Phone: (802) 828-2865 or 2557. Website: <http://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. Virginia's tax rate ranges from 2 to 5.75 percent depending on income and filing status. Write: Virginia Department of Taxation, Taxpayer Services Division, P.O. Box 1317, Richmond, VA 23210. Phone: (804) 367-8055. Website: <http://www.state.va.us/tax/forms.html>

WASHINGTON: No state income tax. Phone: (360) 786-6150 or (800) 451-7985. Website: <http://dor.wa.gov>

WEST VIRGINIA: 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. Filing a return is not required, but it is recommended to preserve domicile status. Filing is required on form IT-140-NR for all income derived from West Virginia sources. Write: The Department of Tax and Revenue, Taxpayer Services Division, P.O. Box 3784, Charleston, WV 25337. Phone: (304) 558-3333 or (800) 982-8297. Website: <http://www.state.wv.us/taxdiv>

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 4.77 to 6.77 percent depending on income and filing status. Write: Wisconsin Department of Revenue, Audit Bureau, P.O. Box 8906, Madison, WI 53708-8906. Website: <http://www.dor.state.wi.us>

WYOMING: No state income tax. Phone: (307) 777-7961. Website: <http://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.

In response to the U.S. Supreme Court's decision in *Davis v. Michigan Department of the Treasury*, annuitants in a number of states challenged unequal taxation of state versus federal annuities. In this precedent-setting decision, the court ruled that the policy of the state of Michigan to exempt from taxation the annuities of retired state of Michigan and local government employees while taxing the annuities of retired federal employees residing in Michigan discriminates against federal annuitants and is therefore unconstitutional. Because many states have similar practices regarding the treatment of annuitant income, individuals and groups are still involved in litigation in order to compel their states of residence to refund the taxes they paid on their annuities during the period immediately before the states changed their tax laws to comply with *Davis v. Michigan*. All other states tax Foreign and Civil Service annuities and pensions to varying degrees.

ALABAMA: Full exemption. Federal pensions are not taxable.

ALASKA: No personal income tax.

ARIZONA: Up to \$2,500 of U.S. Government pension income is exempt.

ARKANSAS: Up to \$6,000 exempt.

CALIFORNIA: Fully taxable.

COLORADO: Up to \$20,000 exempt if over age 55.

CONNECTICUT: Fully taxable for residents.

DELAWARE: Two exclusions: (1) Up to \$2,000 exempt if earned income is less than \$2,500 and modified AGI is less than \$10,000; if married and filing jointly, up to \$4,000 exempt if earned income is less than \$5,000 and modified AGI is under \$20,000. This is applicable for those 60 years or older or totally disabled. Modified AGI is Federal AGI plus interest on state and local obligations other than Delaware Fiduciary adjustment minus interest received on US obligations, pension exclusions, Delaware State Tax refund, lottery, NOL carry forward, taxable social security/RR retirement benefits and higher education exclusion. (2) If under age 60, the amount of the exclusion is \$2,000 or the amount of the pension (whichever is less), and for age 60 or older, the exclusion amount is \$5,000 or the amount of the pension and eligible retirement income (ERI) (whichever is less). ERI includes dividends, interest, net rental income from real property and qualified retirement plans and government-deferred compensation plans. The combined total of pension and ERI may not exceed \$5,000 per person age 60 or older.

DISTRICT OF COLUMBIA: Up to \$3,000 exempt, only if 62 years or older.

FLORIDA: No personal income tax, but Florida has an "Intangibles Tax."

GEORGIA: Up to \$13,000 exempt for those 62 years or older and permanently or totally disabled.

HAWAII: Full exemption, government pensions are not taxed.

IDAHO: Foreign Service retirees whose annuities are paid from the FSPS are fully taxed on their pensions. Those persons retired under the Civil Service Retirement Act are exempt up to \$16,788 for a single return and up to \$25,182 if filing jointly. Up to \$16,788 is exempt for unmarried survivor of annuitant, must be 65 years or older, or 62 years or older and disabled. Amount reduced dollar for dollar by social security benefits.

ILLINOIS: Full exemption, government pensions are not taxed.

INDIANA: Up to \$2,000 exemption for most age 65 or older, reduced dollar for dollar by social security benefits.

IOWA: Fully taxable. However, there is a pension/retirement income exclusion of up to \$5,000 for individual and up to \$10,000 for married taxpayers who are disabled or are 55 years of age or older, or are a surviving spouse or other survivor of the annuitant. The same income tax rates apply to annuities as other incomes.

KANSAS: Full exemption, government pensions are not taxed.

KENTUCKY: Government pensions attributable to service before 1/1/98 are not taxed. In the future, the portion of annuity income attributable to service after 12/31/97 will be taxed at the appropriate rate. There is an exemption for 1999 of up to \$35,700 which will be increased to \$36,414 for 2000.

LOUISIANA: Up to \$6,000 exempt if age 65 or older. (\$12,000 if both filers over 65).

MAINE: Fully taxable.

MARYLAND: For individuals 65 years or older or permanently disabled, federal pensions and annuities, including Social Security, are excluded up to \$15,900. Eligibility determination required. For other annuitants, the total amount is taxable.

MASSACHUSETTS: Full exemption, government pensions are not taxed.

MICHIGAN: Full exemption, government pensions are not taxed.

MINNESOTA: Certain persons over age 65 with incomes under \$42,000 may be eligible for a subtraction. The maximum subtraction is \$12,000 married filing jointly and \$6,000 single, which is reduced dollar for dollar by untaxed social security benefits, and by one dollar for each two dollars of income over \$18,000 for married and \$14,500 for single.

MISSISSIPPI: Full exemption, government pensions are not taxed.

MISSOURI: Up to \$6,000 of a government

pension is exempt if the pension income is less than \$32,000 on a jointly filed return.

MONTANA: Up to \$3,600 exemption if the pension income is less than \$32,000.

NEBRASKA: Fully taxable.

NEVADA: No personal income tax.

NEW HAMPSHIRE: No personal income tax.

NEW JERSEY: Pensions and annuities are subject to state income tax with the following exemptions for those who are age 62 or older, or totally and permanently disabled, as follows: singles can exclude up to \$7,500; married filing jointly up to \$10,000; married filing separately up to \$5,000 each.

NEW MEXICO: All pensions and annuities are fully taxed.

NEW YORK: Full exemption, government pensions are not taxed.

NORTH CAROLINA: Up to \$4,000 of Federal annuity income is exempt.

NORTH DAKOTA: All pensions and annuities are fully taxed, except first \$5,000 is exempt less any Social Security payments, but only if the individual chooses to use Form 37 (long form). Individuals are cautioned to check both Form 37-S and Form 37 to ascertain which one yields the lowest tax for the year. Qualifying for the exclusion does not mean that Form 37 is the better form to choose.

OHIO: Gives a tax credit based on the

amount of the retirement annuity. If the annuity is below \$1,500 then there is no credit. An annuity of \$500 to \$1,499 merits a \$25 credit; \$1,500 to \$3,000 merits a \$50 credit; \$3,000 to \$5,000 merits a \$80 credit; \$5,000 to \$8,000 merits a \$130 credit; and any annuity over \$8,000 merits a credit of \$200. The maximum credit per return is \$200.

OKLAHOMA: Up to \$5,500 exempt on all federal pensions.

OREGON: Generally, all retirement income is subject to Oregon tax when received by an Oregon resident. This includes non-Oregon source retirement income. Retirement income received by nonresidents on or after January 1, 1996 is no longer subject to taxation by Oregon.

PENNSYLVANIA: Full exemption for government pensions and social security.

PUERTO RICO: There is an exemption of \$5,000 on pension payments if you are under 60. Over 60 the exemption is \$8,000.

RHODE ISLAND: Fully taxable.

SOUTH CAROLINA: On retirement income: under age 65 a \$3,000 exemption may be taken; over age 65 a \$10,000 exemption may be taken, and an additional \$11,500 exemption may be taken on income regardless of source.

SOUTH DAKOTA: No personal income tax.

TENNESSEE: Full exemption, government pensions are not taxed. However, please check

with the Tennessee Department of Revenue since it is possible that legislative changes may have taken place after the *Journal* went to press.

TEXAS: No personal income tax.

UTAH: Under age 65 a \$4,800 exemption may be taken. However, the deduction is reduced \$.50 for every \$1.00 that the Federal AGI exceeds \$32,000 (married filing joint) or \$25,000 (single). Over 65 years of age a \$7,500 exemption may be taken for each individual. However, the exemption is reduced \$.50 for every \$1.00 that the Federal AGI exceeds \$32,000 (married filing joint) or \$25,000 (single).

VERMONT: Fully taxable.

VIRGINIA: Deductions of up to \$12,000 if over age 65 and up to \$6,000 if over age 62.

WASHINGTON: No personal income tax.

WEST VIRGINIA: Up to \$8,000 exempt, only if age 65 or older.

WISCONSIN: Pensions and annuities are fully taxable. However, benefits received from a federal retirement system account established before 1964 are not taxable.

WYOMING: No personal income tax.

James Yorke, who compiled the tax guide, would like to express thanks to M. Bruce Hirshorn, Foreign Service Tax Counsel, for his help in preparing this article.

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FOCUS

currency provides from precipitating a race to the bottom. And it has encouraged talk of augmenting the powers of the European Parliament so that there will exist a political entity to hold the ECB accountable for its actions. The theory of "neofunctionalist spillovers" suggests that one damn thing leads to another — in this case, that monetary integration leads ultimately to political integration. There are more than a few signs that these spillovers are operating in precisely this way.

But the day when the European Parliament usurps the powers of Europe's national parliaments is not yet upon us. Despite the pressure for deeper political integration created by the fact of monetary integration, the E.U. is still very far away from creating a United States of Europe. When Europe has had the opportunity to demonstrate its ability to speak with one political voice — in Kosovo, for example — its message has been less than clear. Changes in the monetary and financial landscape may be slow, but fundamental changes in the political landscape are even slower. German unification

at the beginning of the 1990s could be cited as a counterexample, but that was a case of reunification — of reestablishing an existing polity — not a case of creating a new transnational political body of a truly unprecedented sort.

