



CENTER FOR GLOBAL DEVELOPMENT

Presents

## **Transformational Diplomacy**

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*[TRANSCRIPT PREPARED FROM AUDIO RECORDING.]*

**Nancy Birdsall:** Good morning, ladies and gentlemen. It's wonderful to see that we have such a large high quality and interested crowd for what I think is going to be a very interesting session for all of us. I'm very pleased – I'm Nancy Birdsall, the President of the Center for Global Development, and we're very pleased to have Steve Krasner here today and his colleague, Doug Menarchik. I'd like to start by thanking my colleague, Stewart Patrick, who helped arrange and set up this event and alert you to the fact that we have a blog on our website in which we are starting a discussion. Perhaps we'll be changing it after we hear from our colleagues today but we're starting a discussion of the proposal, the proposed changes, that have been introduced by Secretary Rice in the last several days. Let me introduce both Stephen Krasner and his colleague. I'll just say a quick word about each because I understand you have their bios.

Steve Krasner was appointed Director of Policy Planning by Secretary Rice just about one year ago so I guess this is his birthday present; to be working on how to do transformational diplomacy. The only other thing I want to say looking at his bio is he is clearly a distinguished scholar as well as a skilled policymaker and I have to admire the wonderful titles he has had for his – several of his books and I'll mention two that now I really want to read. One is *Structural Conflict – The Third World Against Global Liberalism*. That's a book published almost 20 years ago and another is *Sovereignty: Organized Hypocrisy* and these books, I'm sure, are not at all irrelevant to the kinds of changes that he'll be explaining to us today. We are very pleased to have accompanying Steve Krasner, Dr. Douglas Menarchik who is the Assistant Administrator in the Bureau for Policy and Program Coordination at USAID and it's clear that he will be a critical partner in implementing the kinds of changes that are on the table now. In that role, Dr. Menarchik oversees the Agency's \$19 billion of programs; at least that was the figure for 2005. Prior to going to AID, Doug Menarchik was Director of the George Bush Presidential Library and Museum. We're very pleased to have two people with the kind of background skills approach, I think probably to scholarship as well as to real politique, here today. We'll start with Stephen Krasner, who's going to tell us the story. Steve.

**Stephen Krasner:** Thanks, Nancy. I only have to say a couple of things about the title of the books. When you've been writing things for 30 years, not all of them turn out to be right but if you're a social scientist, you're supposed to deal with things that can be proven wrong. Secondly, I do have to confess that my favorite sort of made-up title was when I went to the NFC, you could actually pick your own title. First of all, "director" sounds great. It's much more elevated in the outside world than it is in the reality of Washington and I sort of negotiated this and I got to be Director for Governance and Development which incredibly impressed my family even though it wasn't so consequential for people here. The *Organized Hypocrisy* book is still right, though, and is very relevant.

I want to say basically to try and put the announcements that Secretary Rice has made this week in a larger context and then also to elaborate on those announcements. The Secretary has basically spoken this week about transformational diplomacy both at the State Department and AID and I want to begin by trying to elaborate a bit on what she means by transformational diplomacy. The conventional role of diplomacy has been essentially to engage in state-to-state relations. That's basically what the State Department historically was set up to do. The initial bureaus were regional bureaus and over time, of course, this has expanded into other kinds of

activities. Diplomats focused on state-to-state relations, they negotiated treaties, they participated in meetings in international organizations, they gathered and reported on information but basically the traditional role of diplomats was to represent their states, their governments, to other governments. As the Secretary said yesterday, transformational diplomacy has a very, different definition and here I'm quoting from the speech which she gave – “to work with our many partners around the world to build and sustain democratic well-governed states that will respond to the needs of their people and conduct themselves responsibly in the international system.”

Transformational diplomacy is essentially about supporting changes within states, not relations among them. It's about the nature of domestic political regimes rather than the international balance of power and that is a very different conceptualization of how we think about diplomacy. I think this change is a result of a fundamental change or at least a radical change in the nature of the international system in the contemporary world. For the most part, although actually to a lesser extent than people have recognized, international relations has been among – about relations among major states. The big developments, the big conflicts, in the international system, the thing that people spent and focused their attention on, were relations among major powers.

In the contemporary world, and the Secretary has said this, the chances of war among major powers are less today than they have ever been in the history of the modern state system and we are now, since 1945, in the longest period of peace in terms of relations among major powers which is not to say that many millions or hundreds of millions of people haven't been killed by their own governments or in civil wars or wars between smaller states, but we're in the longest period of peace among major powers that has ever existed in the history of the modern state system. The most important threats to American national security now do not come from other major powers. They come from the domestic character of other states. Transnational terrorism is – and the threat that it represents to the United States – is a reflection of the convergence of three things. One is a radical millenarian ideology, one which kind of looks to the creation of either the end of the world or the creation of a perfect world on this earth. The second is the character domestic governance of a number of states around the world whether these states be failed states in the sense that their governments have very limited capacity or situations in which there are ungoverned areas or situations in which you have significant levels of repression within states and thirdly, the existence of weapons of mass destruction.

