



**SPECIAL ISSUE:
FOCUS ON IRAQ**

The defense budget proposed by President Bush is illogical, ill-conceived and intellectually dishonest. Our service men and women are at risk in a shooting war, and the economy is in danger of long term financial distortions.
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Paying for the War on Terrorism

Cindy Williams

Shortly after the terrorist attacks of September 11, 2001, President Bush pledged to prosecute a war against terrorism along multiple fronts, using every tool available. He promised not only to engage the U.S. military, but to pursue diplomatic efforts, intelligence measures, law enforcement actions, economic measures, media outreach activities, financial measures, security measures and preparations to respond to disasters should the other measures fail.

Since September 2001, the Bush administration and Congress have added hundreds of billions of dollars to federal budgets for national defense, homeland security, and international affairs. Most Americans would agree that some new spending was warranted, given the nature of the threat and America's evident lack of preparedness for it. Such added spending comes at the expense of other federal pri-

orities, however. Thus, it is important to ensure that every dollar spent on national security, homeland security, recovery, or combating terrorism is spent wisely.

This article considers three fundamental alternatives for securing the nation: offense, defense, and prevention. After a discussion of terms it examines federal levels of spending since 9/11/2001 for the three main alternatives and asks how resources might be reallocated to provide more real security.

Three Ways to Improve Security

To illuminate the main tradeoffs involved among the options for improving national security in an era of global mass-casualty terrorism, it is helpful to group those options into three broad categories: offense, defense, and prevention. *(continued on page 2)*

Letter from the Director

You've probably already noticed some changes in this edition of the newsletter. Color has returned; new processes make it only slightly more expensive and an attractive publication is more likely to catch the over-worked eyes of policy-makers. It's thinner. We plan to publish three newsletters in 2004 and as a result each will be a little shorter. And this time, we're focusing on aspects of a single issue: One year after the invasion of Iraq, what do we do now?

These changes are part of our ongoing efforts to become a clearer and more effective voice in critical debates on international security, economic well-being and peace. I am very proud of ECAAR's activities over the last few years: to name a few, our oft-cited study on ballistic missile defense; our new publication, *The ECAAR Review*; our founding mem-

bership in the Security Policy Working Group (see www.funder.org/spwg/); conferences in Russia and South Africa (and one organized for Australia, see page 12).

But recently I explained our mission to someone who stopped by our table at the Eastern Economic Association's annual conference, and he asked, "So your goal is to cut US military expenditure? How's that working out so far?" The US spends \$150 billion a year more on defense than three years ago, when I became director at ECAAR (though I am happy to cede all credit to George Bush, with whose tenure mine merely coincides). US military expenditure is now more than the rest of the world's put together. This has serious opportunity costs, not only for social welfare as we have traditionally argued, but for international security itself. *(continued on page 3)*

Paying for the War on Terrorism (continued from page 1)

By offensive measures, I generally mean military ones, including everything from raising and maintaining a strong force to conducting military operations like those in Iraq and Afghanistan. In addition, I include U.S. efforts to collect, process, and disseminate intelligence upon which the military effort relies.¹

By defensive options, I mean those related to homeland security.² They include, for example, law enforcement measures aimed at tracking down terrorists and bringing them to justice, border and aviation security, physical and cyber protection of critical facilities and systems, improvements to the public health infrastructure, and preparations to respond to and mitigate the consequences of attacks should they occur.³

By preventive measures, I mean the non-military international measures aimed at reducing the likelihood of future acts of terrorism.⁴ They include assisting and rewarding foreign governments and individuals for their cooperation in the fight against terrorism, conducting diplomacy, helping other governments to secure their nuclear materials and weapons of mass destruction, reaching out to audiences abroad with positive messages about the United States, providing humanitarian assistance to populations affected by the fight, working to prevent failed states, and improving the economic conditions that might allow terrorists to gain a foothold in poor or failing states.

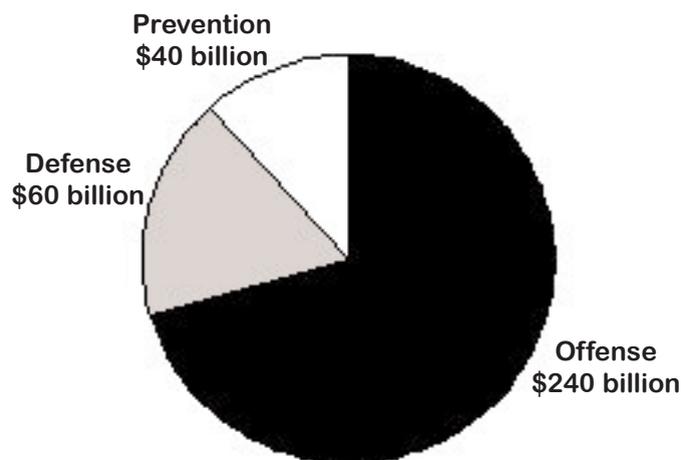
Experts agree that no strategy can completely insure the United States against future terrorist attacks. Moreover, it may not be possible to say with any assurance which specific activities will be the most effective in preventing future acts of terrorism, protecting against them, or mitigating their consequences. Nevertheless, the categories described here suggest a framework that can be useful in setting and articulating priorities and in assessing whether plans are balanced.

New National Security Spending Since September 2001

Since the autumn of 2001, the United States has added about \$340 billion in new money to federal budgets for the military, homeland security, and international affairs.⁵ That is a substantial amount of money, representing more than twice what the federal government will spend in toto during 2002-04 on unemployment compensation, and more than three times as much as the spending for international affairs in those years.

The large infusion of cash into national security budgets since September 11, 2001, is heavily weighted toward the offense. Of the new money, about \$240 billion goes to the Department of Defense, about \$60 billion pays for homeland security, and about \$40 billion goes toward international affairs.⁶ In other words, since September 11, 2001, the United States has added four times as much money for offense as for defense, and six times as much for offense as for prevention.

New Federal Spending for Security Since 2001 - \$340 Billion



When compared on an annual basis, the combined rise in spending for offense, defense, and prevention is enormous. For fiscal year 2004, budget authority in those three categories is nearly \$160 billion higher (after accounting for inflation) than it was in the regular appropriation for 2001. That represents a real increase of more than 40 percent in those categories in just three years. To put the figure in per-

spective, the \$160 billion rise in annual spending in those security-related accounts is about the same as the total federal bill for Medicaid this year.