Thus, monetary union may have solved a problem former U.S. Secretary of State Henry Kissinger identified when he said that when the time comes to telephone Europe, you don't know whom to call. But the problem is solved only when the issue is strictly monetary. And even then, it is not clear who will answer the phone when it rings in Europe and with whose authority he or she will speak. In any case, when the issue is political rather than narrowly monetary, Kissinger's problem remains unchanged.

Someday things will be different. With time, monetary integration may lead Europe down the path to political integration. But it will be years before this transformation proceeds far enough to make a significant difference for the formulation of U.S. foreign and economic policies. ■



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TRANSATLANTIC ECONOMIC RELATIONS: A TEN-POINT GUIDE



Connie McLennan

I TRADE DISPUTES BETWEEN THE U.S. AND THE E.U. GARNER A LOT OF HEADLINES. BUT THEY'RE ONLY PART OF THE STORY.

BY MICHAEL CALINGAERT

In the eyes of the American and European publics, the economic relationship between the United States and European Union is largely defined in terms of disputes. Indeed, disputes have marked the 40-plus years of the relationship — frequent, often rancorous, and seemingly difficult to resolve. The current crop of bilateral issues is no exception. The E.U.'s banana import regime and ban on hormone-fed beef and U.S. retaliation against these measures; the E.U.'s proposed airplane noise-abatement regulations which would ban older engines; U.S. sanctions on foreign companies investing in expropriated properties in Cuba; U.S. foreign sales corporations that provide a tax shelter for U.S. exporters — just to name the most visible points of contention — are all serious issues that dominate the U.S.-E.U. agenda.

F O C U S

But while these disputes represent an important component of the transatlantic economic relationship, they must be seen in the context of a wide and complex relationship involving many diverse elements.

1. The United States and the European Union are the world's two economic superpowers. The gross domestic product (GDP) of the United States is over 8 trillion dollars, as is that of the E.U. Together they account for over half the world's GDP, almost half the world's exports, and well over half of all foreign investment. It follows, therefore, that their relationship has a major impact on the rest of the world. As the Clinton Administration's point man on the E.U., Deputy Treasury Secretary Stuart Eizenstat, has put it, if with a tinge of hyperbole, the U.S.-E.U. relationship may be the most important, influential and prosperous bilateral relationship of modern times.

2. The United States and the European Union enjoy a growing and largely balanced trading relationship. Trade in goods and services between the United States and E.U. is approaching half a trillion dollars (over \$300 billion and \$150 billion, respectively). The increase in U.S.-E.U. trade has been greater over the past 20 years than with any other American partner except Canada; it is nine times greater than the growth in U.S.-China trade.

For both the United States and the E.U., about 20 percent of total trade is conducted with the other entity. This trade is largely complementary, well-balanced in composition and amount; the four major categories of U.S. exports to the E.U. are also the top categories of E.U. exports to the United States. In addition, the bilateral trade balance has fluctuated between surpluses and deficits and has remained within manageable margins over the years, unlike American trade with other regions of the world, notably Asia. Since 1993, the United States has run a growing trade deficit with the E.U. However, the deficit has barely exceeded 15 percent of the U.S. global trade deficit.

3. Massive investment in both directions is the strongest tie between the United States and the E.U. The two entities are each other's top source and destination of foreign direct investment. The total stock of this two-way investment is over \$700 billion, almost equally divided between American investment in the E.U. and that of

E.U. companies in the United States. That total accounts for over half of all foreign investment in the United States and E.U.; it represents over 40 percent of foreign investment by U.S. firms and almost 60 percent that of the E.U.

In the felicitous phrase of one expert, investment is "the neglected twin of trade." About one-third of exports are shipped to foreign subsidiaries of the exporting country. Sales by foreign subsidiaries dwarf bilateral trade; for the United States and E.U. they amount to about one and a half trillion dollars — more than three times the volume of bilateral trade. The U.S. pharmaceutical industry's position as the top supplier of drugs (from its European production) to European consumers and Bertelsmann's role as the biggest publisher of English-language trade books illustrate this point. Employment has also benefitted. About three million Americans are employed by European subsidiaries, while three million Europeans are employed by American subsidiaries, and one American in 12 employed in manufacturing works for a European company. Two notable examples: Siemens' workforce in the United States numbers 65,000, while General Electric employs about 50,000 people in Europe.

In earlier years the great fear in Europe — typified in the 1967 best-seller *Le Defi Americain* ("The American Challenge") by Jean Jacques Servan-Schreiber — was that U.S. firms would "invade" Europe and make it a subsidiary of the United States. American firms did, in fact, acquire major assets in Europe, but investments by European firms in the United States also increased substantially in subsequent years. The last year alone has seen a number of European acquisitions of major U.S. corporations, such as AirTouch by Vodafone, Amoco by BP, Bankers Trust by Deutsche Bank, and Chrysler by Daimler Benz.

This high level of cross-investment — and increased blurring of the distinction between U.S. and E.U. firms — has created an extensive overlapping of interests and, with it, a strong incentive to maintain friendly relations and contain problems between the United States and E.U.

4. To an overwhelming extent, economic interaction takes place with minimum friction under accepted rules of commercial conduct and international agreements. American and European firms operate in each other's jurisdiction essentially on the same terms. They compete, of course, but on the basis of "national treatment" — non-discrimination between domestic and

A retired Foreign Service officer, Michael Calingaert is Executive Director of the Council for the United States and Italy and Guest Scholar at the Brookings Institution.

foreign firms — and thus not unlike the way they do in their own territories.

In strictly economic terms, the value of the disputes that arise in most cases is *de minimis* in relation to the level of overall trade and economic interchange. The total value of trade affected by the two most visible U.S. trade complaints against the E.U. — the E.U.'s import quota regime for bananas and its ban on the importation of hormone-fed beef — is about \$400 million, a mere fraction of the \$300 billion aggregate bilateral merchandise trade.

5. Nonetheless, US-E.U. disputes affect important economic interests and the bilateral relationship. Despite their growing ties, "The two blocs with the most in common seem unable to stop arguing," as one European commentator put it. Obviously, one cannot dismiss disputes involving "only" a few hundred million dollars of trade. Companies and sectors are often seriously affected, and important principles are often at stake. That is why they remain on the agenda and consume the time and energy of governments.

The concerns of each side are spelled out annually in a report issued, respectively, by the U.S. Trade Representative and the European Commission, which list barriers to trade and investment in the two jurisdictions. Unfortunately, neither is reader-friendly, but it is possible to generalize.

For the E.U., U.S. unilateral trade actions (use of Section 301 of the 1974 Trade Act and imposition of retaliatory tariffs in trade disputes), extraterritorial legislation (penalties levied against non-U.S. firms under the Helms-Burton and D'Amato Acts for certain investments in Cuba, Iran, and Libya), and technical barriers to trade (including limited use of international standards, variations in regulations among state and municipal authorities, and onerous labeling requirements) rank high in the list of complaints. On the other side of the ledger, areas of particular concern to the United States include technical standards and product certification (e.g., lack of access by U.S. firms to the European standardization process), intellectual property protection (e.g., reciprocity requirement for copyright protection of databases) and policies affecting investment (e.g., member state restrictions on entry to certain sectors).

6. Some issues are long-standing and not subject to resolution. Most prominent is the European Union's Common Agricultural Policy (CAP), which combines high protection against imports, production incentives,

and export subsidies. One consequence has been to close or limit markets for U.S. agricultural products in the E.U. and third countries. The CAP has been a bone of contention between the United States and the E.U. since the 1960s, though the nature and intensity of the disputes have changed over time. Although internal (budgetary) and external (trade commitments) pressures have moved the CAP in the direction of market liberalization, agriculture is destined to remain a major disputed issue between the United States and the E.U.

A recurring dispute centers on the interpretation of the provisions of the General Agreement on Tariffs and Trade (GATT) — taken over by the World Trade Organization (WTO) — on the re-balancing of benefits when new members join a customs union. Each time the E.U. has expanded, the United States has claimed compensation for all increases in trade barriers affecting its exports to the new entrants resulting from their entry into the E.U. Each time, the E.U. has countered that compensation is due only if and when the sum of increases exceeds that of decreases in trade barriers. Neither side yields in the "theological" debate, but eventually an agreement is worked out.

On the other side of the ledger, E.U. complaints about U.S. unilateralism and extraterritorial legislation are likewise bound to remain a constant of the relationship. The objects of E.U. unhappiness result from a combination of U.S. hegemony, domestic American political realities, and the perception in the United States that it no longer needs to coddle the countries it was protecting from the Soviet threat and thus can assert its interests more forcefully. Although the dispute settlement mechanism of the WTO places some limits on the United States in this regard, Washington's general pattern of behavior is unlikely to change significantly (e.g., it is unrealistic to expect a significant loosening of sanctions against Castro-led Cuba).

7. The range of economic disputes has expanded into issues that are less amenable to resolution, reflecting the blurring of the distinction between "domestic" and "international" issues. In bygone days trade disputes between the United States and Europe centered around tariffs and other barriers at the external border — issues that for the most part were covered by the provisions of the GATT. Increasingly, however, disputes arise from actions taken for reasons that are not yet the subject of international agreement, or at least not fully.

Differences between U.S. and E.U. regulations, technical standards, and certification procedures for

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Increasingly, trade disputes center on complex issues like genetically altered foods.

products — reflecting differences in regulatory philosophy, historical experience, methods of operation, and — on occasion — protection of national interests — have created additional tensions. For example, the decade-plus long battle between the United States and E.U. over U.S. exports of hormone-fed beef reflects a fundamental difference of regulatory philosophy and practice. The U.S.

has a federal structure in place with decisions based on scientific evidence, while the E.U. lacks a comparable structure and decision-making mechanism — and has a public strongly opposed to the use of hormones.

In a sense, this is only a warm-up for what promises to be a major U.S.-E.U. confrontation over genetically-modified food. Biotechnology has made sizable advances in U.S. agriculture, advances that have been approved by government authorities and largely accepted by the American public. A significant portion of American corn and soybeans is now genetically altered, and over 50 percent of U.S. processed food already contains genetically-modified ingredients. The situation is quite the opposite in the E.U., where a growing and increasingly vociferous body of opinion has argued against the introduction of any genetically-modified food, thus putting at risk a large volume of U.S. agricultural exports.