This challenge in which the domestic character of states is the most important concern in the international environment as opposed to state to state relations is not historically unprecedented and if you look at the period after the conclusion of every major war, the 30 years war, the Napoleonic wars, the First World War, the Second World War, and if you look actually at lot of the Cold War, a lot of focus in this – in these periods was on – was on the domestic character of states rather than state to state relations. It is true that if we think – the way in which we thought about the Cold War was basically about what? A sort of bipolar relations between the United States and the Soviet Union. If you look at a lot of the activity, focus of attention and actual conflict during the Cold War period, it was about the nature of domestic regimes within states. Basically, the Soviet Union wanted to promote its vision of what state characteristics should be, essentially Communism and the United States and – and the west wanted to promote its vision of

what the nature of domestic characteristics should be, that is basically democratic and capitalist states if we could get there. The two hot wars, big hot wars, that we fought during the Cold War, the Korean War and the Vietnam War, were in peripheral areas and they were wars about the domestic characteristics of those states. So I don't want to say that this concern with domestic characteristics of states is historically unique but what is unique in the contemporary period is the convergence of this radical ideology – we've had that before. Governance issues, we've had that. What we haven't had before is the existence of weapons of mass destruction which make it possible for very weak actors in the international environment to threaten the security of even the most powerful states, a threat and kind of threat this has never existed historically in the past.

If you look at the role of the United States in this environment, I think there are three things that stand out. One is the obvious one; that the United States has this unprecedented level of power that if you look across a wide spectrum of measures of power, whether you're looking at GNP or military capability, I would say even ideology and various kinds of soft power, the United States is in an historically unprecedented position over the course of the last several hundred years. It's a level of hegemony which no other state has ever enjoyed.

Secondly, the United States has a set of unique values. Now every country has a set of unique values. I do think what's unique about the United States, or at least very unusual, is that what defines American identity is essentially a commitment to a set of values which focus on the individual and which translate into democracy and an emphasis on market economies. America is not defined by ethnicity. It's not defined by color; it's not defined by religious heritage. It's defined by this commitment to a set of values. And while that is true for a few other countries, it's not true for many and it is a set of values which does have universal applicability. I could say that was also true for the Soviet Union when – it's not clear that people in the Soviet Union bought into these values where Marxism purported to be a set of values which were – at least were universal.

Thirdly, the United States has been, and I think this is an empirically true statement, the most successful country that's ever existed which isn't to say that it hasn't had great failings but it is to say that if you look at its domestic – its domestic successes with many blemishes and its foreign policy which has not been flawless, it has been extraordinarily successful. One of the things I'm struck by in talking to Europeans is also this, "Ah, the United States is this new country." You know, if you count up the number of governments in Germany or France since the American Constitution, there are something like 11 or 12 and in the course of those governments – I mean Germany has not exactly had a successful record in the 20<sup>th</sup> Century of foreign policy and while you might argue, for instance, that France's record was a little better, it's actually hard to identify where that the French have won on their own since the 18<sup>th</sup> Century. If you look at the other major powers, they really entered into catastrophic, in some ways, sets of developments both domestic and international. The Soviet Union – I mean I just read Martha Fiori's biography of Stalin. You know, \*\*\*\* that Stalin and also the guys around him killed tens of millions of people and so, you know, they killed all the people that were close to them. I mean they didn't kill the people that were close to them, they killed their wives if they didn't kill their husbands. So if you look at other major countries, I think that the success of the United States does mean that there is a degree of self-confidence in America which is actually not available for any other major country in the contemporary world so it's only to say it's not surprising because of its

power, its history and its values that the United States would be playing a major role in the contemporary environment.

All right, if we look then at transformational diplomacy, this effort basically to support the development of – of effective democratic states, the – what the Secretary has spoken about this week are some of the major instruments that we have available to do this. On Wednesday, she offered a number of ways in which you could make the State Department more effective. This is not to say, and it's not that she would say, that the State Department hasn't been doing many of these things already but she talked about global repositioning, essentially moving more Foreign Service officers essentially to the developing world. She talked about more of a regional focus for a number of the activities that take place in the State Department. She talked about increasing localization for the State Department by having a smaller post, for instance, an American presence post which would be manned by a single diplomat. She talked about developing or enhancing skills for the U.S. Foreign Service and she talked about more coordination with other government agencies, especially with DOD. So there are a number of things in terms of the traditional State Department that Secretary Rice emphasized on Wednesday.

If we look at the general tools that we have available for transformational diplomacy, I want to try and outline what I think these are and place foreign assistance in this context. First of all, the United States does have the capability to offer incentives for countries. I think trade agreements are one place where this has happened. I mean this is – it's true in the WTO world but in terms of the United States capita, the administration's continued support for GOA, opportunities in some sense more generally that globalization offers. They – these do create incentives for states to be better governed; to be able to take advantage of the opportunities which exist in the contemporary environment. And, finally, I think the MCC, although it is a provider of money, is also more than any other foreign assistance program that I can identify either multi-lateral or – multi-laterally or bilaterally, it is an incentive program. It basically says, "We'll look at what you've done not what you're going to promise to do and if you do that, we'll make a serious commitment to provide assistance for you."

