Oil, Geopolitics, & the Coming War with Iran

Michael T. Klare

As the United States gears up for an attack on Iran, one thing is certain: the Bush administration will never mention oil as a reason for going to war. As in the case of Iraq, weapons of mass destruction (WMD) will be cited as the principal justification for an American assault. “We will not tolerate the construction of a nuclear weapon [by Iran],” is the way President Bush put it in a much-quoted 2003 statement. But just as the failure to discover illicit weapons in Iraq undermined the administration’s use of WMD as the paramount reason for its invasion, so its claim that an attack on Iran would be justified because of its alleged nuclear potential should invite widespread skepticism. More important, any serious assessment of Iran’s strategic importance to the United States should focus on its role in the global energy equation.

Before proceeding further, let me state for the record that I do not claim oil is the sole driving force behind the Bush administration’s apparent determination to destroy Iranian military capabilities. No doubt there are many national security professionals in Washington who are truly worried about Iran’s nuclear program, just as there were many professionals who were genuinely worried about Iraqi weapons capabilities. I respect this. But no war is ever prompted by one factor alone, and it is evident from the public record that many considerations, including oil, played a role in the administration’s decision to invade Iraq. Likewise, it is reasonable to assume that many factors - again including oil - are playing a role in the decision-making now underway over a possible assault on Iran.

Iran sits athwart the Strait of Hormuz, through which, daily, 40% of the world’s oil exports pass. Gulf, it is in a position to threaten oil fields in Saudi Arabia, Kuwait, Iraq, and the United Arab Emirates, which together possess more than half of the world’s known oil reserves. Iran also sits athwart the Strait of Hormuz, the narrow waterway through which, daily, 40% of the world’s oil exports pass. In addition, Iran is becoming a major supplier of oil and natural gas to China, India, and Japan, thereby giving Tehran additional clout in world affairs. It is these geopolitical dimensions of energy, as much as Iran’s potential to export significant quantities of oil to the United States, that undoubtedly govern the administration’s strategic calculations.

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Having said this, let me proceed to an assessment of Iran's future energy potential. According to the most recent tally by Oil and Gas Journal, Iran houses the second-largest pool of untapped petroleum in the world, an estimated 125.8 billion barrels. Only Saudi Arabia, with an estimated 260 billion barrels, possesses more; Iraq, the third in line, has an estimated 115 billion barrels. With this much oil - about one-tenth of the world's estimated total supply - Iran is certain to play a key role in the global energy equation, no matter what else occurs.

It is not, however, just sheer quantity that matters in Iran's case; no less important is its future productive capacity. Although Saudi Arabia possesses larger reserves, it is now producing oil at close to its maximum sustainable rate (about 10 million barrels per day). It will probably be unable to raise its output significantly over the next 20 years while global demand, pushed by significantly higher consumption in the United States, China, and India, is expected to rise by 50%. Iran, on the other hand, has considerable growth potential: it is now producing about 4 million barrels per day, but is thought to be capable of boosting its output by another 3 million barrels or so. Few, if any, other countries possess this potential, so Iran's importance as a producer, already significant, is bound to grow in the years ahead.

And it is not just oil that Iran possesses in great abundance, but also natural gas. According to Oil and Gas Journal, Iran has an estimated 940 trillion cubic feet of gas, or approximately 16% of total world reserves. Only Russia, with 1,680 trillion cubic feet, has a larger supply. As it takes approximately 6,000 cubic feet of gas to equal the energy content of 1 barrel of oil, Iran's gas reserves represent the equivalent of about 155 billion barrels of oil. This, in turn, means that its combined hydrocarbon reserves are the equivalent of some 280 billion barrels of oil, just slightly behind Saudi Arabia's combined supply. At present, Iran is producing only a small share of its gas reserves, about 2.7 trillion cubic feet per year. This means that Iran is one of the few countries capable of supplying much larger amounts of natural gas in the future.