Data privacy is an entirely new issue. The E.U.'s recently-adopted regulations, forbidding the cross-border transmission of data on individuals to countries that have not adopted comparable controls to protect privacy, run directly counter to U.S. legislation and views. In the E.U., the public wants a high degree of privacy, and it looks to government to protect it from companies. In the United States there appears to be far less concern about personal data collected by businesses and considerable reluctance to give government a policing role.

Different philosophies of antitrust policy resulted in a dispute over the proposed merger of Boeing and McDonnell Douglas in 1998. The U.S. authorities authorized the merger. However, E.U. authorization was also required because of the merger's obvious effect on the European civil aviation market. Its authorities insisted on a number of conditions that were strenuously contested (but ultimately acceded to) by the manufacturers.

Mention should also be made of a now-dormant issue: the imposition of quotas by the E.U. on non-E.U. programming on television stations. Although each side chose to ignore the source of the other's main concern, there were two distinct aspects to the dispute, each legitimate in its own. For the Europeans it was a cultural issue — a desire to provide a measure of protection for European languages

and culture against "encroachment" from the United States. As French Prime Minister Jospin recently said, "The single and fundamental idea [is] that culture cannot be treated like goods." In U.S. eyes, economic factors were deemed paramount — the American film industry should not have to suffer from restrictions placed on its lucrative market in the absence of international agreement or disciplines.

As should be clear from this enumeration, issues under dispute involve more elements than in the past. More individuals and groups have an interest in what previously were viewed as "domestic" issues, and more parts of government are involved as well. Thus, it is hardly surprising that resolution is more difficult to achieve than in the past.

8. As the bilateral economic agenda has broadened, increased efforts are devoted to addressing these issues. A succession of structures has been developed to improve and expand the U.S.-E.U. relationship. The main mechanism is a series of periodic meetings at the top political level and agreement on a list of issues to be addressed, with the economic component always prominent. The Transatlantic Declaration of 1990 was followed by the New Transatlantic Agenda and Action Plan of 1995; then came the 1998 Transatlantic Economic Partnership with its agreed action plan. These structures force the U.S. and E.U. political leadership to become involved not only in resolving disputes but, at least as important, in developing mutually beneficial cooperation in a range of areas. Its "top-down" nature creates pressures for action — and success — not only by senior officials but also the domestic bureaucracies.

This is by no means a panacea. Disputes continue to be loud and disagreeable — witness the unpleasantness over bananas and hormones — and resolution is

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inevitably a slow process. On the other hand, the U.S. and the E.U. have reached a number of important economic agreements. Just over the last two years, these have addressed the equivalence of veterinary inspections on exports, customs cooperation and, most notably, mutual recognition of standards in five categories of products accounting for about \$60 billion of trade.

The private sector is also active in promoting economic cooperation through the Transatlantic Business Dialogue (TABD), set up in 1995 at the initiative of Secretary of Commerce Ron Brown and E.U. Commissioners Martin Bangemann and Sir Leon Brittan. The idea was that business leaders on the two sides of the Atlantic would jointly come up with proposals for removing trade and other barriers and present them jointly to their respective governments. The TABD was not to be a permanent institution, but rather a self-run group that would remain in existence as long as there was a need for action. Despite their initial suspicion, the business communities on both sides of the Atlantic have become enthusiastic supporters of what has turned out to be an effective mechanism of cooperation at the private sector level, and U.S. and E.U. leaders have welcomed their input.

9. The United States and the E.U. have common global economic interests and objectives, but whereas the United States has provided the leadership in the past, a more balanced and possibly contentious relationship may be in the offing. The United States and the E.U. desire — and benefit from — a global economic system based on a liberal regime for the exchange of goods and services, unhindered investment and capital flows, and nondiscriminatory treatment of non-nationals. This brings them together, for example, in seeking to improve market access in Southeast Asia, requiring a sharp reduction in the role of the state as a condition for China's accession to the WTO, and negotiating a multilateral investment treaty. But the working relationship is not always close and harmonious.

The "rules of the game" are largely those established initially in the GATT and now the WTO. From the GATT's inception in 1948 through the most recent Uruguay Round, the United States provided the leadership in trade negotiations, setting the agenda and pushing the negotiations. However, only when the E.U. was brought on board were the negotiations concluded.

Since the conclusion of the Uruguay Round, the E.U.

has played a more active role, and the United States a more passive one. It was the E.U. that provided much of the impetus for conclusion of some of the codes governing trade in specific sectors that arose out of the Uruguay Round, and it is the E.U. that is now urging the launch of a new, comprehensive Millennium Round, covering a broad range of issues in a package. In contrast, the Clinton Administration has failed twice to obtain fast track trade negotiating authority, has introduced the contentious issues of labor standards and the environment into the negotiations, and has proposed much more limited objectives for the next round of trade negotiations.

The debacle of the Seattle ministerial meeting of the WTO reinforced the reality that consensus between the United States and E.U. is a pre-condition for agreement — in the first instance that requires countering the tide of opposition to trade liberalization and finding a mutually acceptable negotiating agenda. The nature of U.S.-E.U. interaction in the WTO after 2000 will depend at least in part on the policies and priorities of the next U.S. administration and those of the new leadership of the European Commission. An effort by the E.U. to seek greater equality with the United States in addressing international economic issues would conform to the rough economic parity between the United States and E.U., but it could lead to some friction with a United States unused to sharing leadership.

10. The US-E.U. economic relationship takes place in the context of a changing world. The greatest change of the past decade has been the end of the Cold War and the consequent elimination of the military threat from the Soviet Union, against which the United States provided the ultimate defense. Thus, the innate imbalance between the United States and the E.U. has been replaced by greater equality, which frees both sides of certain inhibitions in addressing economic issues. That can have positive or negative effects, depending on the sagacity with which the two sides act. The greatest prospective changes in the coming decade will take place in the E.U.: the introduction of a European common currency (a process begun in 1999) and the accession of several countries to the east (in the coming years). These will present both possibilities for conflict and opportunities for cooperation between the United States and E.U. The challenge to leaders and players — in both the economic and political spheres — will be to see that cooperation, rather than conflict, predominates. ■

EUROPE, YUGOSLAVIA AND THE BLAME GAME



I WHO LOST YUGOSLAVIA? THE ANSWER IS NOT AS OBVIOUS AS IT MIGHT SEEM, SAYS A EUROPEAN UNION DIPLOMAT.

BY FRASER CAMERON

In the aftermath of unpleasant international developments, Americans tend to ask questions like "Who lost China?" and "Who lost Russia?" If there were a poll in the U.S. as to "Who lost Yugoslavia?" there is little doubt that the European Union would top the guilty list. This scapegoating reflects a widespread misperception in the U.S. that the E.U. "failed" in its response to the conflicts in former Yugoslavia because it was cowardly and that America was therefore twice called in to save the day.

This article does not so much defend European actions in Yugoslavia as it seeks to provide a more objective view of E.U. and U.S. policies towards the Balkans over the past decade. In fact, as this article will show, the initial decision not to intervene militarily in Yugoslavia when the war broke out in 1991 was made on both sides of the Atlantic. From the

beginning, the E.U. sought in a principled manner to bring the warring parties to the negotiating table and broker a peace settlement. These efforts almost succeeded in 1993 but were not supported by the U.S. Consequently, a further two years of fighting, accompanied by much transatlantic mudslinging, ensued before a cease-fire was concluded at Dayton. Regrettably, that agreement did not attempt to defuse the ticking time bomb in Kosovo which would explode in 1998, but the E.U. and the U.S., having learned from Bosnia, quickly came together to resolve the conflict and to lead the reconstruction efforts.

This article also touches on the main lessons the E.U. has learned from the Yugoslav experience, lessons that have important ramifications for transatlantic relations.

E. U. Limitations

When the first free elections took place in post-Tito Yugoslavia in 1990, nationalistic, ethnically-based parties emerged as the strongest political force in all republics. Indeed, Serbian leader Slobodan Milosevic was already using nationalism to consolidate his power as early as 1989, as shown by his infamous Kosovo speech that year.

Milosevic's rise, coupled with the overall election results, should have been a clear warning signal to the E.U. and the U.S. David Gompert, a senior National Security Council official in 1991, comments that the Bush administration knew "a year before the fighting that Yugoslavia was being led toward the abyss by a few demagogic politicians but simply knew of no way to prevent this from occurring."

Unfortunately, ministerial agendas on both sides of the Atlantic were already overflowing with meetings dealing with a seemingly endless succession of crises. The sudden collapse of communism let loose long pent-up tensions that would soon lead to the disintegration not only of Yugoslavia, but of the Soviet Union and Czechoslovakia. At the same time Europe had to contend with the challenge of German unification.

As fighting broke out in Yugoslavia in 1991, the European Community (as it was still known at that time) was preoccupied with the intergovernmental conference that would lead the following year to ratification of the

Maastricht Treaty on European Union. This process required difficult, high-level negotiations to prepare the ground for the introduction of the euro and the establishment of a common foreign and security policy (CFSP).

But at the time, the E.C. was still operating under a loose system of foreign policy coordination known as European Political Cooperation. EPC committed member states to cooperate in the foreign policy domain, but specifically excluded any discussion of security issues, the assumption being that the U.S. and NATO would take the lead on European security.

Despite EPC restrictions, the question of military intervention was raised in the summer of 1991; both NATO and the Western European Union (WEU) calculated the force levels required to influence events in Yugoslavia. Both assessments concurred that between 100,000 to 150,000 troops in combat readiness would be required to enforce a cease-fire — more than the member states of the E.U. could muster. In fact, only the U.K. and France had even a limited capability to project power in the region.