All right, so incentives are one instrument of transformational diplomacy. The second instrument of transformational diplomacy is the ability of political leaders to provide a vision for the future which is something that the President, the Secretary and other members of this administration have tried to do and I think I have to resort here to a little bit of academic jargon. Why do speeches matter? They do matter because what they can do is provide a vision of where countries want to go and a focal point for organizing activity for individuals in other countries. It's difficult to imagine that the color revolutions would have taken place without the stance that the United States has taken with regard to democracy and this is not necessarily because everybody in the Ukraine or in other countries is listening, although many are listening, to every word that American political leaders enunciate, but it is because these leaders have provided a vision around which activity within these countries can cohere. And I would also say the community of democracy is something that was initiated by the Clinton Administration is something else that offers a vision for the future; a way in which you can organize international political life which emphasizes the importance of democracy and good governance as a central

characteristic of being a participant in the international system; something that is not the case for sovereignty.

One characteristic of sovereignty, at least in terms of the way in which it worked with international organizations, is that anyone can become a member. It doesn't really matter what the character of your domestic governing structure is or for that matter whether you're able to govern very effectively at all. So one neat thing about the community of democracies is that it does provide a vision of democracy as a condition for being a full participant in the international environment. Finally, in terms of the instruments of transformational diplomacy, the United States can provide or other – not just the government but the United States as a society more widely and this is something CGD has emphasized, can provide resources. I do think investment and trade are the most important of these resources.

Private contributions are also significant but foreign assistance can be an important resource, a significant resource that the United States and other can provide. If we look at foreign assistance over the course of its whole history, which is – post-World War II history, foreign assistance – the concept of foreign assistance did not exist before the end of the Second World War. If we look at foreign assistance as a concept, I think it's really gone through three stages. In the Cold War, we provided assistance, we wanted development, but frankly, we were happy if we could buy friends. We wanted support. That was the character of the Cold War and a kind of bipolar conflict between the United States and the Soviet Union. In the 1990s, we know that despite what we said, the level of foreign assistance from the United States just crumbled and it crumbled, I think, because it wasn't associated with essential goals of the United States. We thought yeah, it would be nice if good things happened and the Clinton Administration made an effort to maintain foreign assistance by essentially putting foreign assistance programs in a number of agencies that were basically domestic agencies, I think, to enhance domestic support. It was the wrong thing to do but it did reflect the fact that foreign assistance was not a very high priority during the 1990s. This was, I think, transformed by the events of 9/11 in terms of the way in which this government thinks about foreign assistance. We don't just need people now in the world who are going to vote with us at the U.N. We need responsible sovereigns; we need countries that can partner with us and this is a basic structural characteristic of the contemporary international environment.

I'm going to read something that the Secretary said in her speech yesterday about foreign assistance. "Foreign assistance is an essential component of our transformational diplomacy. In today's world, America's security is linked to the capacity of foreign states to govern justly. Our foreign assistance must help people get results. The resources we commit must empower developing countries to strengthen security, to consolidate democracy, to increase trade and investment, to improve the lives of their people. America's foreign assistance must promote responsible sovereignty not permanent dependency." The Administration, I think, has made an exceptionally strong commitment; actually, a dramatically strong commitment to foreign assistance. We've doubled foreign assistance since the President came into office. We initiated the MCC and PEPFAR. We've made a commitment to tripling foreign assistance in Africa. Those are very major, very major changes.

All right. The question is why now foreign assistance reform? And here's again what the secretary said, um, in her speech yesterday. "The authority to allocate foreign assistance is too fragmented among multiple State Department bureaus and offices and between State and USAID. This makes it more difficult to plan coherently and it can lead to conflicting and redundant efforts. Multiple lines of authority make accountability more elusive and impede our efforts to integrate our foreign assistance with our broader foreign policy objectives. Let me be clear," the Secretary said, "the current structure of America's foreign assistance risks incoherent policies and ineffective programs and perhaps even wasted resources. We can do better and we must do better. We must align our activities more fully across the State Department and USAID and within the State Department itself. Increasing this alignment will enable us to be better stewards of the public's resources." So basically if I can underline three things, what the Secretary emphasized was stewardship; if we're going to get and maintain or even increase our level of foreign assistance resources in the present environment, we have to be able to demonstrate that we are capable and careful stewards of the taxpayers' dollars. Otherwise, we're not going to get the resources. That's one. Secondly, we have to be able to demonstrate that we're being effective; that we're actually delivering success and supporting development and democracy and better governance in the developing world, in the recipients of foreign assistance and, thirdly, we do need better alignment both between the State Department and AID but also within the State Department itself. So the Secretary wants to establish with this change the possibilities of using our existing resources more effectively, more responsibly.