What all this means is that Iran will play a critical role in the world's future energy equation. This is especially true because the global demand for natural gas is growing faster than that for any other source of energy, including oil. While the world currently consumes more oil than gas, the supply of petroleum is expected to contract in the not-too-distant future as global production approaches its peak sustainable level - perhaps as soon as 2010 - and then begins a gradual but irreversible decline. The production of natural gas, on the other hand, is not likely to peak until several decades from now, and so is expected to take up much of the slack when oil supplies become less abundant. Natural gas is also considered a more attractive fuel than oil in many applications, especially because when consumed it releases less carbon dioxide (a major contributor to the greenhouse effect).

No doubt the major US energy companies would love to be working with Iran today in developing these vast oil and gas supplies. At present, however, they are prohibited from doing so by Executive Order (EO) 12959, signed by President Clinton in 1995 and renewed by President Bush in March 2004. The United States has also threatened to punish foreign firms that do business in Iran (under the Iran-Libya Sanctions Act of 1996), but this has not deterred many large companies from seeking access to Iran's reserves. China, which will need vast amounts of additional oil and gas to fuel its red-hot economy, is paying particular attention to Iran. According to the Department of Energy (DoE), Iran supplied 14% of China's oil imports in 2003, and is expected to provide an even larger share in the future. China is also expected to rely on Iran for a large share of its liquid natural gas (LNG) imports. In October 2004, Iran signed a $100 billion, 25-year contract with Sinopec, a major Chinese energy firm, for joint development of one of its major gas fields and the subsequent delivery of LNG to China. If this deal is fully consummated, it will constitute one of China's biggest overseas investments and represent a major strategic linkage between the two countries.

India is also keen to obtain oil and gas from Iran. In January, the Gas Authority of India Ltd. (GAIL) signed a 30-year deal with the National Iranian Gas Export Corp. for the transfer of as much as 7.5 million tons of LNG to India per year. The deal, worth an estimated $50 billion, will also entail Indian involvement in the development of Iranian gas fields. Even more noteworthy, Indian and Pakistani officials are discussing the construction of a $3 billion natural gas pipeline from Iran to India via Pakistan - an extraordinary step for two long-term adversaries. If completed, the pipeline would provide both countries with a substantial supply of gas and allow Pakistan to rearm $200-$500 million per year in transit fees. "The gas pipeline is a win-win proposition for Iran, India, and Pakistan," Pakistani Prime Minister Shaukat Aziz declared in January.

Despite the pipeline's obvious attractiveness as an incentive for reconciliation between India and Pakistan - nuclear powers that have fought three wars over Kashmir since 1947 and remain deadlocked over the future status of that troubled territory - the project was condemned by Secretary of State Condoleezza Rice during a recent trip to India. "We have communicated to the Indian government our concerns about the gas pipeline cooperation between Iran and India," she said on March 16 after meeting with Indian Foreign Minister Natwar Singh in New Delhi. The administration has, in fact, proved unwilling to back any project that offers an economic benefit to Iran. This has not, however, deterred India from proceeding with the pipeline.

Japan has also broken ranks with Washington on the issue of energy ties with Iran. In early 2003, a consortium of three Japanese companies acquired a 20% stake (continued on page 6)
Remembering EPS Founder Robert J. Schwartz

As this issue of the newsletter was being composed, EPS lost two of its guiding lights. While John Kenneth Galbraith, ECAAR’s first Trustee, may have been more well known to the world, Robert J. Schwartz was the driving energy behind our very existence. Instead of my regular letter, I cede this space to other members, to share their remembrances of our founder with you. I am profoundly inspired by the lives of these two great men, and honored to carry on their vision.

Thea Harvey, Executive Director, EPS

At the end of the Cold War period, Bob decided to devote his attention, insight, and tireless efforts to furthering progress toward his goals instead of leading a more relaxing life of professional retirement. He devoted the remaining decades of his life to the search for worldwide peace and broad-based social improvement. His contributions will be remembered and used as the basis for moving along a path for lofty goals on a world scale.

The founding of ECAAR and promotion of dynamic and widespread interest toward peace and security was not his first effort towards social advancement. I recall our interactions when I discussed with him the early efforts as a financial entrepreneur. He was like John Kenneth Galbraith and Jan Tinbergen, of an earlier generation, and they are leaving us now. May the strong commitment to political responsibility of professional economists which he tried to express in such active enterprising way be remembered always. We are thankful for what Bob directly and indirectly contributed to our own Dutch Flemish organization.