There was also the question of political will. Preoccupied with reunification, Germany stated that it was constitutionally unable to act, while London was adamant that it would not become engaged unless the U.S. was involved. Polls at the time showed that European public opinion favored a military intervention to stop the conflict, yet no government was prepared to commit ground troops for combat (as opposed to protection of humanitarian relief supplies) without U.S. readiness to intervene, or at least to support a European military intervention. For its part, the U.S. was experiencing fatigue after the Gulf War and the collapse of communism. As former U.S. Ambassador to Yugoslavia Warren Zimmermann notes in his memoirs: "Even a great power has difficulty in dealing with more than one crisis at a time." The Bush administration, advised by old Yugoslav hands Lawrence Eagleburger, Brent Scowcroft and Zimmermann, was content for Europe to deal with the crisis. That was also the predominant view in Congress.

In June 1991 Secretary of State James Baker visited Belgrade to make clear his preference for the preservation of Yugoslavia and warn of the dangers of the constituent republics declaring independence. (President Bush was to deliver a similar message warning Ukraine about the dangers of leaving the Soviet Union six months later.) The fact that the Yugoslav army attacked Slovenia and Croatia just

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three days after Baker departed Belgrade demonstrates how right Milosevic was that Washington would turn a blind eye to a military engagement within the borders of Yugoslavia.

When the fighting started, the Busli administration publicly supported E.U. efforts to achieve a negotiated solution but categorically ruled out committing U.S. troops to Yugoslavia. Yet the U.S. also sent a *démarche*, the Bartholomew/Dobbins letter, warning the E.U. not to develop an independent defense capability.

Could the war in Yugoslavia have been prevented, or at least contained? The answer is no, not once the U.S. decided to defer to Europe. As U.S. Ambassador Richard Holbrooke and others have argued, only NATO could have provided a credible deterrent to Milosevic but there was no willingness in Washington to lead the alliance into Yugoslavia. Unfortunately, the Europeans were incapable of acting alone in a decisive manner in 1991, as they had been under U.S. political and military leadership and protection for nearly half a century and had not developed any crisis management experience.

The Rift Deepens

The E.U.'s response to the outbreak of fighting included the appointment of the former NATO Secretary General, Lord Carrington, as the E.U. special representative with a broad mandate to bring the parties to the negotiating table through the Conference on Yugoslavia; the sending of a European Community Monitoring Mission (ECMM) comprising some 200 monitors who did much valuable work; efforts to involve the wider international community and in particular the U.N.; and effecting an arms embargo covering all of Yugoslavia. In the first half of 1992 the U.N. finally began to send troops to support the humanitarian aid efforts in Croatia and later Bosnia. The U.K. and France alone accounted for nearly half the 15,000-strong U.N. contingent.

The spread of hostilities to Bosnia in 1992 further deepened the growing policy rift between the E.U. and the U.S. David Owen, who had taken over from Lord Carrington as the E.U. special representative, and former Secretary of State Cyrus Vance, the U.N. secretary general's personal representative, reached a deal in January 1993 (the Vance-Owen Plan) which provided for a settlement of the war based on the military realities on the ground. This would have established a Bosnia-Herzegovina Federation with large-scale autonomy for

the provinces controlled by the three main ethnic groups.

Although it initially supported the deal, the new Clinton administration, under pressure from Sarajevo, eventually rejected the plan — a decision David Owen later called a "tragedy." The U.S. instead endorsed rearming the Muslims to enable them to attain a more favorable settlement, a policy termed 'lift' (the arms embargo) 'and strike' (against the Serbs). The Europeans, with many troops on the ground, were upset at this change in the American position. The divergent views led to the most serious crisis in transatlantic relations since 1949. To help ease tensions, the U.K., France, Germany, Russia and the U.S. established a Contact Group in April 1994 to discuss the situation in Bosnia and to seek to coordinate policy towards reaching a settlement. Despite the involvement of the U.S. and Russia in the Contact Group, however, the E.U. remained the chief provider of U.N. troops and of humanitarian aid, and also administered the city of Mostar, Bosnia.

Dayton And Beyond

By 1995, television coverage of the siege of Sarajevo had brought Western public opinion around to the realization that Slobodan Milosevic would only be prepared to negotiate seriously under the threat of force. So in August 1995 NATO finally agreed (with U.N. authorization) to launch air strikes against Serbian positions. The air attacks, combined with the Croatian blitzkrieg advances in Krajina, had a devastating effect on Serbian morale and forced the warring parties to the negotiating table at Dayton.

The negotiations leading to the Dayton agreement have been well documented by Holbrooke, but it should be emphasized that the terms of the ceasefire were not significantly different from the earlier Vance-Owen agreement. In addition, as Holbrooke himself admits, the record of Dayton was flawed by insufficient follow-up, poor coordination between the military and civilian sides, lack of U.S. financing and the deferral of some key issues.

Although the E.U. was only marginally involved in Dayton, since the U.S. wished to run the show alone, it soon became a key player in the reconstruction efforts. Washington argued that since it had provided the bulk of the military resources that had ended the war, the E.U. should provide most of the subsequent financial and economic assistance.

There was considerable criticism of the reconstruction efforts in Bosnia, particularly from the U.S., which con-

trasted the rapid deployment of the NATO forces under the stabilization force (IFOR, later SFOR) with the delays on the civilian side. But defenders of the international assistance program note that the IFOR mandate was highly restrictive, actually discouraging cooperation between the military and civilian efforts for fear that the U.S. would be dragged deeper into the Balkan morass. Under pressure from Congress, the Clinton administration expressed constant concern over exit strategy. Thus, as Carl Bildt, the E.U.'s High Representative based in Sarajevo, observed, at times fear of mission creep seemed to turn into fear of the mission itself.

The Kosovo Conflict

In retrospect, it was a considerable failure not to have tried to resolve the Kosovo issue at Dayton or in the years thereafter. Some politicians took the view that things would improve with the hoped-for removal of Serbian President Slobodan Milosevic, while others maintained that it was impossible to intervene in a sovereign country and still others saw no vital European or American interests at stake. What changed the simmering conflict into a full-blown crisis was the massacre of 25 Kosovo civilians at Racak in October 1998. The TV pictures broadcast around the world provoked widespread revulsion and prompted the international community to take action.

Unlike in Bosnia, the E.U. and U.S. managed to coordinate their response to the Kosovo crisis. While Holbrooke flew to Belgrade in November 1998 to warn Milosevic that such behavior was unacceptable, the U.K. and France organized a conference at Rambouillet, co-sponsored by the U.S. and Russia, to urge an agreement between the Serbs and Kosovo Albanians. When the Serbs refused the deal that was presented, which would have allowed Kosovars a large degree of autonomy and the prospect of a future referendum on their status, Holbrooke again flew to Belgrade in March 1999 to tell Milosevic that the international community (NATO) was ready to use force against him in order to enforce a settlement. The ensuing bombing campaign started on March 24, 1999 and continued until Milosevic conceded defeat on June 10, 1999.

The Europeans surprised many observers — and Milosevic — by maintaining a common front throughout the bombing campaign, though there was some opposition to the air strikes from Greece and Italy. But the war highlighted the fact that militarily, the Europeans

remained heavily dependent on the U.S., particularly in terms of air power. Although the Europeans have just over half the number of fighter bombers that the U.S. has, most European aircraft do not have equipment allowing attacks at night, which is when most sorties in the Kosovo conflict were carried out. Still, while the U.S. flew 80% of the air strikes, the E.U. provided 80% of the ground troops. Furthermore, the E.U.'s diplomatic efforts bore fruit with Finland's President Martti Ahtisaari playing a crucial role in the negotiations that ended the war.

Lessons Learned

The E.U. drew three main lessons from the Bosnian and Kosovo conflicts. The first concerns the value of close cooperation with the United Nations. Thanks to the U.N.'s humanitarian operations thousands of lives were saved in Yugoslavia over the past decade. But the U.N. protection force in Bosnia (UNPROFOR) was often given impossible mandates and unclear instructions. In addition, criticism is often unfairly levelled at countries that sent troops to Bosnia, rather than the ones that did not send any. As Bildt points out, "This was a major factor in complicating the efforts of the international community, and a major constraint on the U.N. capability throughout the war." This lesson was clearly taken on board in planning for the IFOR and its successor SFOR mission; both forces managed the peace in Bosnia by involving American, Russian and German forces among others.

A second lesson is the need for Europe to develop a credible and effective common foreign and security policy and to bolster its defense capability independent of NATO. Towards that end, British Prime Minister Tony Blair, who had fumed at the E.U.'s inability to support its Kosovo diplomacy with military clout, relaunched proposals for a European Security and Defense Initiative (ESDI). Blair's first task was to get the French on board, which was achieved at the St. Malo summit in November 1998. The European Union leaders then endorsed the Anglo-French proposals at the Cologne summit in June 1999. E.U. leaders agreed that the Union should have the capacity for autonomous action, which would require credible military forces and new institutional structures. At this point, the U.S., previously strong supporters of ESDI, suddenly began to have second thoughts about the E.U. operating alone, even in carrying out peacekeeping and conflict management operations. Secretary of State Madeleine Albright warned in March 1999 that there

should be no duplication of military assets, no decoupling of European states from NATO and no discrimination against non-E.U. members of NATO. Fortunately, over the summer and fall of 1999 these fears were allayed.

At the December 1999 European Council summit in Helsinki, participants agreed that the E.U. would develop a 50,000-strong rapid reaction force within two years. They also agreed to incorporate the WEU into the European Union; this does not mean the creation of a European army but simply enables the E.U. to back up its diplomacy with a credible military force. Under this arrangement, neutral countries will not have to sign up for a new defense alliance but they will have to play a role in European peacekeeping operations. The European Council then appointed former NATO Secretary General Javier Solana, the new E.U. High Representative charged with carrying out the organization's common security and foreign policy, to oversee this merger as well as the creation of an E.U. military staff to provide advice to ministers. Finally, in response to U.S. concerns, the Helsinki agreement specified that non-E.U. members would be able to participate fully and on an equal footing in European Union-led operations and that formal links would be established between the E.U. and NATO.

Staying Engaged — Together

The WEU audit of European militaries published in November 1999 revealed several important gaps in capability that will take a number of years to rectify. As defense budgets are unlikely to increase, the Europeans will have to spend their money more effectively in order to get a bigger bang for their euro. This should be perfectly feasible, however, as there is currently considerable duplication of resources with, for example, several countries engaged in the production of tanks, fighter aircraft and warships. The consortium which built the 'Eurofighter' is perhaps a model for the future. Similarly there is a trend towards more regional commands such as the Eurocorps, the Nordic battalion, the Anglo-Dutch rapid reaction force and so on. In addition, because many national force structures in Europe still reflect Cold War postures, there is an urgent need for restructuring. This will ensure that the E.U. has the necessary mobile, well-equipped and trained forces for today's peacekeeping and peacemaking operations.