Let me go over – I know you have the fact sheet. Let me go over quickly what the specifics of these reforms are. We will create a new position. The new position will be dual-headed. The Administrator of AID will also become the Director of Foreign Assistance at the State Department. As the Administrator of AID, and this has always been true, he will be nominated by the President and confirmed by the Senate and he will have, as has always been the case, a rank equivalent to Deputy Secretary. This new person, and the Secretary announced that the President intends to nominate Randy Tobias, will have authority over all accounts within State and USAID. It's about \$19 billion. The authority over these accounts which the Secretary has delegated to bureaus and various departments in State and AID will be concentrated to the extent and centralized to the extent possible under law and it's not possible to do this with all accounts in her office and the assumption is that this new person, the dual-headed Administrator and Director, will have de facto authority over all of these accounts. The new office will consolidate in one place, and I know that this is Ambassador Tobias' vision, strategy, planning, budgeting and implementation which is something that we have not had. So these four critical functions will be in one place in State and USAID. Ambassador Tobias has emphasized his intention to develop five-year country-specific plans and one-year country-specific operational plans so that we will have a coherent at least medium term vision for where we're going.

I had a discussion with someone last night who said, "We really need 20-year plans, not 5-year plans," and I don't disagree for a second but I have to say – let me just say this. As an academic working in government, 5-year plans is way as far out there as you can get in the government so if we get to 5-year plans, pat us on the back for that. You say 20 years, their eyes will glaze over in the bureaucracy. Ambassador Tobias also intends with this new position to provide guidance for foreign assistance that's delivered in other parts of the United States government and out expectation here is because State and AID account for most of U.S. foreign assistance. If we can

provide a coherent vision, we will be able to entice, entrance and coordinate effectively with the rest of the U.S. government. Even though this is an issue of coordination, the State Department and AID don't have authority, obviously, over all of the activities in the Department. And the Secretary also said yesterday, "In the coming weeks and months, I am eager to begin a dialog, too, with our Congress about how we can work together to improve America's foreign assistance even further." So she doesn't regard these changes as necessarily an end.

Let me say a few words about what I think the consequences will be for this – of this change. One, let me be clear, USAID will remain an independent agency. The legal status of USAID will not change. There's no new legislation here. The Secretary never for a moment in the many discussions which I've had with her over the last several months, never considered merging AID into the State Department and it would have been nice if the guy who wrote the Financial Times story had actually called me and asked me about that but there is. I know this is the way things work in Washington, too. And I think it's pretty clear that this change will also made AID a major player, even more significant player, in the U.S. government. These changes will make it possible for us in the Administration, when we're discussing foreign assistance with the Hill and with other actors, to guarantee that we can say we are being good stewards; we are being effective; we are well aligned.

Our commitment to humanitarian assistance will not change. The Secretary said at her meeting at AID yesterday we'll never use food as a weapon and we have a very strong record of commitment to humanitarian assistance and this change does mean a commitment to long-term development and I want to say why. The Secretary said yesterday at AID and this is a quote. "Development is one of America's most important priorities. Transformational diplomacy is long-term, not short-term, and it has to be long-term." We're going to have long-term country plans, as I said and operational plans over a year. The nature of our national security as well as our ideals requires a commitment to long-term development. When we're saying we want effective partners, it's not just buying a vote in the U.N. Security Council next month. It's about making these countries responsible sovereigns. It's about making them effective, capable democracies. And, finally, so you know – I think one think in terms of this not being just words, the Administration does have an excellent record in this regard and I would point especially to the MCC.

It is extraordinary, extraordinary, that the United States initiated a major foreign assistance program in which the Administration said we will tie our own hands in terms of selecting countries that will participate in this program. We're going to use quantified indicators. They're not going to be our indicators. They'll be third-party indicators, the World Bank, Freedom House, Heritage. We're going to post these on the web so you can see what the ranking is. So that to an extent I think which is unprecedented, we have demonstrated in this Administration that we are willing to make commitments to long-term development. So I think these changes that the Secretary has announced with regard to foreign assistance, how the State Department is operated, provide, um, some real flesh for our notions of transformational diplomacy. I look forward to what your reactions are to this and we, obviously, look forward to working with you on all these initiatives in the future. Thanks.

**Nancy Birdsall:** Well, thank you very much, Steve. I think you really did a fantastic job laying out a vision and I don't like to be bragging about the Center's products but much of what you said about responsible sovereigns and that fundamental point at the end, the nature of our national security, has to do with the way we might put it helping weak states become responsible sovereigns so they can, among other things, meet the needs of their people. That was very much the vision that we set out in our report on weak states and U.S. national security. It's called *On the Brink*. So in addition to encouraging you to look to our blog and put comments on our blog about this session and about these changes and about what we heard today, let me also invite you to go back and see if you can find *On the Brink* on our website. It's not exactly the same and maybe later we'll come to some of the slight differences in what we more ambitiously propose there.

Let me turn now and ask Doug Menarchik if he would like to say a few words before we go to our participants for questions.