Much of the Rise in Spending is Unrelated to Fighting Terrorism

Unfortunately, most of the \$160 billion post-9/11 real increase in the annual budget for the three security categories will go not toward improving real security, but to operations in Iraq and business as usual in the Pentagon. The lion's share—more than \$85 billion—goes for the occupation in Iraq. Of that money, \$64 billion goes toward military operations there, while some \$18.5 billion will pay for development and reconstruction of the occupied country.

The Bush administration argues that the war in Iraq is a necessary element of the fight against terrorism. Yet prewar links between Iraq and terrorists of global reach have not been clearly demonstrated. More troubling, current indications are that the war and its aftermath may be turning Iraq into a magnet and a breeding ground for terrorists, making the expense of the war there appear not only unnecessary to combating terrorism, but counterproductive to the fight.

Another fraction of the \$160 billion will go toward countries that aid the United States in the Iraq occupation or in the fight against terrorism. About \$1.5 billion goes toward a new foreign aid program targeted toward nations that embrace economic, legal, and political reforms.⁷ About \$20 billion of the real increase in annual

spending is devoted to homeland security, the defensive component of national security.⁸

Outside of the spending for operations in Iraq, the Defense Department gained another \$55 billion in its annual appropriation between 2001 and 2004, most of it for business as usual. Of the \$55 billion, less than \$15 billion goes to homeland security or combating (continued on page 4)

ECAAR Statement on the Defense Budget

The defense budget proposed by President Bush is illogical, ill-conceived and intellectually dishonest. Our service men and women are at risk in a shooting war, and the economy is in danger of long term financial distortions due to soaring deficits and misplaced priorities. This is no time to pander to special interests, whether these be in the Pentagon, the defense industry, or on the staff at the White House. The Defense budget should be designed to enhance our national security and not to support this president's or any president's election campaign.

The war against terrorism does not justify the massive increase in military spending sought by President Bush. There has been no showing that the increases will further our aims in the war against terrorism or otherwise strengthen our national security.

There is much reason to believe that huge savings can be realized by canceling unnecessary weapons programs such as those that were more appropriate for the Cold War than for the requirements of the 21st century. In this category are the new fighter aircraft that might have been useful against the threat posed by the former Soviet Union, but have no role in combating terrorist threats.

In addition, there are programs on the drawing boards, such as missile defenses, that ought to stay on the drawing boards until they can be shown to be a reasoned response to threats we actually face, and by appropriate testing that they will be effective. These programs are becoming dead weights on the military force. They divert resources from pressing national needs - including those for homeland security. As such they impair, rather than advance, our national security.

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Are there hopeful signs of change? Absolutely. The Bush military budget has been widely derided for its dishonesty in leaving out costs, if not predictable at least estimable, for Iraq and Afghanistan. A new Gallup poll indicates that a growing percentage of the US public feel that military spending is too high. Members of Congress on both sides of the aisle are concerned about sharply rising budget deficits and the long-term fiscal outlook. And it seems likely that in this elec-

The fact that military operations are continuing in Afghanistan and Iraq does not justify excluding the cost of those operations from the budget. It is irresponsible to place these costs off-budget with the excuse that they cannot now be known. By definition any budget is a set of estimates of the future costs of programs and activities, many of which cannot be accurately known. One of the principal objectives of the Federal Budget is to show the likely future spending consequences of present and past policy decisions.

As economists, we know that obtaining the facts about current conditions and making one's best estimates of the future is essential for formulating economic policy. This is particularly important at a moment when the scale of future budget deficits is arousing serious concern.

Given the influence of the government and the defense sector in the economy, and the role that Congress plays, it is not possible to make rational policy about resource allocation without full knowledge and best estimates of the course of military spending. A bitter lesson of the Vietnam years was that failure to take timely action to pay the cost of military operations can have lasting, damaging effects on economic performance.

We urge Congress to insist on the inclusion of realistic estimates of the costs of current and prospective military operations in the present budget, and the full cost of the administration's military plans. These estimates should be presented on a ten-year basis. And they should be weighed against the full budget effect of the President's tax policy over the same period of time.

tion year we will have a vigorous debate about the role of the US, and the US economy, in maintaining global stability and peace. ECAAR and its members are speaking out and being heard in this debate. I urge ECAAR members to write, write, write: to your political representatives, to your local paper, to your colleagues, students and friends.

Kate Cell is the Director of ECAAR.

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Contributing authors in this issue:

Cindy Williams

James K. Galbraith

Willemijn Verkoren

Kenneth Koford

**Johanna Mendelson-
Forman**

Newsletter articles are based on the views of the authors and do not necessarily represent the views of the Board or the members of ECAAR.

ECAAR, Suite 1
39 E. Central Avenue
Pearl River, NY 10965
tel: 845-620-1542
fax: 845-620-1866
ecaar@ecaar.org
www.ecaar.org

Kate Cell
Director

Paul Burkholder
Project Manager

Catherine Cohen
Operations Manager

Thea Harvey
Development Manager

Dorrie Weiss & Myles Ren
UN Representatives

Jessica Flagg
ECAAR Business Council

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terrorism, largely by beefing up physical security at U.S. military installations at home and abroad. Instead, several billion dollars go to new entitlements for military retirees - not the nation's 25 million living veterans, but the 1.7 million among them who served in the military for 20 years or more. Most of the entitlement increase goes for a new health care benefit for retirees of Medicare age. While valued by those individuals, it does virtually nothing to help the military compete as an employer in American labor markets, and therefore will not help the nation in the fight against terrorism.

A few billion dollars will go to work off backlogs in maintenance and repair of military buildings and equipment. But most of the military increase goes to develop and procure military hardware that has little or nothing to do with fighting terrorism: for ballistic missile defense, the Air Force F-22 air-to-air fighter, the Marine Corps V-22 tilt-rotor aircraft, the Army's Comanche helicopter and new Stryker combat vehicle, and the future F-35 Joint Strike Fighter. Thus, while the nation added a substantial amount of money across the three security categories after the autumn of 2001, there is good reason to doubt the contribution that spending will make toward real security.

Federal Spending For National Security in Fiscal Year 2004

As one might expect from the Bush administration's announced strategy of "taking the war to the enemy," this year's total spending for the three categories of security measures is also very heavily weighted toward the offense. Under current plans, the federal government will spend about \$520 billion for offense, defense, and prevention in fiscal year 2004. Of that sum, about \$440 billion will go to the military for non-homeland security functions. About \$40 billion will pay for homeland security, and the remaining \$40 billion will go toward international affairs, including reconstruction in Iraq. In other words, the

United States will pay about eleven times as much for offense as for either defense or prevention this year.