But the most important lesson of the Yugoslav conflict

is that the E.U. and the U.S. must work together to achieve results. During the Bosnian conflict uncertainty as to what Washington was or was not prepared to do inhibited European diplomacy. Mutual recriminations did considerable damage to transatlantic relations. In welcome contrast, close E.U.-U.S. cooperation was a key factor in achieving a solution to the Kosovo crisis.

There is no longer talk of an 'exit strategy' for the Balkans since it is clear that the E.U. and NATO will have to remain involved there for many years during the reconstruction process. The forces of separation remain stronger than those of integration and the threats to peace in Europe remain higher there than in any other region. The E.U. has recognized that it will have to take the lead to promote regional integration and deepen cooperation with the countries of the region, which it is doing with strong American support.

The European Union has some very powerful 'carrots' to push the individual countries of the region towards democracy, respect for human and minority rights, and the establishment of a market economy. This conditionality is a key element in the E.U.'s approach and is already having some effect. For example, the countries of the region can see how far Slovenia has moved towards full membership of the E.U. Progress in Bulgaria and Romania (and Turkey) has been rewarded with the opening of E.U. accession negotiations, while Macedonia will be the first country to benefit from a new agreement setting out a clear path towards future membership. The way is thus open for other countries, including a post-Milosevic Serbia, to go down the same track.

As President Clinton said at the Istanbul summit in November 1999, "Europe has demonstrated its strong leadership in support of recovery and stabilization throughout Southeast Europe. I welcome the very substantial E.U. assistance package [\$17 billion in grants and loans since 1991] which will create tremendous opportunities for the countries of the region and affirm in the strongest terms European support for their transformation."

When Clinton and European Commission President Romano Prodi met in Washington in December 1999, the two leaders pledged to continue to work together in the Balkans. After the trials and tribulations of the previous decade, it appears that both the E.U. and U.S. have learned that working in partnership produces far greater results than going their separate ways. This is a message that will resonate far beyond the Balkans. ■

MACARTHUR, WE ARE BACK: U.S.-MANILA TIES REVIVE

AFTER A DECADE OF ESTRANGEMENT, MANILA IS MOVING CLOSER TO WASHINGTON AGAIN,
THANKS TO SHARED WORRIES ABOUT BEIJING'S INTENTIONS.

By GEORGE GEDDA

The long history of U.S.-Philippine relations has been enriched by many turning points, starting with the day in 1898 when the Philippines became a U.S. colony. During the World War II years, a new dimension to the relationship was added with the horrendous losses troops from both sides suffered at Corregidor and Bataan, both on Filipino territory. When more than 75,000 American and Filipino soldiers surrendered to Japanese forces at Bataan, it was the biggest defeat in U.S. military history. Redemption came with the victory over Japan in 1945, and the raucous celebrations when the Philippines was ceded its independence in 1946.

Against that momentous background, the events of May 27, 1999 do not loom large and were little noticed by the outside world. But it was a day when, after an unusually difficult period, a semblance of normalcy returned to U.S.-Philippine relations, especially the military side. By a vote of 23-5, the Philippines Senate ratified the Visiting Forces Agreement (VFA), which allowed a resumption of U.S. naval ship visits and large-scale joint military exercises in the country.

The vote had special significance for those with memories of the grim political battles of a decade earlier over the U.S. bases in the Philippines: Subic Bay Naval Base and Clark Air Base (the latter dating back to 1903). The late 1980s were a time when Filipino nationalism was defined by opposition to the American military presence, with many politicians and intellectuals looking on the bases as an infringement on national sovereignty. The low point came when, after years of wrangling, the Philippines

Senate voted 12-11 on Sept. 16, 1991 to reject the proposed base treaty, forcing a withdrawal of U.S. air and navy personnel the following year.

Given this background, the atmosphere in the Philippines leading up to the May 1999 vote was highly charged. Protesters opposed to the VFA demonstrated daily at the Senate, warning that the agreement could drag the Philippines into war with enemies of the U.S. In addition, many church leaders opposed the VFA, fearing that the presence of U.S. troops could encourage prostitution.

A clear sign of the mood shift in the Philippines over the past decade is the fact that the VFA had the strong backing of President Joseph Estrada and Defense Minister Orlando Mercado. Both were senators in 1991 and voted against the proposed base treaty. After the VFA was approved anyway, communist rebels withdrew from peace talks, alleging that the agreement violated Filipino sovereignty. Estrada said the insurgents wanted to suspend the talks anyway and were using the VFA as an excuse.

An Uneasy Partnership

Considering the storied past of U.S.-Filipino relations, the VFA seems downright modest, particularly when compared with the life-or-death situation they endured as partners during World War II. "All told, the war in the Philippines cost the lives of 1 million Filipinos, over 17,000 Americans and about 350,000 Japanese," observes Richard Fisher, an East Asia expert formerly with the Heritage Foundation. Americans and Filipinos fought to resist Japan's occupation of the Philippines in 1941; then, after being defeated by the Japanese, cooperated in guerrilla resistance. More than a fifth of the 75,000 outmanned American and Filipino soldiers who surrendered to Japanese forces at Bataan died during the ensuing 65-mile

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march in intense heat. (In all, the American cemetery in Manila contains the remains of 17,206 U.S. servicemen, making it the largest U.S. military cemetery outside the United States.)

Under the leadership of Gen. Douglas MacArthur, some 300,000 Americans helped rout the Japanese starting in October 1944. Bilateral military cooperation continued after the war ended and the Philippines won independence in 1946. Filipino forces took part in the Korea conflict and also performed non-military roles in the Vietnam war. U.S. military assistance helped defeat the communist "Huk" guerrilla movement in the Philippines in the 1950s.

That sense of partnership eroded significantly thereafter, however, particularly during the 1980s, a time when Clark and Subic were lightning rods for Filipino resentment against the United States. Part of the hostility stemmed from American support for the long years of dictatorship under President Ferdinand Marcos. When Filipinos rose up against Marcos in the mid-1980s, President Reagan was reluctant to turn his back on a long-time ally. The U.S. military ultimately facilitated Marcos' departure from the Philippines in 1986 but many Filipinos remained unconvinced of American willingness to accept the new democratic order in the Philippines, led by President Corazon Aquino.

Let's Make A Deal

Accumulating Filipino resentments toward the United States were highlighted during the contentious negotiations over U.S. compensation to the Philippines in the late 1980s for use of Subic and Clark. The Philippines was demanding \$1.2 billion annually for the bases compared with the \$180 million it had been receiving. Filipino Foreign Secretary Raúl Manglapus felt his country had been shortchanged by the Americans for years. He noted the U.S. bases had been there since the turn of the century and the Philippines had not received any compensation until the 1970s. He contrasted that situation with that of other U.S. allies which received compensation from the beginning of the relationship.

Filipino negotiators felt they were operating from a position of strength. They knew it would cost the United States a tidy sum to move its facilities in the Philippines elsewhere in the Pacific (a 1986 Congressional Research Service report had estimated the cost at \$60 billion).

Prospects for cooperation between Washington and Manila seem better now than at any time since the 1950s.

Perhaps as a negotiating tactic, Pentagon officials offered much lower estimates.

Secretary of State George Shultz at times spoke contemptuously of the Filipino negotiators, seeming to view them as shakedown artists. He believed the bases enhanced the security of both countries and should not be used as a bargaining chip to extort money from the U.S. taxpayer. Other factors made the United States reluctant to walk away from Subic and Clark, however. Earlier in the 1980s, the Soviet Union had taken over the former U.S. base at nearby Cam Ranh Bay, Vietnam, and stationed warships there.

Subic had important natural assets, including a large, well-protected harbor with a depth in excess of 14 meters. It also housed a significant portion of the 7th Fleet's prepositioned wartime oil reserves. Clark, meanwhile, was capable of supporting, servicing and repairing over 800 combat aircraft at a time.

Nor did the argument over bases involve only Subic and Clark. It also included the Naval Station at Olongapo, the naval station at Cayaman Point and the Cubi Point Naval Air Station. Taken together, these bases were a crucial component of the 7th Fleet based at Yokosuka, Japan.

In October 1988, after six months of difficult negotiations, a base agreement was reached under which American assistance was increased from \$180 million to \$481 million and the lease extension was for only three years rather than the standard 10. Having initially demanded \$1.2 billion, Filipino negotiators were widely criticized in the national media for this result. To some, the agreement meant that the "last vestige of colonial rule" in the Philippines would continue. However, the agreement came as a relief to the many Filipinos who harbored pro-American sympathies and especially, of course, to the 26,000 of them employed at Clark and 20,000 at Subic.

Negotiation resumed almost immediately thereafter on yet another extension. On Aug. 27, 1991, negotiators agreed on a 10-year extension at \$203 million a year for Subic. (The agreement did not apply to Clark since the volcanic ash that had landed there from Mount Pinatubo a month earlier had rendered it inoperative.) After 10 years, a joint committee was to decide how much time the United States would be given to vacate the base, leaving open the possibility that the U.S. Navy could remain there for considerably longer.

Not surprisingly, the accord, much like the one three

years earlier, was received coolly in the Philippine Senate. Many senators considered the compensation figure too low. Beyond that, some felt that with the end of the Cold War, the bases were redundant.

A two-thirds majority of the Senate, or 16 of the 23 members, was required. President Aquino, who once opposed a U.S. troop presence, was a strong supporter but the measure failed 12-11, five votes short of the required majority. The Senate called it "a one-sided, unequal agreement." Aquino toyed with the notion of calling a national referendum to overturn the Senate vote but quickly dropped the idea. The American pullout was completed in 1992.

To be sure, the closure of the bases did not leave the two countries without a security dimension, for the 1951 U.S.-Philippines Mutual Defense Treaty remained in effect. In addition, joint military exercises continued. These, however, were suspended in May 1996 after the Philippines Justice Department noted there was no legal framework covering which government had jurisdiction over U.S. soldiers on duty in the Philippines. That problem was resolved in the recently concluded VFA.