**Doug Menarchik:** Well, first off, Dr. Krasner and I have been working for almost a year now very closely together. This is team USAID, team State Department, putting this – putting this together. I have been in the saddle now at USAID for almost one year, almost the same amount of time as with Dr. Krasner. I was hired in to create a tougher and a stronger USAID. That required a tougher and stronger PPC, the Policy Planning Coordination office. We looked out at the world and saw development broken into many little dealings, many little pulverized pieces spread around Washington, almost 18 pieces of the State Department, two to three dozen pieces of development scattered throughout the various agencies. It was pulverized; it did not have a coherent voice. That is not a stronger nor is that a tougher USAID. How do we make this stuff work together better? Andrew Natsios under his leadership had come up with a whole series of intellectual pieces; the white paper, the fragile State strategy, the democracy strategy which provided a framework to make a lot of this – make a lot of this work but the organizational piece is what really had to happen and the work that you have just heard about today that the Secretary announced yesterday is the culmination of this year of taking a lot of this intellectual spade work, putting the organization together now to make development tougher and stronger for the United States. In 2002, President Bush came up with a national security strategy that talked about the three Ds, defense, diplomacy and development. We have now made, with this foreign assistance reform, in my view from the USAID perspective, development on a par with diplomacy and with defense. It will be able to stand on its own and be able to support national security for the United States. The organizational pieces that we had to make work is team USAID State Department. This has now been fixed. The USAID in the past has deserted the field in the inner agency. That time is now over. We're going to be out in the inner agency. We'll be talking about development, how it supports diplomacy and development. And a third piece which we have been very active in this past year is improving USAID Department of Defense relationships. I am now the head of a military policy board. We have created an office of military affairs. We are now in the process of establishing liaison officers with the combatant commands and with the Pentagon so we can be a full team member of defense, diplomacy and development. We believe that these reforms that Dr. Krasner has talked about today are going to greatly forward development in that sense. So looking forward to your discussion.

**Nancy Birdsall:** Okay, thank you very much. I think, I would say the vision is absolutely clear. My guess is that many of our participants have questions about how and whether the implementation will be affected – effected in a way that is conducive to development and to the challenge that global poverty presents. I think also people – I would ask that those of you who are participating would think through and if you like, make comments about how the development community can be, over the next several years, helpful because implementing this in the way that is consistent with the vision may not be politically – politically bureaucratically that easy. It's a real challenge that the Administration has set out for itself. So please, if you have a question, let us know. Come to the mike, identify yourself. We'll start with John Sewell. Welcome, John.

**John Sewell:** Nancy, thanks for holding this session. I'm John Sewell from the Wilson Center. Steve, I think that was a very, very good presentation and I do think that the various proposals are a huge step forward but they're only a partial step forward and I'd be curious as a good political scientist and a person who has resided in the White House why you didn't have a coordination arrangement in the White House to enable you to bring in importantly, if you talk about trade and investment, the multi-lateral development banks and the trade representative. This is quite possible if Mr. Tobias really is a Deputy Secretary of State rather than having the rank of, which as you said, every AID administrator has had since God knows when with very little effect. The real issue that you're tackling, which is very difficult, is how do you effect both political and economic transformation simultaneously in countries of which you're of interest and as you know better than I do, there's a long liturgy that says that's a very rocky process of which foreign assistance is only a small part of how you have impact on this. It involves high policy. Are you going to walk away from countries that aren't democratizing or reforming economically such as Egypt and – or are you just going to continue to keep them on the dole for a long period of time?

**Nancy Birdsall:** Don't – don't look down again, John.

**John Sewell:** That's all right.

**Nancy Birdsall:** Because we have – we can't see the line behind you.

**John Sewell:** I'm thinking of the times that you have – you have cut me off so. I'm getting my revenge. Because you can do it out of the White House and you should think hard about that. It's also true of the domestic agencies. The Clinton emphasis was not so much to engage domestic support. It was to tap the expertise in health and education that's available throughout the U.S. government in domestic agencies. The second issue is you have a very unilateral context to this where, as Nancy will tell you better than I, the question of participation and ownership and countries own buy into what you think they should do is very, very important and it's true you have the MCA but it's only a small part of the resources available. So how do you see transferring ownership to the countries in which you're interested?

**Nancy Birdsall:** Thank you very much, John. I think what we'll do is take two or three questions and let me go back to Steve Radelet. I know he was one of the first and then we'll go

to you, sir and then we'll give a moment for responding if those of you who are standing can stand it.

**Steve Radelet:** Thanks, Nancy. I'm Steve Radelet, Senior Fellow here at the Center for Global Development. Steve, you've made a strong case for the need for reform on the foreign aid programs that AID has distributed all around the place and not particularly effective but, you made a much less convincing case that this particular set of reforms is the best way forward. Two particular questions. One of the biggest problems that undermines the effectiveness of our AID programs is the legislation, the Foreign Assistance Act. And you said very strongly no change in legislation. Why duck that fight? That's the most important fight. The Administration has had several chances over the last couple of years and has made the decision to not go after the legislation. Is that because you really think this is the best solution or is that the better fight is one that you couldn't win? Second question, I think the big concern here is about whether bringing more of the foreign aid programs under the State Department, I think it makes a lot of sense to bring things under one roof. Whether the State Department is the right roof, I think, is a different question and I think there's concerns as to whether this could further politicize the allocations of aid. It's transformational diplomacy is great and moving towards governance and democracy is great but that's not all that we do and sometimes short-term political expediency gets in the way of really guaranteeing results. We provide a lot of aid to Pakistan right now for reasons that don't have much to do with democracy or transformation. They have to do with our strategic goals next door. Much like how we provided aid to the Marcos regime in the 80s. And I wonder – we've see it all, anyone who's worked in the U.S. government, that the long-term goals of trying to make aid more effective are sometimes undermined by the very short-term expediency that we have to be friendly to a government for – for political – for strategic purposes. So the question is –