Piet Terhal, Chair Economen voor Vrede (Dutch/Flemish EPS Affiliate)

It is always a pleasure for me to meet someone who likes life as much as Bob Schwartz did. I liked his activism, but even more I liked his character, his wonderful and slow smile, his manner of speaking, his eyes directly on yours when he wanted to convince and on the universe when he spoke about the principles of life. Our group is very sad about this news. We are sure that his idea of a more peaceful world will be pursued and shared by all of his friends.

Jacques Fontanel, Chair, EPS-France

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A Service Celebrating the Life of Robert J. Schwartz

will be held on Monday, June 26, 2006, 7:00pm to 9:00pm
New York Society for Ethical Culture
Ceremonial Hall
2 West 64th Street at Central Park West
New York, NY 10023

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Addicted to Oil? A $1.47 Billion-a-Day Habit

Kate Cell

In his most recent State of the Union address, President Bush declared that the US is “addicted to oil.” Is this a serious metaphor, meant to illuminate one mental image by the light of another? Can one be addicted to a substance one doesn’t ingest? Can a nation, a whole society, be so addicted? What effects does our “habit” have on our economy, policy, and polity? Has Mr. Bush taken the First Step and admitted that the nation is currently powerless to control its craving for oil?

How big a habit?
The US uses oil at the rate of 21 million barrels per day. On May 17, 2006, with the price of light sweet crude at $70 a barrel, the US spent almost $1.5 billion on its oil habit. By contrast, on the same day we spent approximately $3.5 million for alcohol. 44% of Americans drink at least occasionally, but 98% drive to work, either because no public transportation is available or because the incentives to use it are too low. Those incentives may be growing. The cost of crude oil has more than trebled in the past three years (Figure 1), but even national gas prices over $3.00/gallon don’t come close to reflecting the additional, hidden, or unintended costs of the US oil habit - its side effects. The International Center for Technology Assessment, in The Real Price of Gas, estimated a range of external costs from government subsidies ($9.1 - $17.8 billion a year) to environmental and health costs ($231.7 to $942.9 billion a year). ICTA estimated a gallon’s real cost in 2004 to be between $5.60 and $15.14.

Addiction profiteers
There’s good money to be made selling and protecting the market for an addictive substance, as the British East India company (opium), Joe Kennedy and Al Capone (alcohol), and the Medellin Cartel (cocaine) all discovered. Figure 3 shows how the stock prices of three corporations that exploit or protect the oil supply have fared since the invasion of Iraq. The price of L-3 Communications, “a
leading provider of [military] Intelligence, Surveillance and Reconnaissance (ISR)" and training programs, doubled. Halliburton’s price per share increased by 377%.

Recovery: next steps

Drug addiction causes a range of problems for addicts and their families and friends. The US oil addict faces dwindling supplies from the world’s most unstable regions (Figure 4). North America’s habit is supported by production in the global South (Figure 6). US oil use increases despite rising costs, an expensive war in one oil-rich country and the contemplation of another, and the growing disapproval of the family of nations.

Admitting the problem is the first step. Going cold turkey is not an option, but there are ways for the US to lessen its reliance on oil. Western Europe is lowering demand in part by shifting the cost of some externalities back to the consumer (Figure 5). In the US, various taxes on consumption or inefficiency have been proposed. The US Energy Policy Act of 2005 allocated $632 million to renewable energy R&D in 2007, increasing to $852 million by 2009. It’s a start, but it will not create the “energy-industrial complex” required to curb the national addiction to oil.
Oil, Geopolitics, & the Coming War with Iran (continued from page 2)

in the development of the Sorosh-Nowruz offshore field in the Persian Gulf, a reservoir thought to hold 1 billion barrels of oil. One year later, the Iranian Offshore Oil Company awarded a $1.26 billion contract to Japan’s JGC Corporation for the recovery of natural gas and natural gas liquids from Sorosh-Nowruz and other offshore fields.