An Aptly Named Reef

The VFA is essentially a political, not a legal, exercise. It was the perception of China's hostile intentions toward the Philippines that created the political environment for approval of the VFA. The agreement might have been approved in any case but, in the view of former Philippines Ambassador Raúl Rabe, concern over China certainly hastened the process.

Anxiety over Beijing's intentions has been increasing since it undertook construction activities in the mid-1990s on Mischief Reef, a disputed area in the Spratly Islands

Filipino authorities

***believe their new
agreement with the
U.S. will help check
potential Chinese
expansionism.***

chain in the South China Sea located about 150 miles from the Philippines and 800 miles from China. The Philippines is worried that the concrete structures built there by China could assist in military operations and believes the VFA could help check Chinese expansionism in the area.

The Philippines is one of five countries which contest China's claims to sovereignty in the South China Sea. (The other four are Taiwan, Malaysia, Vietnam and Brunei.) China says it was the first country to exercise sovereign jurisdiction over the Spratlys and other islands that are spread throughout the area and maintains that the Philippines never laid claim to any part of the South China Sea until the 1970s. It also insists that China's claim to all South China Sea islands and their adjacent waters is "indisputable."

Gamesmanship

Less than a month after the Senate vote in May 1999, smiling U.S. and Filipino military officers met in Manila to firm up plans for a resumption of military exercises. War games were scheduled for January or February 2000 which were to entail command post and field range exercises testing the combat skills of

troops from both countries. Up to 1,000 troops each from the two countries were slated to take part.

But the Clinton administration has made clear that there are limits to how far it will go in defense of the Philippines. It has taken a neutral stance on the territorial dispute with China. Officials also cite approvingly China's assertion that it will not interfere with freedom of navigation in the area. (This is a key issue considering that the bulk of oil destined for Japan and South Korea is shipped through sea lanes adjacent to Mischief Reef.) Nor are any significant weapons sales to the Philippines planned. The administration has also denied suggestions by Filipino officials that it had agreed before the May vote to extend its defense perimeter into the South China Sea. Officials say the administration has merely reaffirmed the longstanding U.S. policy of pledging to consult with the Philippines if either party is attacked — consistent with the 1951 defense treaty's language.

The administration's modest ambitions for the Philippines under the VFA may not suit Senate Foreign Relations Committee Chairman Jesse Helms, however. Two weeks after the VFA was approved, Helms welcomed the action but said in a statement: "Red China's claims to most of the South China Sea are outrageous and their occupation of islands close to the Philippine territory is unacceptable. We must now help our long-time ally rebuild its defense capabilities and seek to enhance our military cooperation in order to deter future Red Chinese adventurism in the region."

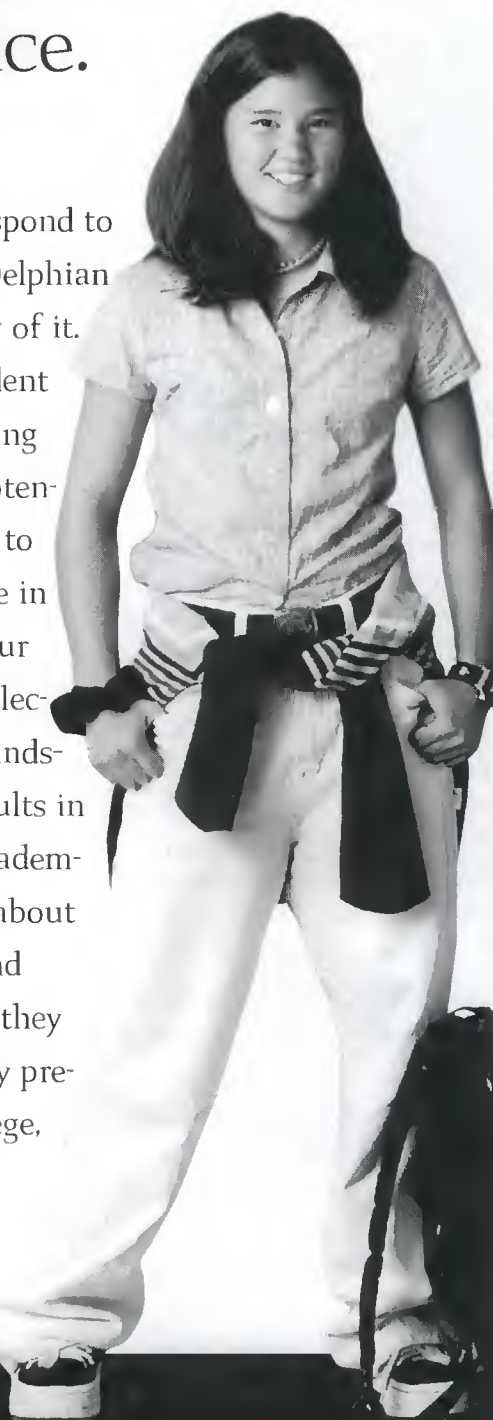
Another hawkish lawmaker is Rep. Dana Rohrabacher, R-Calif., who engaged in this somewhat prickly exchange over the Philippines last February with Assistant Secretary Stanley Roth, who heads the State Department's East Asia bureau:

Rohrabacher: "I managed to get on a Philippine Air Force C-130 and get to the Spratly Islands, and what do you think I saw? Something this administration knew all along. There is a massive military buildup by the Chinese taking place ... (China) is claiming the entire area of the South China Sea. This (map he was showing) makes the Japanese maps before World War II look like pikers. This is a blueprint for war on the part of Beijing. It's claiming territory right next to the Philippines ... next to Malaysia ... next to Vietnam ... next to Brunei. I would submit to you, Mr. Secretary, that the policies of this administration are not leading to peace."

Roth: "This is not a massive Chinese military buildup, this is a minor Chinese military buildup that is more disturbing because of the lack of good faith that it shows toward the Philippines ... I'm sure you are aware that the U.S. Navy has sent aircraft carriers through the South China Sea multiple times in 1998, near the Spratlys, with no threat to freedom of navigation. This is a two-bit little place. It is not a major security threat. It's the trend and the fact that China claims all of this territory that's troubling, not the situation on the ground ... As you know, the Chinese are not the only country to maintain military outposts in the region. In fact, they don't have the largest number of outposts in the South China Sea ... Furthermore, the issue is, What can you do about this? As you probably know, the Filipinos are in the process of negotiating with the Chinese for joint fishermen access to this facility, which, if it happens, will make it a non-military facility. It may never happen and ... the Chinese may put arms on it. But the point is, diplomacy is being given a chance right now, and let's see what happens to it."

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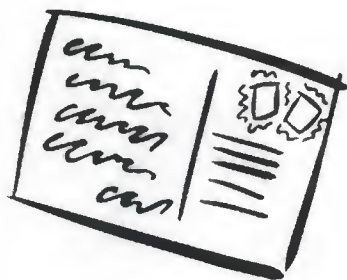
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About 70 percent of Japan and South Korea's oil passes through the sea lane between Mischief Reef and the Philippines.

Negotiation Or Confrontation?

As Roth's testimony indicates, U.S. officials believe there are limits to how far China will go in enforcing its claims in the South China Sea, given its efforts to improve relations within the region. Officials are therefore hopeful China will be open to a negotiated settlement and are encouraged that China has so far reacted with restraint to the modest revival of U.S.-Philippines military ties. Asked about the agreement shortly before the vote, China's ambassador to Manila, Fu Ying, said, "We see the proposed VFA as a matter between the Philippines and the U.S."

Richard Fisher says the driving force behind these claims is the suspicion that the South China Sea is rich in oil reserves (though only modest amounts have been found near Vietnam and the Philippines thus far). He shares Rohrabacher's larger concerns about China, as well.

In a paper on U.S.-Philippine ties published in February 1998, Fisher said it is clear that China over the next decade intends to develop facilities that could assist military operations. China has built a 7,000-foot airstrip on Woody Island in the northern South China Sea that places "current and future aircraft within striking distance" of the Philippines, and Fisher believes

Chinese construction in Mischief Reef could support helicopters and ships. "China's air and naval forces already are superior to those of the Philippines, and in the not too distant future, could challenge U.S. naval forces as well," he asserts. "This poses a challenge to a critical U.S. interest: maintaining freedom of the seas. About 70 percent of Japan's and South Korea's petroleum passes through the sea lane between Mischief Reef and the Philippines. The loss of access to this sea lane could damage these economies, which, in turn, would threaten the economic health of Asia and the United States."

Looking Ahead

The history of U.S.-Philippines relations suggests, not surprisingly, that the partnership is strongest when there is broad agreement on security issues. Such was the case in the 1950s and '60s, when they agreed on the need to contain communism in Asia and to combat the communist insurrection in the Philippines. As Fisher has noted, political support for the alliance fades when each side uses the alliance for divergent goals. Such was the case in the 1980's, when the United States attempted to use the alliance to counter the Soviets while the Philippines saw it as an opportunity for economic gain.

Fisher and other analysts say it is not surprising that China asserted its claim over Mischief Reef at a time when U.S.-Philippine cooperation was at a low point. They note that China's behavior in that area was far more restrained when military cooperation between Manila and Washington was strong.

Now that U.S.-Philippine military relations are reviving, observers hope that a stable balance of power can be restored to this potentially volatile region. ■

SHIPPING BIBLES TO AFGHANISTAN

A FOREIGN SERVICE PARABLE IN WHICH A CHRISTIAN PROSELYTIZER MEETS
AN AMERICAN AMBASSADOR BROUGHT UP ON THE WORD.

By R. T. DAVIES

Long ago in Afghanistan, the village mullahs were restive. In Kabul, nestled among glorious peaks, snow-covered the year round, King Zaher was pursuing a modest and slow-paced program of modernization, aimed, as the more impatient young men muttered to their close friends, "to bring us from the 14th century into the 15th." Western advisers and teams of experts had been invited in and arrived with their retinues and all the paraphernalia that would enable them to re-create their homes away from home while they rendered earnest, if not always practicable, advice to their hosts. Their women — wives, daughters, and secretaries — were unveiled and unscarved. This permitted the mullahs to create a myth of offenses against verse 63 of the surah An-Nur of the Holy Qur'an — "... let those who act in contravention of His command take heed lest a trial should befall them or a grievous punishment come upon them." The capital was degenerating into a latter-day Sodom and Gomorrah and risked judgment, they warned.