Reallocating Resources to Provide Real Security

Of course, no formula can prescribe the ideal weight of effort among offense, defense, and prevention. To the extent that preventive actions can keep terrorists from gaining a foothold in poor countries or avert terrorist acts from occurring, they would seem to be more important than either defensive or offensive measures. They may also be cheaper, however, making it inappropriate to judge their value based upon their cost. Yet it is not difficult to see that reallocating even relatively small amounts of the money devoted to offense this year could go a long way toward bolstering either prevention or defense.

For example, in 2003, the Council on Foreign Relations nonpartisan Task Force on Emergency Responders found that the United States is still "dangerously ill prepared to handle a catastrophic attack on American soil." The task force identified nearly \$100 billion in funds needed over a five-year period to prepare local fire services, search and rescue teams, hospitals, public health systems, and other emergency responders to handle the types of disasters that could be caused by terrorism. If reallocated from offensive measures to first-responder preparedness, an annual expenditure of \$20 billion would provide substantially more real security than spending the same amount on business-as-usual programs in the Defense Department.

Alternatively, for just \$5 billion of the \$64 billion the Defense Department received in the 2004 supplemental appropriation for the occupation in Iraq, we could inspect ten times as many containers at U.S. ports. For \$4 billion, we could quadruple efforts to secure nuclear materials from the former Soviet Union. For about \$12 billion, we could double our for-

eign aid spending. Any of those alternatives would provide substantially more bang for the buck in combating terrorism and providing real security for Americans than the Iraq war.

Summary and Conclusions

The administration touts a multi-faceted campaign to disrupt and destroy terrorism worldwide, one that balances military measures with diplomatic and economic efforts, law enforcement, financial measures, information, and intelligence. Looking at the problem of combating terrorism using the three categories suggested (offense, defense, and prevention) can help in thinking through the tradeoffs involved among the many choices.

Unfortunately, the changes in spending and plans since September 11 reflect far more of "business as usual" than one would hope. Too much of the enormous increase in defense spending between 2001 and 2004 goes to support Cold War forces and new military entitlements that will do little to improve the military's competitiveness as an employer. As a result, its contribution toward the war on terrorism will be far lower than it could be.

More troubling, except for less than \$20 billion for nation-building in occupied Iraq, the share of new spending devoted to international programs that could prevent terrorism is pitifully small when compared with the enormous boost in spending for military solutions or the costs of military operations in Iraq. And despite a significant infusion of money since 9/11, homeland security appears to remain badly underfunded.

Notes for this article appear on page 6.

Cindy Williams is Principal Research Scientist at the MIT Security Studies Program and, with ECAAR, a member of the Security Policy Working Group. Dr. Williams presented this paper at ECAAR's panel on "Real Homeland Security" at the January 2004 AEA/ASSA meetings in San Diego.

Now We Know -- and What We Don't

James K. Galbraith

The great question about Iraq last year was whether the evil and dangers of Saddam Hussein justified the costs of invasion and the burdens of empire. We at ECAAR held that it did not, but for many people the decision was a close one. Saddam was a known evil, the battle was likely to be swift, and the perils of occupation were largely unknown. Many decided the issue on the powerful claim that Saddam was in pursuit of chemical, biological and nuclear weapons, and that this pursuit posed a dire threat to the national security of the United States.

In fact, it was never rational to believe that Iraqi possession of chemical or biological agents posed a very big threat to us. Such weapons are exceptionally difficult to deploy. They have been used on battlefields only rarely, and never in modern times with great effect in terror attacks. Iraq's sole use of them was in war with Iran and shortly afterward, in assaults on its own unarmed civilian population. These weapons are, if you will, the terror equivalent of the hydrogen car: still outclassed, dollar for dollar, by the old technology of high explosives. We know, therefore, that Team Bush's harping on "Weapons of Mass Destruction" was, in part, a political choice and a scare tactic.

Nuclear risks are different. A single atomic explosion in the United States or in the Middle East could (and may still) take more lives than all the atrocities in all the history of modern Iraq. Had Iraq built the bomb, the threat would have been serious. It is clear today - to me at least - that Israel was right back in 1981 to destroy the Osirak reactor (sold to the Iraqis by the French). In doing so, they stalled Saddam's bomb program at that time. Otherwise, Iraq would have built the weapon and probably it would have used it years ago. Not against us, mind you, and probably not against Israel, with its powerful deterrent. But against Iran - yes, Saddam might have done that.

Yet in 2003 we knew that there was no chance Iraq still had a viable nuclear weapons program. We knew this from the inspections and the reports of the IAEA.

We knew it from UNMOVIC and its predecessor, UNSCOM. The administration knew it from the failure of the CIA and other intelligence agencies to find credible evidence to the contrary. The administration knew it from the conclusions of Ambassador Joseph Wilson's trip to Niger, which dismissed the possibility that Iraq could have acquired uranium ore from that country.

And so now it is all the more shocking that we learn that, all the while our attention focused on the imaginary threat posed by Saddam Hussein, nuclear proliferation was going on in the Islamic world. Not from our enemy Iraq, but from our ally Pakistan. Technology and plans - and maybe bomb fuel too, in some cases - flowed from the labs of Abdul Qadeer Khan to Libya, Iran and North Korea.

Here's what we also know. First, that the US government has been aware of Pakistani proliferation for years - and has been complaining about it, without effect. Second, that Abdul Qadeer Khan has had ties to Al Qaeda and the Taliban; by some credible reports he felt he was building the bomb for Islam, not for Pakistan. Third, that elements of Pakistan's military and intelligence knew of the proliferation, collaborated in it, and profited from it. Fourth, that those elements are strong enough to oblige President Pervez Musharraf to issue a pardon to Khan after just one day. Fifth, that this will preclude any full accounting of the proliferation.

The issue is being downplayed because, to some extent, the three cases we know about are coming under control. Libya has come in from the cold. Iran has made a deal with the Europeans on nuclear questions - and while compliance remains an issue, the country is not governed by madmen. And while the case of North Korea remains enigmatic, it at least seems that Kim Il-Jong's main interest is in blackmail for profit - a dangerous game, but short of the actual provision of nuclear weapons to the world market.

The problem lies in what we don't yet know. We will not learn, soon, whether Saudi Arabia bought the bomb, in fact or in

effect, from Pakistan. We will not learn whether and to what extent plans, or the makings of actual bombs, are in the hands from which Al Qaeda might acquire them, by purchase, theft, or coup d'etat. We will not learn, except following an attack, whether it might have already done so.

