COMMENT

The world needs new rules of war for its cyber age

Zbigniew Brzezinski

The two centuries since the Congress of Vienna have seen the gradual codification by the international community of the "rules of the game" for guiding interstate relations, even between unfriendly countries. Their basic premise has been the formula "don't do to me what you don't want me to do to you". However, technological advances mean that today those rules are being dangerously undermined. The international system is at risk.

After the age of Metternich, Talleyrand and Castlereagh, elaborate understandings developed about the transition from formal peace to war. These involved carefully scripted exchanges of diplomats, rules about the treatment of prisoners of war and eventually even a shared definition of war crimes. Implicit in all this was the notion that while war and peace are fundamentally different conditions, both still need rules of conduct.

In more recent times, the use of nuclear weapons has made the distinction between the two more dramatic. The destructiveness of these weapons was without precedent but paradoxically that encouraged more cautious behaviour on the part of the states that possessed them. The existence of such weapons also created a new global hierarchy with a few nuclear states at the top and the rest below.

Today, the interstate rules of the game are degrading. Highly sophisticated capabilities for inflicting violence on remote targets, as well as cross-border state-sponsored terrorism, are undermining the clear demarcation of what is permissible and what is not. Scientific advances have also increased the potential scope of acts whose perpetrators may not be easily identified and which may not be intercepted in a timely fashion.

Indeed, the world community is witnessing an increasing reliance by states on covert acts of violence without declarations of war. Leaders can now use long-distance air drones for lethal strikes across national borders against targeted individuals, occasionally killing civilians, too.

The sophisticated dissemination of computer viruses can disrupt the military industrial assets of rivals. States can commission unacknowledged assassinations of foreign leaders and of scientists engaged in weapons development. They may back hacking of foreign institutions for intelligence purposes as well as of private business entities to gain commercial advantages.

Some states are also experimenting with more comprehensive cyber warfare designed to disrupt the operational infrastructure of targeted states, as in the case of the assault on Estonia and its banking institutions in 2007. A rogue but technologically sophisticated state can now gain the capacity to launch a non-lethal but paralysing cyber attack on the socioeconomic system and the most important state institutions of a target country.

Scientific advances have increased the scope of acts of war whose perpetrators may not be easily identified

The dangers inherent in the degradation of the already vulnerable international system cannot be overstated. Social chaos, with paralysing fear magnified by uncertainty as to its origins, could spread. Making matters potentially even worse, such degradation is not the product of one or another particularly menacing state. Rather, it is the consequence of the rising vulnerability of the global system to cumulative pressures: technological innovation, massive and increasingly impatient populist upheavals and a shift in the distribution of geopolitical power.

In that volatile context, competing states tends to be subjective in judgments of their own conduct. There are lessons to be learnt from the onset of the nuclear weapons age. After the end of the second world war in 1945, the US wisely abstained from a pre-emptive attack that would have exploited its atomic monopoly but would probably have had monstrous consequences. But self-restraint ushered in a Soviet effort to gain first nuclear equality then superiority. America's admirably consistent determination to prevent the latter, as well as probably also the rise of a nuclear-armed but increasingly anti-Soviet China, compelled the Soviet Union to settle eventually for verifiable nuclear weapons parity.

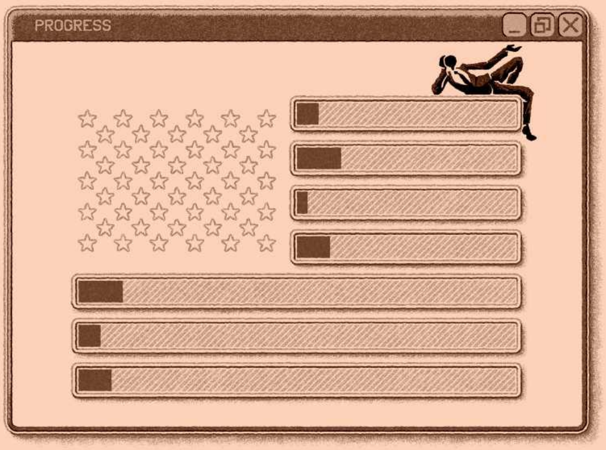
An open discussion of today's novel risks to global stability might still help to avert unprecedented disasters. Responsible governments with a stake in global stability and technological capacity need to convene a process designed to set rules that inhibit the drift towards covert acts of aggression. As the world's foremost innovator, the US should take the lead.