**Nancy Birdsall:** I have to be fair and cut you off.

**Steve Radelet:** What steps are you going to take to try to reduce that politicization? Thank you.

**Nancy Birdsall:** Thank you, Steve.

**Michael Lund:** Hi. Michael Lund, Management Systems International. It's great, I think, too, that the Policy Planning staff is finally doing policy planning. It's been refreshing to see that emerge, to try to bring about this fragmentation or reduce fragmentation around the notion of building... helping to building failed states and so on. But in a way, you could say that this is sort of IR theory discovering comparative politics. In the sense that ever since Rwanda, USAID and other development agencies have actually been moving incrementally but rather significantly into more full scale nation-building, for some years, ever since, you know, the Rwanda genocide and so on. So, it's not – it's useful at the level – to get this up at the level of high policy and to start talking about how to actually carry it out in terms of inter-agency coordination and so on but a lot of questions have not really been answered that are of a more analytical sort in this whole discourse ever since the mid-90s. And that basically is how do you actually – we don't have a theory of transformation. We don't have a theory of intervention. And how does the import that the theory that does exist out there. People like – for example, in the Op-Ed page this

morning, David Ignatius talks about a very interesting process which is in fact coming up with apparently a fairly nuanced policy toward Iran, informed in part by Jack Olstone's expertise on revolution. You could cite, you know, Jack Snyder; you could cite Francis Fukuyama; there's all kinds of theory out there including work you've done that is simply not being applied at the – at the planning level and it's one thing to say we will have five-year plans and we will have a one-year operational plan at each country level, which is a very good idea in terms of a mechanism, but where is the content that guide the decisions? What are the decision rules, the rules of engagement which actually inform the plan, the strategy? And won't that, if there isn't some input, won't that devolve into simply sectoral squabbling among different, you know, the democracy builders, the trade and investment promoters, and so on? And how is that going to actually be organized and – and the great deal of evidence and analysis actually brought to bear on practical decisions?

**Nancy Birdsall:** For the next round of questions after Steve, I'm going to start doing this when – to discourage long questions. Steve.

**Stephen Krasner:** I want to ask, let's have Joel, one of my old colleagues, actually answer the last question because he has worked at the intersection of comparative and international.

**Michael Lund:** Well, he might begin by reading Dahl's Democracy and his critics but that was not my question.

**Nancy Birdsall:** Do you want him to answer or do you want to answer?

**Stephen Krasner:** I think he should grab the floor now.

**Nancy Birdsall:** Go ahead and grab the floor. Introduce yourself, Joel.

**Joel Barkan:** Joel Barkan, National Endowment for Democracy, and formerly, because this is behind my question, USAID Regional Democracy and Governance Advisor for Eastern and Southern Africa, actually the first in that post. I want to shift to operations. I'm sold on the vision. I don't think that's really the problem. It's really the nitty gritty on getting from here to there and three questions in that regard. The first really related to Steve Radelet's question on the Foreign Assistance Act. What is going to be done about that gorilla and more particularly the whole issue of earmarks which hobbles AID? Secondly, a problem Andrew Natsios rather passionately discussed in his outgoing presentation last week, the fact that as you noted, foreign assistance did crumble in the 1990s and not only in terms of money but particularly in specialized staff. The agency is weak in terms of what used to be in-house expertise not only in health and education, agriculture, the traditional areas, but although it has a democracy in governance center, practitioners in this area leave much to be desired. And, finally, what about coordination with other donors in this area? As I've shifted to work in the World Bank in the last few years, one senses when one is out in the field that one part of the donor community is going one way and we're out there on the other. How do you get this in sync on the ground?

**Nancy Birdsall:** Well, that's a lot of questions, Steve. Go for it. You don't have to answer them all.

**Stephen Krasner:** That's something I've learned in Washington. Let me try a few of those. I mean the issue of legislation. You know as the Secretary said, we do look forward to working with Congress. I think it's very important that we be able to demonstrate to the Hill – it's not our – we're not – it's the taxpayers' money and the Congress has to appropriate the money. It's very important that we be able to demonstrate that we're doing everything that we can do within the existing legislative structure.