How close is the Pakistani nuclear team to Al Qaeda? For a bleak view read *Who Killed Daniel Pearl?* by the French philosopher Bernard-Henri Lévy. The book has been a best-seller in France, and it appeared in English last September to controversial notices. It concentrates on the man who organized the kidnapping, Omar Sheikh, generally seen as a mid-level jihadi fighter preoccupied with Kashmir. Lévy argues that he was something else entirely. First, that he is by nationality not Pakistani, but English, a native of London. Second, that he is an officer of the ISI, Pakistan's Inter-Services Intelligence (and invisible government). Third, that he was a senior deputy of Osama bin Laden, possibly responsible for part of the Al Qaeda's financial operations.

Lévy speculates: perhaps Pearl was killed because he knew too much, perhaps about the nuclear problem. Is this right or wrong? I can't tell from here. So read the book. Make your own judgments.

It could turn out that the price of Pakistan's cooperation in the conquest of Afghanistan was our light hand on their nuclear program. If so, we may find out that when we got diverted into Iraq we were looking the wrong way. The lowest price we may pay is another extension of the war. Reports already are that U.S. forces are planning to strike at the tribal lands on the Pakistan-Afghanistan frontier this year. This is in the apparent hope that, two years after Afghanistan, Al Qaeda remains vulnerably deployed in the badlands - and that it is not safely ensconced in the untouchable cities, such as Karachi.

We're probably wrong about that. Let's only hope that we don't find out the hard way.

James K. Galbraith is Chair of ECAAR's Board of Directors.

Importing Democracy

Willemijn Verkoren

The invasion of Iraq by the US and its allies has triggered a great number of moral discussions about issues such as whether democracy is the best system of government for all countries, who decides whether it is the best system, whether (or in which cases) it is justified to impose it, and if it is, which are the appropriate actors to do so. Instead of going into these moral questions, this article looks at the practical side: once a party, such as the US, has made the choice to introduce a democratic system into a country by force, what are its chances of success, and what are the factors determining the success or failure of its mission?

The histories of Germany and Japan since 1945 suggest that the forceful introduction of democracy by external actors is indeed possible. What made democracy last in these countries? And can their experience be replicated in a different time, place and historical context?

Factors affecting the success of an imported democratic system

A number of factors influence the success or failure of democratizing missions. One central factor is the acceptance of the system by the population. A term that is often used in this context is legitimacy. Defined

by Alfred Stepan as the voluntary acceptance of an arrangement of power by both the rulers and the ruled, the latter of which accept the actions of the rulers because they see them as conforming to pre-established norms, legitimacy embodies popular support for (or acceptance of) a system. A lack of legitimacy can constitute an important weakness when a democratic system is installed from the outside rather than through an indigenous political process.

Two types of legitimacy can be distinguished. The first has been called “deep” legitimacy, which refers to an “intrinsic value commitment rooted in the political culture at all levels of society,” in other words a widespread belief that democracy is in principle the best form of government. The second type of legitimacy is performance legitimacy, which means that public acceptance of a system depends on its performance in producing the desired outputs.

Experience in democratization efforts shows that popular support and legitimacy are conditioned by a number of factors. For example, deep legitimacy is affected by the way the installer of the new system is perceived. In the case of Iraq, the lack of international support for the Allied mission did not go unnoticed in Iraq itself, and a UN mission might have affected the legitimacy

of the system more positively. However, there are many other factors that play a role. Demonstration effects from events in other countries, the potentially exemplary role played by popular leaders, local traditions, and positive experiences with political systems all have an impact on deep legitimacy.

Constitutional design can also play a role by influencing deep legitimacy. Aside from the type of political system (parliamentary versus presidential) and electoral system (proportional representation versus plurality) that is chosen, the process leading to the establishment of a constitution is also important. Of central importance is that the various population groups feel they are represented in the groups of people who draft the constitution.

How does culture affect deep legitimacy? First of all, no culture is inherently pro- or anti-democratic. Certainly, there are values that, if widespread, exert a positive influence on the consolidation of democracy. These include equality, consensus, trust, pragmatism, dialogue, tolerance, willingness to compromise, and accountability. But these values exist in many different cultures. Besides, cultures and value systems are not monolithic and unchanging phenomena. They are con-

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NOTES

¹National missile defenses should probably be included in the category of defense. For the purposes of this article, however, I follow the current administration policy of considering missile defenses as part of the military category rather than as an element of homeland security.

²The federal government defines homeland security as “a concerted national effort to prevent terrorist attacks within the United States, reduce America’s vulnerability to terrorism, and minimize the damage and recover from attacks that do occur.”

³Some observers favor relying to a greater extent on the international criminal justice system to bring terrorists to justice. U.S. activities toward that end cut across the three categories described here. Much of their U.S. funding would be related to the law enforcement activities of the defense category, however.

⁴Thus, my definition of prevention is a far cry

from the Bush administration’s doctrine of “taking the fight to the enemy” through preventive wars.

⁵That is to say, the combined three-year total federal budget authority for the Department of Defense (net of homeland security spending), homeland security, and international affairs (including counterterrorism accounts) in 2002, 2003, and 2004 was about \$340 billion higher than what it would have been if the initial 2001 budgets for those accounts were extended with a boost for inflation each year. A bit less than half of the new spending came through the annual appropriations process; the remainder came through emergency supplemental appropriations passed during September 2001 in response to the terrorist attacks and during fiscal years 2003 and 2004 to pay for operations in Afghanistan and Iraq.

⁶The Department of Defense figure excludes DoD spending for homeland security, most of

which pays for beefing up security at military installations in the United States.

⁷The new development aid program, called the Millennium Challenge Account, was announced by President Bush in a speech to the United Nations Financing for Development Conference in Monterrey, Mexico, March 22, 2002. The President’s plan would raise U.S. foreign aid spending by \$5 billion over a period of five years. Spending for foreign aid was about \$11 billion in 2001.

⁸Several billion dollars of the \$20 billion will go toward defensive security measures, especially physical protection of Defense Department installations.

⁹The figure includes the annual appropriation for 2004, plus the military and international security shares of the 2004 emergency supplemental appropriation signed by President Bush in November 2003.