But to make that process productive, the US itself – while resisting the temptation to do to others what America condemns others for doing – must make certain that its vulnerabilities are not easily exploited by adversaries that are difficult to identify. It is perplexing that the US, which apparently is able to use computers to inject undetectable viruses into sensitive foreign targets, seems so vulnerable and so uninformed regarding foreign hacking into its assets.

Calm and determined deterrence – including intensified efforts credibly to identify perpetrators as well as readiness in effect to retaliate in kind – must be the point of departure for new and genuinely reciprocal rules of the game. The need for such rules is becoming urgent.

The writer was national security adviser to US president Jimmy Carter and is the author of 'Strategic Vision: America and the Crisis of Global Power'

The corporate tie that binds America to a slow internet



Matt Kenyon

Edward Luce

If Dwight Eisenhower had General Motors and George W. Bush had Halliburton, Barack Obama arguably has Comcast. US presidents are often linked to one or two corporations that donate a lot of money to them and then benefit from their actions. Comcast, which is America's largest cable television and internet provider and is a near monopoly in most of its largest cities, is no exception.

The company's meteoric rise in the past decade parallels the relative decline of internet service in the US. In the late 1990s the US had the fastest speeds and widest penetration of almost anywhere – unsurprisingly given that it invented the platform. Today the US comes 16th, according to the OECD, with an average of 27 megabits per second, compared with up to quadruple that in countries such as Japan and the Netherlands.

The contrast on price is just as unflattering. The average US cost for 1 Mbps is $1.10 compared with $0.42 in the UK, $0.34 in France and $0.21 in South Korea. It is not only places such as Hong Kong that put the US into the shade. Countries such as Estonia, Portugal and Hungary offer a significantly better internet service. South Koreans joke that when they visit the US they are taking an internet vacation. Yet bringing the US up to speed appears to be low on Mr Obama's list of priorities (it did not even get a mention in his State of the Union address last month).

The story of Comcast's ascent helps explain why. So too does its relationships with politicians across the spectrum. In the coming weeks Mr Obama will nominate the next head of the Federal Communications Commission to replace Julius Genachowski, his former Harvard Law School colleague. Comcast, which employs many former FCC staff, including Meredith Atwell Baker, one of the four commissioners who voted to approve its contentious 2009 merger with NBCUniversal, has a keen interest in whom that will be.

The FCC has been a good friend to Comcast and Time Warner Cable, the two largest cable providers that dominate US broadband. In contrast to the spread of electricity and telephones, where the US was far ahead of the rest of the world, Washington has abjured the same regulatory promotion for the internet. Through brilliantly effective lobbying, US cable companies have escaped the universal access and affordability clauses that were imposed on telecoms and electricity companies in earlier eras.

Countries such as Japan and France have embraced competition to push the rapid adoption of high-speed internet. The US is happy to tolerate duopoly (Comcast is one of two fixed-wire internet providers in 22 of America's largest 25 cities). As a result, only 7 per cent of American homes are served by fibreoptic wire compared with more than half in South Korea and Japan. It is the difference between a steam train and a bullet train. Yet there is little outcry in Washington.

There are few busier revolving doors than the one between Comcast and Capitol Hill. Of Comcast's 121 lobbyists, 85 are former government employees, according to Open Secrets, which monitors money and politics. "Comcast employs the royalty of K Street [lobbyists]," says Sheila Krumholz, head of Open Secrets. In 2011, the year the FCC approved Comcast's merger with NBCU, the company spend more than $14m on lobbying – the ninth-highest of any US company (it ranks 49th on the Fortune 100 list).

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Comcast's most influential employee is David Cohen, its senior vice-president, and one of Mr Obama's largest fundraisers. Mr Cohen raised several million dollars for him in 2012 (the campaign only disclosed who took in more than $500,000 rather than the exact amount). Comcast is also bipartisan. It gave a lot of money to Mitt Romney's campaign. One of its biggest supporters is Michael Powell, the former Republican head of the FCC, who last month became president of the National Cable and Telecommunications Association, the industry's main Washington group.