When considering Iran’s role in the global energy equation, therefore, Bush administration officials have two key strategic aims: a desire to open up Iranian oil and gas fields to exploitation by American firms, and concern over Iran’s growing ties to America’s competitors in the global energy market. Under US law, the first of these aims can only be achieved after the President lifts EO 12959, and this is not likely to occur as long as Iran is controlled by anti-American mullahs and refuses to abandon its uranium enrichment activities with potential bomb-making applications. Likewise, the ban on US involvement in Iranian energy production and export gives Tehran no choice but to pursue ties with other consuming nations. From the Bush administration’s point of view, there is only one obvious and immediate way to alter this unappetizing landscape - by inducing “regime change” in Iran and replacing the existing leadership with one far friendlier to US strategic interests.

That the Bush administration seeks to foster regime change in Iran is not in any doubt. The very fact that Iran was included with Saddam’s Iraq and Kim Jong II’s North Korea in the “Axis of Evil” in the President’s 2002 State of the Union Address was an unmistakable indicator of this. Bush let his feelings be known again in June 2003, at a time when there were anti-government protests by students in Tehran. “This is the beginning of people expressing themselves toward a free Iran, which I think is positive,” he declared. In a more significant indication of White House attitudes on the subject, the Department of Defense has failed to fully disarm the People’s Mujaheddin of Iran (or Mujaheddin-e Khalq, MEK), an anti-government militia now based in Iraq that has conducted terrorist actions in Iran and is listed on the State Department’s roster of terrorist organizations. In 2003, the Washington Post reported that some senior administration figures would like to use the MEK as a proxy force in Iran, in the same manner that the Northern Alliance was employed against the Taliban in Afghanistan.

The Iranian leadership is well aware that it faces a serious threat from the Bush administration and is not doubt taking whatever steps it can to prevent such an attack. Here, too, oil is a major factor in both Tehran’s and Washington’s calculations. To deter a possible American assault, Iran has threatened to close the Strait of Hormuz and otherwise obstruct oil shipping in the Persian Gulf area. “An attack on Iran will be tantamount to endangering Saudi Arabia, Kuwait, and, in a word, the entire Middle East oil,” Iranian Expediency Council secretary Mohsen Rezai said on March 1st.

Such threats are taken very seriously by the US Department of Defense. “We judge Iran can briefly close the Strait of Hormuz, relying on a layered strategy using predominantly naval, air, and some ground forces,” Vice Admiral Lowell E. Jacoby, the director of the Defense Intelligence Agency, testified before the Senate Intelligence Committee on February 16.

Planning for such attacks is, beyond doubt, a major priority for top Pentagon officials. In January, veteran investigative reporter Seymour Hersh reported in the New Yorker magazine that the Department of Defense was conducting covert reconnaissance raids into Iran, supposedly to identify hidden Iranian nuclear and missile facilities that could be struck in future air and missile attacks. “I was repeatedly told that the next strategic target was Iran,” Hersh said of his interviews with senior military personnel. Shortly thereafter, the Washington Post revealed that the Pentagon was flying surveillance drones over Iran to verify the location of weapons sites and to test Iranian air defenses. As noted by the Post, “Aerial espionage [of this sort] is standard in military preparations for an eventual air attack.” There have also been reports of talks between US and Israeli officials about a possible Israeli strike on Iranian weapons facilities, presumably with behind-the-scenes assistance from the United States.

In reality, much of Washington’s concern about Iran’s pursuit of WMD and ballistic missiles is sparked by fears for the safety of Saudi Arabia, Kuwait, Iraq, other Persian Gulf oil producers, and Israel rather than by fears of a direct Iranian assault on the United States. “Tehran has the only military in the region that can threaten its neighbors and Gulf security,” Jacoby declared in his February testimony. “Its expanding ballistic missile inventory presents a potential threat to states in the region.” It is this regional threat that American leaders are most determined to eliminate.