Importing Democracy

stantly changing under the influence of changing circumstances. Negative experiences with dialogue or trust will reduce the value of those things. Welfare, the development of a civil society and the behavior of influential leaders all affect cultural values. As Diamond et al. wrote, “[p]erhaps the most important lesson our case studies teach us about political culture is that it is plastic and malleable over time.” This does not mean that value changes cannot be influenced. Education and the media play an important role in conveying cultural values.

Performance legitimacy is affected, among other things, by economic development. Indeed, research has shown a very strong correlation between economic development and democracy. Broad-based development (as opposed to the kind of narrow, elite-centered economic growth that is characteristic of resource-rich countries including the oil states, in which the power base of regimes is only strengthened by their control over the oil incomes) also influences the works in favor of democracy more directly by creating economic power bases outside the state and a generally pro-democratic middle class and civil society. Civil society matters because it generally promotes a politics of issues and ideas rather than a politics of identity and exclusion, which is often what is promulgated by ethnically or religiously-oriented political parties.

A major factor: the rule of law

The importance of the rule of law can hardly be exaggerated. It is part of any successful and sustainable democracy. The ultimate guarantees of a rule of law are a strong and independent judiciary and an uncorrupted, politically neutral and capable police force. Fighting corruption and political influence in these sectors are therefore indispensable elements of strategies to install and consolidate democracy.

In earlier democratizing missions, such as those in Cambodia, Bosnia and Kosovo, most attention was paid to the organization of elections and it was insufficiently understood that these would not work well without a rule of law. This “failure to grasp that democracy works only when it goes hand in hand with the rule of law,” writes Michael Ignatieff, was “one of the costliest

mistakes in the Balkans,” because “democracy means little if it is not buttressed by a separation of powers, an independent judiciary and the rule of law. Democracy without these constitutional supports just provides an opportunity for populist tyranny and financial corruption.”

Ignatieff’s conclusion is reinforced by that of Paddy Ashdown, the British politician who led the Bosnian mission:

We thought that democracy was the highest priority, and we measured it by the number of elections we could organize. The result even years later is that the people of Bosnia have grown weary of voting. In addition, the focus on elections slowed out efforts to tackle organized crime and corruption, which have jeopardized quality of life and scared off foreign investment... In hindsight, we should have put the establishment of the rule of law first, for everything else depends on it: a functioning economy, a free and fair political system, the development of civil society, public confidence and the courts.

The lesson, then, is that democratic elections require a certain measure of order, control and stability. In many cases, including Iraq, these constitute major problems. The recent decision to postpone the Iraqi elections is therefore justifiable and supported by democratization researchers around the world.

What should happen in Iraq?

It is clear that in Iraq there is still a long way to go. The “deep legitimacy” of the system that is being installed is lacking as of yet because many people question the legitimacy of the bringers of that system and the way in which they operate. “Performance legitimacy” lacks as well, as reconstruction and stability are not yet realized. Nevertheless it is important that the country is not left in chaos and that the establishment of the rule of law receives top priority.

“This then is the paradox: to build democracy in Iraq the United States must stay on, but to demonstrate that it is not a colonial power it must leave,” writes Fareed Zakaria. The solution? “Involving other countries in the process” in order to

increase the legitimacy of the mission. This appears to be what is being done in Iraq at the moment, and in combination with the gradual transfer of powers to Iraqi bodies, this may increase the legitimacy of the democratizing project. Another part of the solution according to Zakaria is to postpone elections until the rule of law has been established. This advice, too, appears to have been heard.

In this way, democratization in Iraq is a continuous compromise between representation and “ownership” on the one hand, and stability and effectiveness on the other. And after all, no successful democracy has been created through purely democratic means. Communication with the Iraqi people, via the media, education and the production of tangible results to increase performance legitimacy, will have to sell the compromise to the population.

In the meantime the governors of Iraq will benefit if they devote attention to the factors (besides the establishment of a rule of law) that influence the consolidation of democratic systems. Installing democracy is a process that is much more than just political. Not only in political and military decision making, but also when economic and social measures are implemented should the potentially democratizing effect of such measures be understood and taken into account. Thus, economic development on a broad and local basis can have a democratizing effect. Similarly, policies aimed at education and the media can work positively in the medium term by influencing political culture, enlarging social capital and giving the population a chance to organize around issues (rather than identities) that are important to them. Truly coherent policy, then, would mean that each planned measure is checked for its impact on factors such as the acceptance of the political system by the population, the shaping of democratic institutions, the rule of law, political culture, economic development, social capital, the character of political parties, political leadership, the role of the army, and external factors - and via those factors on the consolidation of the new democratic system.

Willemijn Verkoren is with the University of Amsterdam’s International School for Humanities and Social Sciences.

Iraq and Law & Economics

Kenneth Koford

Over the past decade I have been trying to understand the move to a free market in transition countries, mostly Bulgaria, using law and economics. Often it turns out that understanding society, institutions and “rule of law” values are needed to make any sense of how contracts work - or don't. As director of the University of Delaware's Legal Studies program, I have learned about “law and society” - a movement that argues, among other things, that law is not just what is in law books and in judges' decisions, but in what people think is just and what is the law. The US attack on Iraq and the current effort to create in Iraq a new democratic government and a “rule of law state” pushed me to use law and economics to understand these events.

Four issues seem to be fit for analysis. The legal rationale for the war under the US Constitution, and whether the move to war satisfied this requirement, is the first issue. Second is the choice of whether to move against the Iraqi government under international law, specifically the UN Treaty and the UN Security Council. These are questions about the rule of law in the US and among the advanced democracies.

Turning to creating a new Iraq, a third issue is what is the chance of creating a new democratic system in Iraq? And, fourth, what is the chance to assure the “rule of law” in the ordinary business of life?

The US Constitution grants the right to declare war to the Congress; the law and economics question that struck me comes from the understanding of contracts: how specific should this provision be considered? Ultimately, the question is the “efficient” contract. For example, in 1991 the Congress did not specifically “declare war” against Iraq. Were the fundamental requirements upheld? A constitutional scholar might answer differently, but if the constitution is a long-term contract between the US public and its governmental agents, we want to find the “understood contract” for choosing to go to war. The public is not specialized in law, and doesn't worry about esoteric details. The public does rely on experts in law - for interpretation of personal rights guaranteed by the constitution as well as the technical rules of declaring war. We might worry if

the public neglects the clear statement of the Constitution; this might indicate that the public really lacks understanding of fundamental Constitutional provisions.

In the case of the invasion of Iraq, I was very surprised that there was no serious debate over a US-led war. The Vietnam war showed the terrible consequences of “sneaking” our country into war, while the Gulf war showed that the US Congress and public were willing to discuss a war seriously and back the war if a convincing rationale was given. The “contract” that Presidents cannot drag the country into war by fiat seemed to be broken.