And while, I don't know, maybe everybody in this room thinks that the Foreign Assistance Act is a 600-pound gorilla, that's not something that's universally shared. So it's our obligation to demonstrate that we've done all that we can do within the existing structure. I think before we go to Congress and try to do more. This issue of coordination, both within the U.S. government and, um, with other donors, we do have coordination mechanisms now. We do have a development PCC. It does act as a coordinating mechanism which is not to elude ourselves and it's been – it is an instrument that we can use effectively but if it's going to be used effectively, I think it's critical as a starting point that we at State and AID are clear about what our position is and given that we do account for 70 or 80 percent of U.S. foreign assistance, if we can do that, as I said, I think there's really a good chance that we will be able to get more effective coordination across the U.S. government. I know, as Nancy and I – we had dinner last night and this issue of donor coordination came up and who could be opposed to donor coordination? All right. So one answer is I mean if we are clear about what we're doing, I think it will be easier to get effective donor coordination. I simply would say though I would not underestimate the difficulties of doing this given differences in values, practices and objectives across the donor community and the kinds of interests that they have. So it's not as if this can be fixed, you know, by the bank or the United States or anybody else simply paying more attention to it.

You know, finally, on this question of, you know, not having a theory, yeah, it's true. This is a very hard problem and we don't have a clear theory about how to go about it. Do we need organic change in which we have to do everything at once? Can we identify certain key sectors? Can we isolate some sectors? Something actually when I was at Stanford, I was heading up a center called the Center of Democracy, Development and Rule of Law, where we actually tried to at least have an integrated format for looking at these – at all of these issues and what we can say here is that it is challenging and there is no good theory out there. I do think, though, what we can say is that we have – if you do think about what the instruments that we have available in terms of incentives, in terms of creating a vision and in terms of providing of resources, at least it provides some guidance for the way in which we might approach it. So the one thing I would say – I don't want to say that this is U.S. government policy – I think incentives are far more important than anything else, far more important. If we can set up things so that we really can create an incentive structure for entering into the international trading system; if we can set up foreign assistance programs like the MCC which provide incentives, I think that is probably – and to the extent that we have empirical evidence about this – the best way to go which isn't, though, to say that we don't also need the vision and the provision of resources.

**Nancy Birdsall:** Doug, do you want to add? I think your mike might work. I think I'm the only one that has to –

**Doug Menarchik:** We're in the process right now. Our – we have gotten by in USAID as an agency on our white paper. We look at the world and have a framework on how we see development out there with five categories, transformational development, states, fragile states, strategic states, global issues and humanitarian assistance. We are dividing our budget up according to those – according to those categories. We have a category of metrics which determine need and it gives us certain face of how development would look by country and by functional issue. We will also have a lineup of foreign policy goals and priorities and a third category of security priorities. By bringing these elements together of need, foreign policy, security policy priorities, I would argue you do have a pretty good rack and stack of what is important to the United States in terms of security, foreign policy and development. There can be a political intervention on that but it does give you a very clear look at the world from a development perspective on how to spend you money wisely. If we put this picture out there, I'd argue it's going to be a – a reasonable Shirley Temple look at the world; a beautiful baby of development that's reasonable and then you can compare it to a system, a world that has a very fragmented, pulverized, earmarked, directed development picture and you may have a Frankenstein baby that's quite a bit different from the Shirley Temple. I would argue over time we can use reason and showing effectiveness on the ground that our rationale experts from the development community who spend money in a certain way will be able to convince others that this is the right picture and this is the wrong picture. It would be reason over time that would bring the Frankenstein to the Shirley Temple development model that we have; this one. It is going to take some time but it's there and it's being worked right now.

**Nancy Birdsall:** We have time for just three more questions. I apologize to those of you who aren't among the first three. If you are in line and you ask a one-sentence question, we might get in four.

**Mack Destler:** Mack Destler, University of Maryland and IIE. Steve, this has been emphasized before but let me spin it slightly differently. The long-term emphasis is admirable, overdue perhaps. The – but people might say that if you looked at USAID, whatever its faults, it's had a more of a longer term emphasis than the State Department. So the question then becomes how are you going to reform the incentive structure of the State Department to make its officers support a longer term focus and I know that the Secretary has said things about re-deploying \*\*\*\*\* which could help but it could also just mean you get better reporting from more places but not really operational long-term engagement.

**Nancy Birdsall:** Right. It's about State Department culture. Let's go to the back.

**Charlie Flickner:** I'm Charlie Flickner of CSIS, formerly a bean counter on the Hill for many years. First, I'd like to congratulate Steve and the Secretary for not biting off more than they can chew at this time. I think your vision is good. There is a clarification I think everyone in the room would like, though, about the authority of Ambassador Tobias over agencies outside of the State AID purview. Yesterday, the Secretary referred to the overall leadership of foreign assistance, the words "overall leadership." When Tobias sent a farewell message to his staff after the ceremony, he referred to the fact that he's going to be responsible for providing strategic direction, coordination and guidance. That's more than overall leadership.

**Nancy Birdsall:** May I cut you off, Charlie? Thank you.

**Charlie Flickner:** Of course. That's all I was going to say.

**Nancy Birdsall:** Good. Go ahead, please.

**Farrah Stockton:** I'm Farrah Stockton with the Boston Globe and I just wanted to ask a quick big picture question that I'm not allowed to ask over at the State Department. When – when Secretary Rice makes this case for all these changes; when she makes them in speeches to the world, she talks about them in terms of terrorism. She sees democracy as the antidote, the long-term antidote for terrorism and – and I just wanted to hear a few words about why she's so sure that's true given the popularity of – of the Muslim brotherhood or Hamas and also given the popularity of – or the recent incidents of suicide bombers who were born and raised in Europe. I mean it seems like the whole premise is on, you know, terrorism.