In this sense, more than any other, the current planning for an attack on Iran is fundamentally driven by concern over the safety of US energy supplies, as was the 2003 US invasion of Iraq. In the most telling expression of White House motives for going to war against Iraq, Vice President Dick Cheney (in an August 2002 address to the Veterans of Foreign Wars) described the threat from Iraq as follows: “Should all [of Hussein’s WMD] ambitions be realized, the implications would be enormous for the Middle East and the United States... Armed with an arsenal of these weapons of terror and a seat atop 10 percent of the world’s oil reserves, Saddam Hussein could then be expected to seek domination of the entire Middle East, take control of a great portion of the world’s energy supplies, [and] directly threaten America’s friends throughout the region.”

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This was, of course, unthinkable to Bush’s inner circle. And all one need do is substitute the words “Iranian mullahs” for Saddam Hussein, and you have a perfect expression of the Bush administration case for making war on Iran.

So, even while publicly focusing on Iran’s weapons of mass destruction, key administration figures are certainly thinking in geopolitical terms about Iran’s role in the global energy equation and its capacity to obstruct the global flow of petroleum. As was the case with Iraq, the White House is determined to eliminate this threat once and for all. And so, while oil may not be the administration’s sole reason for going to war with Iran, it is an essential factor in the overall strategic calculation that makes war likely.

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The Challenge of Peak Oil

Richard Heinberg

The supply of extractable oil is subject to geological limits. At some point those limits will overtake our ability to produce oil at the ever-expanding rates that growing economies demand. The global peak is likely to occur well before societies adapt painlessly to a different energy regime. And that likely time lag contradicts the way orthodox economists imagine that rising prices solve supply shocks by steering economies to develop and use substitutes.

Oil is different from most commodities, because, as President Bush so memorably declared, we are addicted to it, and because substitute energy sources cannot be developed and deployed overnight. And as long as oil remains available and profitable, the existing energy regime also resists the development and substitution of alternatives.

During the early 20th century, America was the world’s foremost producer and exporter of oil. In 1970, the rate of US oil extraction reached its all-time maximum and has generally declined since, even with later discoveries in Alaska and the Gulf of Mexico. Today the United States imports almost two-thirds of the oil it uses.

According to ChevronTexaco, out of 48 significant oil-producing nations worldwide, 33 are already experiencing declining production. Few doubt that the rate of oil production for the world in total will peak at some point. That point is known as peak oil. If the peak were to occur within the next five years, national economies could not adjust quickly enough without major dislocations, while a peak 20 years hence would present easier adaptation, assuming we begin adapting now.

Further evidence for a near-term peak includes the fact that global rates of oil discovery have been falling since the early 1960s - a fact confirmed by no less than ExxonMobil. Currently, only about one barrel of oil is being discovered for every five extracted.

On their face, current world petroleum reserves numbers look reassuring. US government agencies estimate proven reserves at more than 1.1 trillion barrels. Some sources claim even more. However, oil optimists include costly and hard-to-extract sources such as Canadian tar sands. And some of the largest producing nations may have inflated their reserves figures for political reasons. An important study released in January concluded that Kuwait’s official reserves figures are double the amount that can actually be produced.

Matthew Simmons, founder of Simmons & Company International energy investment bank and author of Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy, concludes, from his study of technical papers from the Society of Petroleum Engineers, that Saudi Arabian oil production could be close to its maximum, and that world oil production is also therefore close to peak.

Another important 2005 study, “Peak Oil: World Oil Production: Impacts, Mitigation and Risk Management,” prepared by Science Applications International Corporation for the US Department of Energy, makes clear the risks. The project leader was Robert L. Hirsch, who has had a distinguished career in formulating energy policy. The Executive Summary begins:

The peaking of world oil production presents the United States and the world with an unprecedented risk management problem. As peaking is approached, liquid fuel prices and price volatility will increase dramatically, and, without timely mitigation, the economic, social, and political costs will be unprecedented. Viable mitigation options exist on both the supply and demand sides, but to have substantial impact, they must be initiated more than a decade in advance of peaking.

The Hirsch report effectively undermines the standard free-market argument that as oil becomes scarcer, higher prices will necessarily stimulate more exploration, development of alternative fuels, and the more efficient use of remaining quantities. The transitional problem is timing.