Now, in cases of emergency, the President can resist attack, and a fair extension of that principle is that the President could order a pre-emptive strike. But no evidence of such a strike as been provided; I am surprised at the lack of severe criticism. The Congress did vote to let the President go to war pursuant to a UN Security Council resolution to invade Iraq, but it would be pushing legalism to an extreme to argue that the war actually was fought in accord with such a resolution; it is obvious that the effort to get such a resolution failed.

So why was the war supported in the United States, and why is it still fairly popular? Thinking about the contract between the public and the Congress and President, I think that the war was seen as a good small war, something like the US invasions of Panama, Haiti and Grenada. If the war is small enough and won't lead to bad results, no declaration is needed - just like a de minimis violation of the wording of a contract. The president said it would be easy and work out well, and the Congress, basically acting as judge in the matter, did not disagree. If in the end the war turns out badly, the President and Congress could still say, “it looked like a good, easy and small war” and that would be some defense. But the bar for starting a similar war would be higher.

Why didn't the US government persevere with its effort to obtain the support of the UN Security Council for a war against Iraq? At the time, it seemed possible to gain such a resolution and so to have a large coalition to fight the war, if the United States were to wait a few weeks, and if other countries were brought into

helping lead the war and the following occupation. The rationale would have had to change, to “collectively ridding the world of a dangerous dictator” rather than repelling an impending attack.

Looking back, such a resolution would have made the US (and United Kingdom) position much easier. If countries with more Middle-Eastern experience like France and Turkey had been involved, and perhaps countries with Arabic speakers like Egypt or Saudi Arabia, the war and occupation would have taken a very different course. Since the United States has to deal with many countries on a regular basis, attacking some as “Old Europe” and their advice as wrong just stores up trouble for future cooperative efforts, such as the continuing Doha round of trade talks.

The reason for the “go-it-alone” approach seems to be a view of the world's countries as short-term dealmakers, where the countries come together for a particular agreement or invasion that benefits that group of countries then, and afterwards they go their own ways - the “coalition of the willing.” This is a “spot market” deal, in economic terms. It's striking that most European Union countries strongly objected to this approach. For forty years, they have been involved in a kind of “rule of law” activity, in which proper norms of international behavior have slowly evolved, in the European Union and elsewhere, as in Bosnia and Kosovo. While they haven't created an “international law” comparable to domestic law, they have encouraged international courts, decisions by the United Nations, and in general moved toward a “rule of law” system. They have to deal with each other on numerous issues, on a daily basis - in the EU - and these interactions are subject to treaties that are effectively a constitution, so it seems to them, and to their publics and elites, more normal to work together in a “rule of law” environment in international relations in general. One country acting on its own, without regards to others, seems more like the bad old days of power politics, or even the actions of a Napoleon or Hitler aiming to dominate the world. This contrasts with the US public and elites, which don't have the same history and see the rest of the world as remote and “different” - not a place of the rule of

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law. So violating the WTO treaty on steel tariffs isn't seen in the United States so much as illegal behavior that violates law, but as a possibly risky action that helps some Americans.

When much of the world sees a system of international "rule of law" it makes sense for countries like the United States, with a weaker sense of such a system, to pay attention to those values. What looks like aggressive but proper independent action to Americans can be seen as extreme and improper violations of international law by others. When this is true, we can expect conflict, as people try to punish the "law violators." Today, most US interactions with the rest of the world involve trade and a combination of social and economic issues, and on these it is very hard for one country to impose its will. So acting as a "law violator" in one area (Iraq) is likely to lead to retaliation or lack of cooperation in others, with painful consequences for the United States. Globalization keeps increasing close connections that rely on all countries cooperating and accepting a "rule of law," so I expect that the United States will pay a high price for its Iraq approach, and will eventually come to a more law-governed approach.

What is the chance of creating a new democratic government in Iraq? A law-based perspective notes that a democratic constitution is basically not majority rule, but a set of rules that structure political decisionmaking and also a set of rights that protect people from their government. These rules are not just written on paper, but are in the hearts and the expectations of the public, and the elites, and elected leaders.

Will it be possible to bring such a system of rules into effect in Iraq? A written constitution may be possible, but making it clear that the majority does not "rule" could be difficult. Iraq and the Middle East in general have had very aggressive governments that ruled dictatorially and certainly had no sense of rights for political or cultural minorities. Setting up a structure that protects such rights effectively has to involve giving the public, the elites, and for that matter the police and the army, the idea that rules protecting a minority are not to be trampled. These groups must see the value to them of a "rule of law state" and also believe that

most other people see those values too. Otherwise people will fear that others will act first to capture total power and destroy any opposition. And if they resist this, they will be alone and will be destroyed.

Roger Scruton's *The West and the Rest: Globalization and the Terrorist Threat* (Wilmington, DE: ISI Books, 2002) points out that it took centuries for democratic institutions and moral values to develop in the "West," starting with the separation of religion and government, and then building a healthy skepticism of government backed by institutions that would fight against an overweening government. While we see in the ex-communist countries of Eastern Europe some fast movements to democratic limited government, we see many failures too. And this is in a region with some traditions of democracy and limited government. Farther east, in regions that never had democratic government, it is hard to see any truly democratic systems. A culture of authoritarian rule, and a view that "capturing everything" is better than being cautious, make it hard to make and keep limited government.

What is the chance for a working free market economy in Iraq, where contracts are enforced and private business can rely on other firms and ultimately on courts and prosecutors to ensure that private contractual arrangements are fulfilled? Here, we can think of incentives, norms and institutions, using new institutional analysis to flesh out law and economics. Certainly, democracy isn't needed to have effective rule of law in business. But oil- or mineral-rich economies have a terrible history of assuring the enforcement of private contracts. It is just too easy to grab the oil, using force. No owner can move the oil elsewhere, and in contrast to manufacturing or hi-tech or trading, incompetence or a bad reputation don't destroy its value. So there's always an incentive to capture the oil with business tricks or politics. Proper business courts aren't needed to have prosperity, and so there is little incentive to develop them.

The norms of obeying one's contracts can develop in a complex economy where continued relations are needed for prosperity. Some scholars have shown that a "history" of effective law, like the common-law tradition in the English-culture countries, helps economic growth. Could these norms or traditions be developed quickly,

or imported to Iraq? While most history is negative, there are some cases of rapid economic growth under a workable rule-of-law system, starting from nearly zero. China might be the most positive current example. The Middle East's merchant culture certainly has the makings of some norms of contract, but it might not be sufficient for an advanced industrial economy.