But its relationship with Mr Obama is deeper. This month the FCC waived through Comcast's $16.7bn purchase of the 49 per cent of NBCUniversal it did not own. One of its assets is MSNBC, the liberal counterpart of Fox News, which often seems like a mouthpiece for the Obama administration. In the past two weeks MSNBC has hired David Axelrod, Mr Obama's former chief strategist, and Robert Gibbs, his former spokesman, as contributors. As Jay Leno, the night-time chat show host, recently joked: "The economy is so bad MSNBC had to lay off 300 Obama spokesmen." No one is alleging impropriety. But such intimacy tells a story.

Which brings us back to Mr Obama's FCC nominee. The choice includes Jason Furman and Mignon Clyburn and Jessica Rosenworcel, two current FCC commissioners. Among others, there is Susan Crawford, a former Obama adviser, whose recent book *Captive Power* blames America's poor internet performance on market concentration. For that reason, she is seen as the least likely hopeful. Then there are a number of industry favourites.

Whomever Mr Obama nominates will tell us a lot about the future of the internet in the US. Will Washington continue to tolerate America's internet mediocrity (which afflicts both businesses and consumers)? Or will Mr Obama belatedly decide it that merits the kind of zealous priority his 20th-century predecessors brought to the critical technologies of their day?

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COMMENT ON FT.COM

A government at the mercy of events
The most significant effects of the UK's downgrade are likely to be political, writes **Martin Wolf**

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Austerity is the obstacle to real economic reform

Wolfgang Münchau

In Europe, the word "reform" is as misleading as it is ubiquitous. You heard it during the Italian election campaign, when politicians – such as Mario Monti, the country's outgoing prime minister – were classified as pro-reform. Others, the rest of Italy's political class, have been deemed anti-reform. It is as though reform has become an issue of religious dogma. You are either in or you are out.

In or out of exactly what, one may ask? What, exactly, is reform? Growing up in Germany in the 1960s and 1970s, I recall Willy Brandt, West Germany's chancellor during some of those years, talking endlessly about reforms. For him, the word meant more workers' rights and an increase in welfare payments. This has always been the meaning I first think of when I hear it.

A decade later, in the UK under Margaret (now Baroness) Thatcher, reform became synonymous with privatisation and deregulation, and a reduction in the rights of trade unions. This is closer to the meaning that it holds for most people today.

There is certainly a clear, positive – though often overstated – case for structural changes such as the liberalisation of services, changes to labour markets to help younger workers and pension reforms to ensure long-term fiscal solvency. These reforms would probably increase the gross domestic product of several countries by a non-trivial but unknown amount.

A former editor of *The Economist* used to advise young reporters to "simplify, then exaggerate". This is exactly what happened to the debate on reform in Europe. You might want to add "distort" as a third element. The simplification consisted of the notion that there is a link between some vague idea of reform and economic success, as measured in GDP per capita. No such link exists.

The richest countries in the world include those with both liberal and regulated labour markets. Per capita GDP in the highly regulated French economy has been higher than in the deregulated UK. The relatively solid performance of a largely unreformed France does not obviate the need for reforms. But it shows that the relationship is much more subtle than the dogmatists acknowledge.

The exaggeration consists of overstating the actual impact of reforms when they take place. Has financial liberalisation really increased long-run economic growth, or may it merely have given us a housing bubble? Has German labour market reform really increased long-term productivity or were other factors at work?

Whenever you hear a European official praising the Italian government's reforms, they are really praising its austerity

This distortion has become even worse recently, as reform has been conflated with austerity. Whenever you hear a European official applauding Mr Monti's "reforms", what they are really praising is his fiscal consolidation. In other words, they applaud the many of his policies that reduced economic growth, and not the few that might have a chance to increase it one day.

Austerity and reform are the opposite of each other. If you are serious about structural reform, it will cost you upfront money. If you want to open your labour market to a hire-and-fire rule, you will need policies to deal with those who are laid off. These costs may outweigh the financial benefits of reforms in the short term but the reforms may still pay off in the long run. Structural reforms, properly done, are not suited to the task of delivering austerity.

By contrast, austerity – higher taxes and cuts in public sector investments – weaken the economy's capacity in the short run, and possibly also in the long run. If you have youth unemployment of more than 50 per cent for a sustained period, as is now the case in Greece, Italy and Spain, many of those people will never find good jobs in their lives. Economists speak of a so-called "hysteresis" effect – permanent economic damage that will not be repaired even if there is a full recovery. Austerity could well leave an economic and social scar across the eurozone.