An obvious example is the failure of today’s higher prices to induce more purchases of fuel-efficient cars. Our fleet fuel efficiency for cars is currently quite low, averaging about 22 miles per gallon. Technology exists (including electric/ice hybrid engines, diesel hybrids, and plug-in hybrids) that could easily achieve between 60 and 100 mpg. But even with a price-spike high enough to induce this shift, auto manufacturers would require at least five years for retooling, and more than double that will be needed for the substantial majority of existing vehicles to be replaced by energy-efficient models.

Thus the response to peak oil will take considerable time and investment capital. Market forces alone will not solve the problem. The solutions will require both the government and the private sector, as well as citizen efforts on a scale not seen since World War II.

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Galbraith for a New Century

Richard Parker

Thanks in no small part to Franklin Roosevelt and John Maynard Keynes, and their creation of a large public sector whose taxing and spending restored growth and employment, and thereafter stabilized the ups-and-downs of the business cycles, a new era of “markets” and “macro-managed capitalism” emerged at the end of the Second World War. But by the mid-1950s, when John Kenneth Galbraith came to global fame, the new era faced daunting challenges.

The challenge that most concerned Galbraith lay at the boundary between conventional politics and economics - and it came home in the 1960s in the form of the war in Vietnam.

After World War II, the US had adopted “Keynesian” policies but of a very particular kind: over half of all federal spending was for the Pentagon. The size of the spending helped the economy through repeated recessions, but the nature of the spending meant that more and more weapons - Armageddon weapons - were being created, along with powerful men who were in fact willing to use them.

Galbraith began warning President Kennedy of the dangers Vietnam posed in the summer of 1961, before the first US troops were dispatched there. Kennedy heard him, and amazingly agreed with him, but was in a sense boxed in by the near-unanimity of his top advisors that Vietnam was a place where the US must “take a stand.” Through recently declassified State and Defense Department documents, I was able to learn just how in tune JFK was with Galbraith’s warning. The two men understood that this was no mere “foreign misadventure,” but could become a quagmire that would not only blow back to the United States, but destabilize the economy, delegitimize the Democratic Party, and ultimately destroy the confidence of the American people in government itself.

What these new documents make clear is that by the spring of 1963, after barely avoiding nuclear war in the Cuban Missile Crisis the previous fall, Kennedy was ready to act decisively. He ordered the Pentagon to prepare removal of the few thousand US troops JFK had reluctantly authorized, with the final withdrawal immediately after the 1964 presidential election. Kennedy assumed he would face - and defeat - Senator Barry Goldwater that fall, and didn’t want to be “red-baited” by the hawkish Republican during the campaign. To make sure the Pentagon knew he was serious in his intentions, he ordered that the first troops be brought home in November 1963 - the month he was assassinated in Dallas.

In the forty years since then, a new conservative revolution has emerged, committed to tearing down the world that Galbraith and Kennedy hoped to build. But to Galbraith, this revolution has failed the US twice over - and made the fundamental imbalances in US politics and economics worse, not better.

Promising fiscal responsibility and balanced budgets, the right-wing Jacobins have given us neither. Affirming the virtues of smaller government, they made government over larger. In fact today, government is a greater share of GDP than it was under Kennedy or Johnson or even Roosevelt (save for the four years of World War II). What they have given us is the most economically unequal country in the advanced world, the greatest public and private debt in our history, the longest working hours and poorest benefits - and now a war in the Middle East that, to Galbraith, all the hallmarks of the Vietnam War he and John F. Kennedy had sought to avoid. (It was after all Galbraith who contributed to Kennedy’s famous Inaugural Address the memorable line, “We must never negotiate out of fear, but we must never fear to negotiate.”)

Galbraith is gone now; but the principles, the values he stood for, oftentimes by standing apart from liberals and conservatives alike, seem in this new century more relevant than ever before. “Who will take his place?” is a question I’ve been asked repeatedly over these past few days.

My answer is, “Who first is ready to listen?”

Richard Parker is an Oxford-trained economist who teaches at Harvard’s Kennedy School of Government, a new member of the EPS Board of Directors and the author of John Kenneth Galbraith: His Life, His Politics, His Economics. This article is adapted with the author’s permission from one that originally appeared in Salon.com.