Perhaps importing a set of laws and courts from another country would be the fast and effective way to develop a system of contracts in Iraq. British or American law could be imported, and local judges, prosecutors and lawyers trained. This would have considerable advantages: it would be a modern, internationally known and effective system, and if enforced with help from the United States or the United Nations, it could quickly focus expectations and put down roots. It would greatly help in business relations with the West. The disadvantages are first the Iraqis would likely oppose it as something imposed from outside, and second that it has very different structures from Sharia (Islamic) law and so would conflict seriously with the domestic legal culture. If it were accepted as generically "modern" like the internet or cell phones, as a new technology, it might succeed.

These four "rule of law" questions regarding Iraq all were tied to law and economics, and I think that the focus of the law and economics approach helps us to see the questions more clearly. Yet in each case, differences in culture and history made a difference in practice, and they influenced the institutions of law and economics. Certainly, Coase emphasized transactions costs as important in the analysis of property; what seems significant here is that the transactions costs are different in different environments. I had to go to the new institutional economics, such as Douglass North's *Institutions, Institutional Change and Economic Performance* (New York: Cambridge University Press, 1990), and to works on culture to structure the law and economics questions.

Kenneth Koford is Professor of Economics and Director of the University of Delaware's Legal Studies Program at the Lerner Business School. This article originally appeared in the Eastern Economic Journal, Volume 30, Number 1.

Rebuilding Iraq

During the summer of 2003 the US Department of Defense sent a team of post-conflict reconstruction specialists to Iraq to assess the DoD's efforts. What follows is the Executive Summary of their report, lightly edited for clarity. Many of the report's recommendations are highly relevant six months later, though the window for implementing them is closing rapidly. The full report is available online at <http://www.csis.org/isp/pcr/IraqTrip.pdf>

Rebuilding Iraq is an enormous task. Iraq is a large country with historic divisions, exacerbated by a brutal and corrupt regime. The country's 24 million people and its infrastructure and service delivery mechanisms have suffered decades of severe degradation and under-investment. Elements of the old regime engage in a campaign of sabotage and ongoing resistance, greatly magnifying the "natural" challenges of rebuilding Iraq. Given the daunting array of needs and challenges, and the national security imperative for the United States to succeed in this endeavor, the United States needs to be prepared to stay the course in Iraq for several years. . .

All players are watching closely to see how resolutely the coalition will handle the [security] challenge. The Iraqi population has exceedingly high expectations, and the window for cooperation may close rapidly if they do not see progress on delivering security, basic services, opportunities for broad political involvement, and economic opportunity. The "hearts and minds" of key segments of the Sunni and Shi'a communities are in play and can be won, but only if the Coalition Provisional Authority (CPA) and new Iraqi authorities deliver in short order. To do so, the CPA will have to dramatically and expeditiously augment its operational capacity throughout the country, so that civilian-led rebuilding can proceed while there are still significant numbers of coalition forces in Iraq to provide maximum leverage over those who seek to thwart the process.

To succeed, the United States and its allies will need to pursue a strategy. . . that: recognizes the unique challenges in different parts of the country; consolidates gains in those areas where things are going well;

and wins hearts and minds even as it decisively confronts spoilers.

Seven major areas need immediate attention.

1. The coalition must establish public safety in all parts of the country. In addition to ongoing efforts, this will involve: reviewing force composition and structure, as well as composite force levels (U.S., coalition, and Iraqi) so as to be able to address the need for increased street-level presence in key conflictive areas; quickly hiring private security to help stand up and supervise a rapid expansion of the Iraqi Facility Protection Service, thereby freeing thousands of U.S. troops from this duty; ratcheting up efforts to recruit sufficient levels of international civilian police through all available channels; and, launching a major initiative to reintegrate "self demobilized" Iraqi soldiers and local militias.

2. Iraqi ownership of the rebuilding process must be expanded at national, provincial, and local levels. At the national level ensuring success of the newly formed Iraqi Governing Council is crucial. This will require avoiding overloading it with too many controversial issues too soon. The natural desire to draw anger away from the coalition by putting an Iraqi face on the most difficult decisions must be balanced with a realistic assessment of what the council can successfully manage. At the provincial and local levels, coalition forces and the CPA have made great progress in establishing political councils throughout the country, but they need direction and the ability to respond to local needs and demands. To achieve this, local and provincial political councils need to have access to resources and be linked to the national Iraqi Governing Council and the constitutional process.

3. Idle hands must be put to work and basic economic and social services provided immediately to avoid exacerbating political and security problems. A model economy will not be created overnight out of Iraq's failed statist economic structures. Short-term public works projects are needed on a large scale to soak up sizable amounts of the available labor pool. Simultaneously, the CPA must get a large

number of formerly state-owned enterprises up and running. Even if many of them are not competitive and may need to be privatized and downsized eventually, now is the time to get as many people back to work as possible. A massive micro-credit program in all provinces would help to spur wide-ranging economic activity, and help to empower key agents of change such as women. The CPA must also do whatever is necessary to immediately refurbish basic services, especially electricity, water, and sanitation.

4. Decentralization is essential. The job facing occupation and Iraqi authorities is too big to be handled exclusively by the central occupying authority and national Iraqi Governing Council. Implementation is lagging far behind needs and expectations in key areas, at least to some extent because of severely constrained CPA human resources at the provincial and local levels. This situation must be addressed immediately by decentralizing key functions of the CPA to the provincial level, thereby enhancing operational speed and effectiveness and allowing maximum empowerment of Iraqis. The CPA must rapidly recruit and field a much greater number of civilian experts to guide key governance, economic, social, justice, and also some security components of the occupation.

5. The coalition must facilitate a profound change in the Iraqi national frame of mind - from centralized authority to significant freedoms, from suspicion to trust, from skepticism to hope. This will require an intense and effective communications and marketing campaign, not the status quo. The CPA needs to win the confidence and support of the Iraqi people. Communication - between the CPA and the Iraqi people, and within the CPA itself - is insufficient so far. Drastic changes must be made to immediately improve the daily flow of practical information to the Iraqi people, principally through enhanced radio and TV programming. Iraqis need to hear about difficulties and successes from authoritative sources. Secondly, the CPA needs to gather information from Iraqis much more effectively - through a more robust civilian ground

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presence, “walk-in” centers for Iraqis staffed by Iraqis, and hiring a large number of Iraqi “animators” to carry and receive messages. Thirdly, information flow must be improved within the CPA itself through an integrated operations center that would extend across both the civilian and military sides of the CPA, and by enhancing cell-phone coverage and a system-wide email system that could ease the timely dissemination of information to all CPA personnel.