Among the teams of experts were Christians as fanatical in their way as the village mullahs in theirs, some of whom secretly entertained notions of converting the children of Islam, among whom they were honored guests.

One hot summer afternoon the administrative officer at the American embassy, John Hermanson, came into my office, the sweat standing out on his forehead. In his hand, he had a book, which he wordlessly handed to me. It was a handsome volume in the local language, Farsi.

Even with my beginner's knowledge of the Arabic alphabet, I saw that it was a translation of the Bible. John said some of his workers had just opened a chest that had come up that morning by truck from our shipping agent across the border in Peshavar. One of them had brought him the book and told him what it was. The chest contained some 250 Bibles like the one I held. On top of them was an invoice, which John gave me, addressed to the leader of one of our Christian congregations and referring to his order of three months back.

"The word will be all over Kabul by tomorrow," John said.

"And it will be in the villages the day after," I added.

"What do we do now?" John asked.

I said, "Make sure all the rest of the Bibles are still in the chest and be ready to close it up again, tight. I'll take this and the invoice to the Ambassador. Has the truck left yet?"

"No, it's due to leave tomorrow morning."

John started back to his warehouse and I went down the corridor to the ambassador's office.

Ambassador Sheldon T. Mills was a long-serving career officer with experience in some of the remoter corners of the earth. He listened to my report of the opening of the chest, contemplated the Bible and the invoice for a moment or two, and said, "Please find our friend the consignee and ask him to come and see me immediately."

I found the man, just leaving his day job as an English teacher at one of the high schools in the city, conveyed the ambassador's summons, and gave him a ride to the chancery in my car. Let us call him N. He had been born and brought up in Iran, where Farsi was also used, and spoke it fluently. His employment in the capital antedated the arrival of our aid mission. In a few minutes, we were back at the ambassador's office.

R. T. Davies, a retired FSO, served in Poland, the USSR, France, Afghanistan and India.

The ambassador invited us to sit down. He turned to N. and handed him the translation of the Bible. "What is this, N.?" he asked.

N. took the book. His face reddened. "It's a Bible in Farsi," he said.

The Ambassador handed N. the invoice. "It says here that you ordered these in March and asked to have them sent to you in care of the Embassy."

"Yes, I did," said N., his jaw working a little as he read the invoice.

"Could you tell me what you intend to do with these Bibles? You know that the Constitution of Afghanistan forbids proselytizing on behalf of any religion other than Islam. And you know, too, that the mullahs in the villages would preach a jihad against anyone who tried to do that or who distributed any sacred book other than the Qur'an."

"Of course," said N., "I know that."

"Well," said the Ambassador, "why did you order these Bibles then?"

"Mr. Ambassador," said N. haltingly, "in my congregation we are all very familiar with the Bible, so I thought it would help our people learn Farsi if they had Bibles in it. They can compare passages in the two Bibles and see how the text is translated. That will help them learn the language."

"N.," said the Ambassador, "in your congregation you do not have anything like 250 people. What do you intend to do with the remaining Bibles?"

N. looked the Ambassador in the eye. "How do you know the number of people in my congregation? You never come to our services or those of the other groups either. It seems to me you are hardly setting the example a good Christian should."

The Ambassador calmly regarded

*Some Christians
secretly entertained
notions of converting
the children of Islam,
among whom they were
honored guests.*

N. for a full minute. Then he said, "N., you know what Jesus said, according to Matthew, chapter 6, verses 5 and 6."

N.'s hitherto steadfast gaze faltered. His eyes dropped. As the silence became oppressive, he said, "I can't recall exactly what He said."

"I'm surprised," said the Ambassador. "I thought you knew your Bible better than that. Especially since those verses immediately precede the Lord's Prayer. Let me remind you then: '... when thou prayest, thou shalt not be as the hypocrites are: for they love to pray standing in the synagogues and in the streets, that they may be seen of men. ... But thou, when thou prayest, enter into thy closet, and when thou hast shut thy door, pray to thy Father which is in secret; and thy Father which seeth in secret shall reward thee openly.'"

N.'s face had grown redder, if that was possible. Another minute passed in silence.

The Ambassador continued: "You see, N., my father was the Episcopal bishop of Oregon. I dare say I have attended more services and spent more hours at the altar than you have preached sermons. And I know that, when you ordered these

Bibles, your thoughts were not just about helping the members of your flock with their language lessons. You have placed the lives of Americans and Europeans here at risk in the pursuit of your ambitions.

"I am sending these Bibles back tomorrow morning on the truck, with instructions to our agent to ship them back, at your expense, to those who sent them. We can be sure the Government here is already well aware of the arrival of this shipment and we shall see whether it chooses to notice what has happened. If it does, we'll have to take appropriate action. If it doesn't, we can consider the matter closed."

There was another leaden silence. Then the Ambassador said, "If you don't recall the content of Proverbs 14, verse 8, I'd recommend you look it up when you get home."

N. got up to leave. I took him to the door of the Embassy and offered to drive him home, but he shook his head and left without a word.

I went back to the Ambassador's office. "Tell John Hermanson to make sure that crate is closed and leaves on the truck tomorrow morning," he said. "Tell him I'm keeping this volume and the invoice, in case we have to report this to the Department." He copied the name and address of the organization that had sent the shipment onto a piece of paper and handed it to me. "Any questions?" he asked.

"Just one, sir. What does it say in Proverbs 14, verse 8?"

The Ambassador smiled thinly. His eyes gleamed behind his glasses. "It says: 'The wisdom of the prudent is to understand His way; but the folly of fools is deceit.'" He looked at me for a few seconds. "There's more in that Book than these fellows seem to realize," he said. ■

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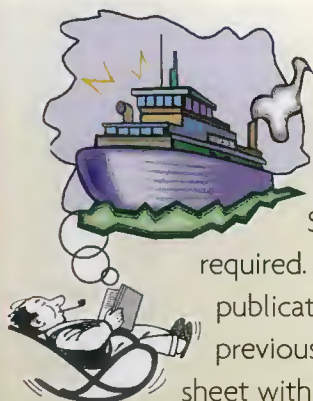
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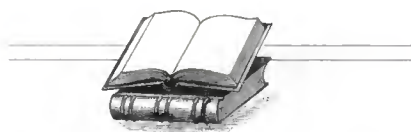
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BOOKS

KISSINGER RECALLS POLICY WARS

Years of Renewal

Henry Kissinger, *Simon and Schuster*, 1999, \$35.00, hardcover, 1151 pages.

BY HARRY C. BLANEY III

At once enlightening and depressing, the last installment of Henry Kissinger's memoirs, which covers the Ford administration, will keep the foreign affairs cognoscenti fully engaged for years. Unfortunately, but predictably, there is much self-justification in this tome, not the least of which is Kissinger's view of balancing the demands of conscience against the demands of the day. Even so, some passages unintentionally reveal the thoughts and motives of possibly the most prepared and intelligent secretary of State in recent times.

Kissinger, an American with a distinctly European view of the limits and purposes of power, affirms American ideals. Still, he is biased toward the power politics of the Old World and against the ideals of the new one. Kissinger's book is not objective history; but it will help readers understand the values, prejudices and motives of the most influential American foreign policy practitioner since Secretaries of State George Marshall and Dean Acheson.

Kissinger's sweep is wide. Reflections on the Foreign Service

and the State Department dot the book's pages. Kissinger says he fought hard to gather top FSOs around him as advisers. While it is true that rarely have so many FSOs been appointed to such key jobs by a secretary of State, it is questionable whether these FSOs were able to alter Kissinger's policies when those policies were wrong. While writing about the mid-1970s Angolan war, for example, Kissinger describes the role of assis-

Kissinger says he fought hard to gather top FSOs around him as advisers.

tant secretaries of State, saying that he assigned only the most able FSOs to these positions. He then recounts his unsuccessful attempt to get rid of "regionalism" in the FS and gives his view of his well-known conflict with State's African Bureau. The bureau, he writes, was "the ideal ... environment for the promulgation of a rather inflexible version of Wilsonianism: one basing stability on economic progress, peace on democratic institutions and international relations on multilateral diplomacy and international law." Kissinger favored classic power politics, a stance he also advocated in Cambodia. For this reason he ordered support for Angolan leader

Jonas Savimbi against the Cuban- and Soviet-backed MPLA. He clearly viewed Africa as simply another battleground in the Cold War. This worldview fuels a lengthy diatribe against former Assistant Secretary of State for African Affairs Nathaniel Davis, whose opposition to covert action in Angola angered Kissinger. (See Nathaniel Davis' article about the conflict in the January 2000 *Journal*.)

Kissinger devotes much space to the role of the intelligence community, giving a spirited defense of covert action, with little examination of the disastrous results of such operations. He was appalled when the misdeeds of the intelligence community were revealed and worries that such leaks might be interpreted as an example of the "disintegration of America's domestic cohesion." He never reaches the equally valid conclusion that the revelations could also be indicators of America's democratic vitality.

In a chapter entitled *Reflection*, Kissinger describes the dilemma of balancing morality with pragmatism in statecraft, bringing in issues in the current debate about the purpose of American diplomacy. He doesn't, however, resolve any of these issues in a way that will be satisfactory to most readers. Instead, he provides a quote from his German grandfather: "*Der Mensch muss seine Schuldigkeit tun.*" A human being must always fulfill his moral obligation.

I suspect that history will not be as kind to Henry Kissinger as he has

BOOKS

been to himself. Instead of the historical, philosophical perspective Kissinger says he intended to write, *Years of Renewal* is a rehash of the policy, bureaucratic and cultural wars of the 1960s and 1970s.

Harry C. Blaney, a retired FSO and president of the Coalition for American Leadership Abroad, worked on the secretary of State's policy planning staff from 1973 to 1979 and at the White House from 1969 to 1972.