**Nancy Birdsall:** If I cut you off, I get to have one sentence from the last two people back there.

**Farrah Stockton:** Sure.

**Nancy Birdsall:** I think – thank you. The question is quite clear and I don't want to cut off David Beckmann who runs a very important NGO. So, David, one question, one sentence.

**Larry Hart:** I'll be brief. I can't do one sentence, but I can be brief.

**Larry Hart:** I'm Larry Hart with the New America Foundation and I just – first of all, I'm delighted that – that there's a recognition that the systems need fixing. My experience is limited to Afghanistan and I will ask a brief question. With regard to the implementation of reconstruction efforts, for example, in Afghanistan, the – what I learned to my surprise was that the AID over the years has found that they are not – feel they're not capable of running projects so they turn it over to multi-national companies, the result of which was outlined in the Washington Post November in which we have failed miserably in our reconstruction projects in Afghanistan resulting in deterioration of our situation there and I'm just wondering if you feel that – and I think also that the people in Washington have very limited ability to know what's going on the ground –

**Nancy Birdsall:** Please go –

**Larry Hart:** So I just want to ask will this reorganization help the people in Washington know more of what's really happening on the ground in these countries?

**Nancy Birdsall:** Thank you very much, David.

**David Beckmann:** One sentence. I just want to congratulate you on a reform that should indeed help our government be more effective in reducing poverty around the world.

**Nancy Birdsall:** Thank you, David. Steve.

**Stephen Krasner:** Let me try and respond quickly to Mac's question on State thinking long-term. This is something that's already happened and I do think it's in the nature of the way the State Department is operating. A lot of the challenges that State Department officers, not just AID officers, confront now are challenges that have to do with transformational diplomacy. This would be true for anyone that worked in the former Soviet Union over the course of the last 15 years. So I think the incentive structure is actually there in the State Department now. And you will see these changes taking place and these changes have taken place in terms of who's rewarded within the State Department and what – what is necessary to be the most effective kind of State Department official. I think if you look at the people that are career foreign service officers now in positions as assistant secretaries, Dan Fried, Tom Shannon, these are all people, Chris Hill, that have extensive experience exactly in what we would call transformational diplomacy so I think the incentive structures in the State Department are already there.

Charlie, I mean the answer is – I mean the – as the fact sheet says Ambassador Tobias can provide guidance. This is not a claim by the State Department to have authority which the State Department does not legally have. We hope if we have a coherent structure within State and AID, we will be able to provide more effective guidance for the rest of the inter-agency process.

**Nancy Birdsall:** The power of clear thinking.

**Stephen Krasner:** Thank you. I mean can we know more in Washington? If we do this, I think the answer is yes. I mean if we do have coherent country plans, we will be able to measure them more effectively. We will be able to get information back from Washington in a more compelling way.

All right. This question of the relationship between terrorism and democracy. This is more than a two-sentence answer but here is, I think, the two sentence answer, although this is not an answer in which one could say we have absolutely clear empirical evidence for X; this is why things are happening. As I said, I do think the threat to security is a function of several things. One is its millenarian ideology. Take that out of the picture. There are a lot of badly functioning and repressive countries in the world, you know, which are not threats to American national security because there is no ideology to mobilize them. Take weapons of mass destruction out of the picture, we wouldn't be worried about this in the same way. Transnational terrorism is not a new phenomena. About half a dozen political leaders were actually killed in Europe and in the United States at about the turn of the 20<sup>th</sup> Century by – mainly by international anarchists. I mean – and it wasn't that you couldn't, you know, you could throw bombs; you could throw dynamite into theatres and kill 20 people. I mean the problem now is that we're in a situation in which you could kill thousands, tens of thousands or even millions of people. And that's a capacity which transnational terrorists have not had. If you're thinking about the relationship between democracy and terrorism, I would – I can also – I can only say give yourself a thought experiment. Imagine that across the Islamic world, we had well functioning democratic states. Do we actually think under those circumstances that we would confront the situation that we confront now? I think it's very, very doubtful. So I think these three things – and it's also true even thinking of Muslims who have grown up in Britain but still have a very strong identity with

the country of their national heritage. I do think if we could move towards this world and accomplish this world of well-governed democratic states, even though the kind of weapons of mass destruction won't disappear – I mean especially biological and chemical weapons – but the appeal of this ideology would be dramatically if not completely reduced.

**Nancy Birdsall:** Steve and Doug, thank you very much. If I could speak for what I think is, at least in part if not largely the development community here, my sense is that we wish you could be more bold but we understand the immediate constraints and we look to ways we can support ensuring that the steps you are taking and that the Secretary is pushing are on the path eventually to truly a more coherent approach, not only to defense and diplomacy but to development in its deepest sense. Thank you very much for your frankness, your clarity, your wisdom. Thank you to, also, it is good to see this alliance that is symbolized by our two speakers here today and thank you to all of you. I'm sure this conversation needs to continue and we look to all of you to help us continue it. Thank you, Steve.