6. The United States needs to quickly mobilize a new reconstruction coalition that is significantly broader than the coalition that successfully waged the war. The scope of the challenges, the financial requirements, and rising anti-Americanism in parts of the country make necessary a new coalition that involves various international actors (including from countries and organizations that took no part in the original war coalition). The Council for International Cooperation at the CPA is a welcome innovation, but it must be dramatically expanded and supercharged if a new and inclusive coalition is to be built.

7. Money must be significantly more forthcoming and more flexible. Iraq will require significant outside support over the short to medium term. In addition to broadening the financial coalition to include a wider range of international actors, this means the President and Congress will need to budget and fully fund reconstruc-

tion costs through 2004. The CPA must be given rapid and flexible funding. “Business as usual” is not an option for operations in Iraq, nor can it be for their funding.

The enormity of the task ahead must not be underestimated. It requires that the entire effort be immediately turbo-charged - by making it more agile and flexible, and providing it with greater funding and personnel.

At the January 2004 meeting of the Economics of Security study group Johanna Mendelson-Forman, a member of the DoD team presented the report and updated the findings. The following report is based on her presentation.

The current situation in Iraq exemplifies an important change in the security environment, the “developmentalization” of security. Previously, post-conflict reconstruction tasks were shared by government institutions, civilian institutions, and NGOs. The Iraqi reconstruction process, by contrast, is owned by the Department of Defense; even Ambassador Paul Bremer, head of the Coalition Provisional Authority, reports to the DoD. Additionally, the term “post-conflict reconstruction” is less applicable now, because there is less distinction between the conflict itself and reconstruction. Indeed, many reconstruction tasks are now seen as part of “theater war,” and the current Iraqi reconstruction process is concur-

rent with fairly high levels of conflict.

Additional difficulty has arisen from the lack of communication between various departments. Under the Clinton Administration, Presidential Defense Directive (PDD)56 mapped the communication channels between departments. A similar document proposed by the Bush Administration has yet to be approved by the Defense Department.

These difficulties are dramatically apparent in Iraq, due to the enormous scope of the operation. One would expect such significant changes to create bumps in the road to reconstruction. Now, however, we may have missed the path towards a smooth reconstruction process as ethnic tensions and discontent are mounting.

The goals outlined in the post-conflict reconstruction team's report to the DoD remain. In order to redirect the reconstruction process, and provide long-term stability, the US must achieve the following: ensure the public safety, create Iraqi ownership of the reconstruction process, reduce the dramatically high unemployment among Iraqis, decentralize participation in the reconstruction process, better communicate our vision to Iraqis, internationalize the process, and provide sufficient funds, which will likely be several billion dollars.

Johanna Mendelson-Forman is Senior Program Officer at the United Nations Foundation in Washington, D.C.

Jacob “Jack” Sheinkman, 1926 - 2004

Jacob “Jack” Sheinkman, a leader of the American labor movement and a long-time member of ECAAR's Board of Directors, died of pneumonia on January 29th, 2004. He was 77.

Mr. Sheinkman spent much of his working life serving textile workers. From 1958 - 1976, he was general counsel and then secretary-treasurer of the Amalgamated Clothing Workers of America. He led a series of merger efforts to ensure the union's continued strength, becoming president of the Amalgamated Clothing and Textile Workers Union in 1985 and president emeritus of the Union of

Needletrades, Industrial and Textile Employees (UNITE) in 1995.

As The New York Times pointed out in his obituary, Jack “developed a reputation as one of organized labor's leading internationalists, heading labor's efforts to help impoverished workers and embattled trade union leaders in Central America. . . . In an era when labor leaders were reluctant to defend leftist movements overseas, Mr. Sheinkman led labor's opposition to President Ronald Reagan's efforts to remove the leftist government of Nicaragua. He was highly critical of right-wing dictatorships in Central America.”

Mr. Sheinkman was educated in public schools in the Bronx, received his Bachelor's degree from Cornell University, and received a certificate in economics from Oxford University. He served as President for Americans for Democratic Action from 1995 - 1998, and was remembered by ADA Executive Director David Card who wrote: “His activism and devotion to ADA were without peer. He will be sorely missed.” James K. Galbraith, ECAAR's chair, wrote that “Jack was a good comrade and a true friend.” We at ECAAR will think of him often and remember him fondly.

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New Board Members

At its January meeting the ECAAR Board of Directors approved four new members: Donna Katzin, Daniel McFadden, William Sharpe, and Lucy Webster. ECAAR's board now comprises 40 members, ten of whom are Nobel laureates; our board remains uniquely distinguished and prestigious among small NGOs.

Donna Katzin is the Founding Executive Director of Shared Interest, an independent, tax-exempt organization which raises funds to guarantee loans issued by South African banks to low-income South Africans. From 1986 until July of 1994, she served as Director of South Africa and International Justice Programs for the Interfaith Center on Corporate Responsibility. She is a board member of the Thembani International Guarantee Fund in South Africa and the Jewish Fund for Justice in the U.S.

Daniel McFadden is E. Morris Cox Professor of Economics and Director of the Econometrics Laboratory at the University of California, Berkeley. In 2000 he received the Nobel Prize in Economics for his development of theory and methods for analyzing discrete choice. He has published widely in the fields of production theory, econometrics, transporta-

tion, energy, environmental and health economics, econometrics.

William Sharpe is the Emeritus Stanco 25 Professor of Finance at Stanford University. He was one of the originators of the Capital Asset Pricing Model, for which he received the Nobel Prize in Economics in 1990. He also developed the Sharpe Ratio for investment performance analysis, the binomial method for the valuation of options, the gradient method for asset allocation optimization, and returns-based style analysis for evaluating the style and performance of investment funds.

Lucy Webster served for seven years as ECAAR's Executive Director and Program Director. A former Senior Political Affairs Officer in the UN's Department for Disarmament Affairs, Ms. Webster has spent much of her working life focusing on the relationships between economics, peace, and security. She is currently pursuing her PhD in Economics at the New School University. Ms. Webster has her own website, <http://www.lvistas.net/>, which contains articles and papers on an array of topics including sustainable development, inequality, and structural violence.

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