INTO AFRICA'S FOREIGN POLICY

African Foreign Policies

Stephen Wright, editor, Westview Press, 1999, \$26.00, paperback, 260 pages.

BY STEVEN ALAN HONLEY

Stephen Wright notes in the introduction to this useful collection of essays that it has been more than 40 years since Ghana became the first sub-Saharan state to gain formal independence in 1957. Many more new nations gained independence in the years that followed. With the establishment of the Organization of African Unity in 1963, Africans and Western observers alike anticipated that the new states would become collectively, if not individually, integral members of the international community.

Since then, some African nations have played active, constructive diplomatic roles in the world, though usually without much fanfare. For example, Botswana, which is the subject of one chapter in this book, enthusiastically participates in U.N. peacekeeping operations. African diplomats and politicians have also



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played major roles in the U.N., with Secretary General Kofi Annan of Ghana as the most prominent example. Still, for the past four decades most African governments have remained on the margins of the world stage, too preoccupied with their own internal problems or specific bilateral issues to concern themselves with effective foreign policy.

How this sad state of affairs came about and what Africa's prospects are for playing a more prominent role in regional and global diplomacy are the twin themes that connect the 13 essays in *African Foreign Policies*. The varied points of view of the American, British, Canadian and African contributors add strength, though not necessarily consistent quality, to the book. Wright, a professor of political science at Northern Arizona University, begins and ends the volume with analytical overviews of the state of African diplomatic affairs, which help readers understand the factors involved in the foreign policies of more than a dozen African countries.

The low point of the book is an explanation of Kenya's foreign policy by Jona Rono, a professor at Moi University in Eldoret, Kenya. It is little more than a polemic in praise of President Daniel Arap Moi's "brilliant" diplomacy and political philosophy. Another disappointment comes in the course of an examination of Tanzanian foreign policy by Maria Nzomo, another Kenyan academic, who maintains that the end of the Cold War and the virtually overnight end of Soviet influence in Africa had nothing to do with the advent of democratic, free-market governments. And, although the chapter comparing Ethiopian and Eritrean foreign policies was written before the current war between the two regimes, it is surprising that the

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authors did not raise the possibility that what they aptly characterize as "sibling rivalry" between the two might lead to violent confrontation.

Still, such lapses and shortcomings are rare. Pieces on Botswana, Nigerian, Senegalese and South African foreign policy are far more enlightening. These essays acknowledge the complexity of each regime's internal dynamics and pay careful attention to the countries' attitudes towards neighbors, former colonial powers, the United States and international financial institutions. Most essayists also offer straightforward opinions about the degree to which the countries' foreign policies work and or don't work and what, if anything, can be done about it.

Though written in an academic style, most chapters in *African Foreign Policies* are readable. A bonus is the comprehensive list of acronyms at the beginning of the book, many of which are widely applicable beyond Africa.

Steven Alan Honley is associate editor of the Journal.

FS YANKEE AT BRITISH COURT

Over Here

Raymond Seitz, *Trafalgar Square*, 1998, \$35, hardcover, 372 pages.

BY GEOFF CHAPMAN

Raymond Seitz is the only career FSO to have served as ambassador to the Court of St. James's, having become uniquely qualified for the position by virtue of two long assignments in London. Few outsiders have come to know the United Kingdom as

well as Seitz, who, during his tenure from 1991 to 1994, was both respected and liked by the British. And probably no post-war U.S. ambassador has had his finger closer to the pulse of British government and society.

Over Here, which takes its title from a popular World War II British reference to American GIs being "overpaid, oversexed and over here," is only incidentally a memoir of Seitz's stewardship of Embassy London. Readers won't find a diplomatic history in the mold of either Charles E. Bohlen's *Witness to History* or John Kenneth Galbraith's *Ambassador's Journal*. And those who would have liked Seitz to write a detailed analysis on Anglo-American relations are also in for a disappointment.

The book can best be described as an extended commentary on contemporary Britain. It covers British social structure, economics, governance, customs and foibles, all from the perspective of a seasoned, astute outsider. Seitz also deftly delineates what unites, as well as what separates, Americans and the British. Most of his observations are, as the Brits would say, *spot on*, though I would quibble with his characterization of baseball and cricket as embodiments of the key differences in the two cultures. Seitz depicts Britain as a country that in the last two decades has gone from a class-defined society to a meritocracy, from a staid economy to a more vibrant and competitive one. He portrays the United Kingdom as enmeshed in a broad and deep (he shuns the word "special") relationship with the United States, while at the same time "slouching towards Europe."

The tone of much of *Over Here* is light-hearted, even playful. This changes dramatically in the chapter entitled "Kith and Kin," in which the

author tells of his relationship with Ambassador to Dublin Jean Kennedy Smith and his profound differences with the Clinton White House over Northern Ireland. The normally even-tempered Seitz turns vituperative, calling Smith an "ardent IRA apologist." He castigates the Clinton Administration for "immaturity of decision-making" because it bowed to pressure from the Kennedys and issued a visa to Sinn Fein President Gerry Adams, who had twice previously been refused visas because he was suspected of having ties to the IRA, a terrorist organization. While it is still too early to declare the Clinton policy a success, most observers now agree that Adams's visa ultimately led to the 1998 Good Friday Agreement providing for the election of a Northern Ireland government and the end of direct rule by Westminster.

Several errors about the United States tend to mar the authority of *Over Here*. The presidential oath of office is not, as Seitz asserts, the same as that administered to ambassadors and other federal government officials. The vice president is not the president pro tempore, but rather the president of the Senate. And anyone familiar with the horse country of Northern Virginia would be taken aback by Seitz's contention that steeplechasing is unknown in the U.S.

Still, readers on both sides of the Atlantic will appreciate Seitz's many insights into *homo Britannicus*. And now, they will be able to read them. Originally published in 1998 in Britain, *Over Here* has recently become available through the Internet bookseller Amazon.com. ■

Geoff Chapman, an FSO, served in London from 1992 to 1996.

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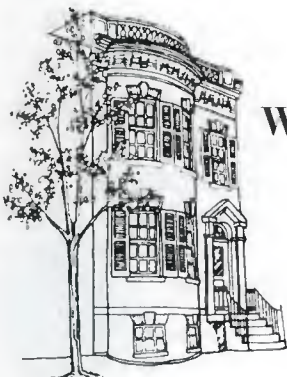
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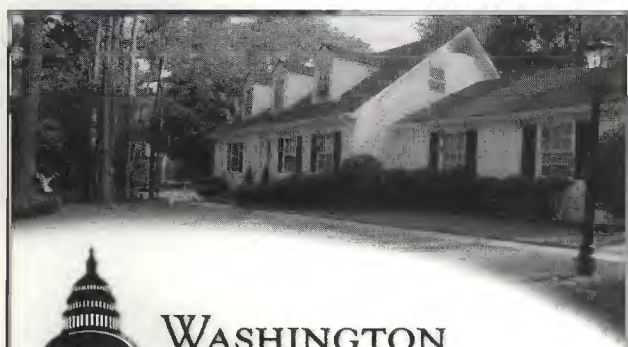
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Treasure of the Sierra de Neiba

By KEITH CHRISTENSON

5 a.m. I stumbled along a boulder-strewn path in the dark in only sandals, because my feet were too injured to wear boots. Stubbing my beleaguered toes, I wondered why I hadn't jumped on the horse I had been offered earlier. I had been hiking for seven days with two other eavers in the limestone mountains in the southwest of the Dominican Republic, so the bruises were adding up. When I am not a Foreign Service spouse in Santo Domingo, I am a cave biologist with a specialty studying bats and other creepy crawlies that live in the dark. Since part of my work is finding caves that no human has explored, I was determined to explore the Sierra Martín García, an isolated ridge some 4,400 feet high in the Sierra de Neiba. We were looking for an opening to a cave system that would allow us to explore deep into the mountains.

This was the last day of our expedition, so we hired three Dominicans who said they could lead us to a vertical cave entrance on the ridge. We left the town of Barrera before daybreak with a horse and a mule to carry our packs full of caving gear, ropes and water. Our goal was to crest the ridge before the sun rose too high in the sky. No one wanted to climb an east-

Keith Christenson is the spouse of Jennifer Christenson, an FSO assigned to Embassy Santo Domingo. The stamp is courtesy of the AAFSW Bookfair "Stamp Corner."

*When we started
up the mountain
they called us
suave, soft.
Now they
called us
fuerte, strong.*



facing slope late in the morning in the midst of extreme heat.

We had gone only two feet when one of the 30-something guides asked if I'd like to ride the horse. When I declined, he eagerly jumped on it himself. When the second young guide offered one of us a seat on the mule and we declined, he, too, took the chance to ride instead of walk. Of the guides, only Anibal, in his 60s and fit and strong, a man who looked as if he had never ridden when he could walk, refused a lift.

By noon we had hiked 15 miles into a stunning slot canyon. On the way up, the horse had stepped on my right foot, leaving it throbbing. At last we spied the vertical cave entrance our guides had promised to reveal to us. It turned out not to

be a cave entrance, but a 100-foot-high dry waterfall. We pulled out eaving rope anyway, and my friends rappelled down the waterfall, while I stayed on top to keep an eye on the rigging.

Though it was bittersweet to discover that there was no cave on the mountains, we were impressed by the canyon's sheer drop, a sight that few humans had ever seen. We didn't have the heart to tell the Dominicans that it wasn't what we were looking for. After a brief time exploring, we started out of the canyon and moved up to the ridge. By mid-afternoon, with nine miles to go, I stubbed my right toe one last time, opening the nail up and soaking my foot with blood. Still, I sensed that for the first time our young guides were beginning to believe that I could make the grueling trek. We reached town at 7 p.m., dusk. We had hiked more than 30 miles in one day, and defeated the predictions of our guides and the townsfolk, who said it would take us two days.

I heard the guides speaking among themselves in Spanish. When we started up the mountain, they called us *suave*, soft. Now they called us *fuerte*, strong.

All of us sat together savoring our accomplishment. Anibal looked at me, but said nothing. He knew that I had maneuvered the entire trail on my feet, while the two young guides had ridden for more than half the trip. I could see in his eyes that I had earned his respect. ■

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