Italy and Spain would have been a lot better off to come up with a list of front-loaded targeted structural reforms and backloaded fiscal consolidation. When you do it the other way round, cutting investment and raising taxes in a recession, you never get out of the hole, and you waste your political capital on austerity, leaving none for reforms.

By putting fiscal consolidation first, the political establishment also took a big gamble against what we know from history. A senior Italian official told me a while back that they had the situation under control. There would be a slight bump but the economy would take off afterwards. He was wrong. As last week's European Commission forecasts confirm, the southern European economies are behaving as was predicted by those who thought austerity would sap growth and using monetary policy to offset it would be ineffective.

I am not surprised that European electorates are rejecting these policies, and the politicians who delivered them. Tonight we will know how Italy has voted. My hunch is that it is not going to be a good evening for the "Austerians".

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The public interest demands an inquiry into Bumi

Jonathan Ford

Last week's shareholder showdown at Bumi may have been entertaining but it has left many questions unanswered about the Indonesian mining company's future.

One can understand why shareholders declined to back the candidates put up by the group's dissident founder, Nathaniel Rothschild. While the financier has proved an energetic corporate wrecking ball since leaving Bumi last year, he conspicuously failed to convince when he had a more constructive role to play.

But the result has left in place most of the existing board which, together with the Bakrie family and their allies, must take much of the blame for the stock's calamitous underperformance.

Their survival is not simply due to the predictable support of a sizeable claque of Asia-based allies. They were backed also by UK investors.

This reflects not affection but a cold-eyed calculation that the status quo offers the best hope for extracting some short-term value from Bumi, and recouping at least part of the near two-thirds decline the shares have suffered since their flotation in 2010.

The Bakries have promised to buy back Bumi's 25 per cent stake in PT Bumi – a company that controls many of the group's coalmines – in return for cash and a cancellation of their stake in Bumi. The idea is that this "amicable divorce" would lift the cloud over Bumi, freeing it to focus on raising production at Berau, its other coal subsidiary.

But the vote does little to sort out Bumi's dysfunctional governance, arguably the biggest cause of its underperformance.

To allow the board to cook up some discreet divorce would advertise the spinelessness of UK officialdom

Bumi remains tied to the Bakries when it is seeking to sell them the stake in PT Bumi without any apparent intention to solicit bids from third parties. This is hardly best practice when it comes to extracting value for such an asset and the expected price is well below what Bumi paid two years ago.

Crucially, the independent directors are also looking into allegations about financial irregularities – amounting to some $1bn, according to Mr Rothschild – most of them involving PT Bumi.

It is impossible to imagine that a real investigation could avoid mentioning the Bakries. After all, the original deal Mr Rothschild struck gave them the right to nominate the executive management of PT Bumi, and hence control it. An inquiry commissioned by Bumi from Macfarlanes, a London law firm, to look into the claims reported recently that it was unable to substantiate them because of the unwillingness of unnamed "key individuals" to provide information.

When Bumi was created in 2011, through the reversal of two mining groups into Vallar, Mr Rothschild's London-listed cash shell, the idea was that by grafting UK governance standards on to these businesses, the value "trapped" within could be "unlocked". It is a waste of ink to list the ways in which Bumi fell short of this goal. Even the cardinal principle the Bakries' voting control should be limited has been flouted, with the family recently revealed to have a shareholder pact it kept secret from the UK authorities.

While the minority shareholders are entitled to protect their position by extracting themselves from the Bakries' clutches, there are wider issues at stake. In recent years, foreign mining companies have listed in London, many of them relying on just the sort of "relationship agreement" between dominant shareholders and minorities that was supposed to govern affairs at Bumi.

The credibility of the authorities in enforcing these agreements, not to mention UK market rules, is now at stake. To allow the board and the Bakries to cook up some discreet divorce would simply advertise the spinelessness of officialdom. Such an attitude might in turn encourage others who wanted to put the screws on minority shareholders. Ultimately, valuations could be tainted by a governance discount, pushing up the cost of capital for all UK companies.

Surely no British company facing allegations of similar seriousness would escape a public investigation into whether it had breached the Companies Act.

There is a public interest in revealing what went on at Bumi and, if necessary, apportioning the culpability for it between the company's officers, major investors, executives and highly paid advisers. The moment to launch such an inquiry is now. It should be taken.

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