The Jobs, Investment and Energy Symposium Issue

There has been a seismic shift in global economic and financial geography. Economic wealth and perhaps political power is moving from West to East, and prospects for growth and well-being look limited for the US.

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Opening Remarks
James K. Galbraith

I’m James Galbraith, the chair of Economists for Peace and Security, and I’d like to welcome you to this first meeting in the new era of life in Washington that is not specifically or mainly devoted to health care.

President Obama in his State of the Union address said that his number one priority for the year ahead was to create jobs and to restore the nation’s economy. Our thought, as economists concerned with conflict resolution and also with the broader questions of security that we all face, was to organize a meeting that would provide in some respects concrete guidance on how to meet that objective.

Given the losses that have occurred in this deepest of all recessions since the 1930s, the task is very challenging. It would require 200,000 new jobs every month for perhaps five years simply to replace the losses that have already occurred, and perhaps 250,000 to 300,000 jobs per month to do that and to absorb the natural growth of the labor force and the new entrants seeking work. It’s an extraordinary challenge, given the depth of the crisis that already existed when this administration took office.

There are two problems. One is how to go about it from the standpoint of the contribution of public policy, the stance of fiscal policy, the structure of institutions, and the problems of financing. The second problem is what to do. What should be the sectoral and substantive direction that economic development should take in a new economic recovery? I think this morning we should address both of those issues, particularly on the part of those who are participating in the later panels. It would be useful while we’re at it, while we’re creating jobs and rebuilding the economy, to set the objective to rebuild the country, to rebuild our national infrastructure, to work toward solving our very substantial energy problems, and to begin to come to grips with the planetary question of climate change.

In the course of a very short morning, what we hope to do today is to present a kind of structured argument with three panels running in the tradition of our partners, the New America Foundation, without interruption and with very brisk chairing so as to provide both specific presentations and a chance for some discussion with the audience on these issues as we move through them all.

I want to say, first of all, a word of thanks to our partners. The New America Foundation has been a full collaborator in the planning and hosting of these events. We’re very grateful to work with them. We're very grateful to have the partnership of the Ronald Reagan International Trade Center and this wonderful facility here in Washington DC. Above all, I am grateful to have the help and the leadership of a truly extraordinary public citizen, Bernard Schwartz. As this is the “Bernard Schwartz Symposium on Jobs, Investment, and Energy” we are conducting here, I am honored and delighted to be able to introduce Bernard to say a few words at the start of our proceedings.

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First of all, thank you all for coming here, and I would also like to welcome those of you who are on the web. We are participating in what I think is an important event because we are helping to shape the dialogue, the debate, about America and where we are, where we’re going, and what we should be doing.

We do live in interesting times. Everybody says that; it’s a cliché almost. But the fact is, America is transmigrating from a point where we were the world hegemon. In fact, we are still the world’s hegemon. We have the world’s largest military force, more than all the other nations’ appropriations and budgets combined. In social activities, the world likes our movies, they like our literature, they like our clothing. And economically - the world imports what we have to sell. We are the world’s economic hegemon. We don’t like to say that too often, but it is true. The United States represents 25 percent of world’s output. It’s declined a little bit but we’re still the greatest.

Competitors such as China, India, and other up-and-coming nations have a long way to go to get to the point where we are. China is really a poor nation with extraordinary challenges, and much of what they are doing is right. Much of what they’re doing is self-oriented, but we should not look upon the elevation of 700 million people (who are ill-fed, ill-clothed, and ill-housed) to a middle class as a bad thing for America.

We should stop looking at things about America that are bad – and there’s plenty of that to talk about – and start looking at some of the things that are good. When you look around, there are more democracies than ever before. There are more people playing America’s game around the world. China had to become a capitalist country in order to become a world player. That is our ballgame. We have to put some of these things together.

I am particularly concerned about leadership. I’m concerned about the fact that we do not have today anywhere, on either side of the aisle, the kind of leadership that people have confidence in. The fact that, after 16 months, we got a health bill through Congress is going to be celebrated in this town a lot. However, on Main Street outside, people are not as concerned about health care as much as finding jobs, or keeping their jobs. There is no program today in America to put eight or nine or ten million people back to work, and we have to do that. The point I’m trying to make is that in the United States there is a lack of leadership. We have no consistent leader who’s able to say, “Follow me, right or wrong. This is where I’m going. This is who I am.”

We’re privileged today to have a very distinguished group of speakers, but the most distinguished person among us is Governor Rendell. I’ve worked with Governor Rendell for a long, long time. I knew him when he was mayor of Philadelphia. He was a good mayor in Philadelphia. He brought the city into a modern structure. And guess what? He is a good governor in Pennsylvania. He has brought the type of programs that we’re going to talk about today – whether green, or infrastructure, etc. – to actuality, from a beginning to fulfillment in Pennsylvania. His is the kind of leadership that brought the Democratic Governors Association to a new level of energy and a new level of accomplishment.

The reason Governor Rendell is here today is because we know who he is. He’s been consistent, he has been relevant, he has been part of the scene for a long time, and he doesn’t change according to the variations around him. We know what his values are, and that’s very important in leadership today. It’s very, very good for us that Governor Rendell has a few words for us today, and I welcome him.

Thank you very much.
Keynote address
Edward Rendell, Governor of Pennsylvania

Good morning, everyone. It was great to hear Bernard talk, because we need a little optimism in this country. Bernard has always been, for as long as I’ve known him, an optimist and someone who looks towards the future. He is someone who doesn’t look at the failings of what we’re doing – and we certainly do have a lot of problems – but looks at what we can do, how we can break out, and how we can continue to be the leader and be competitive.

I will tell you that my view of America is slightly less rosy than Bernard’s. I think our competitiveness is deeply challenged, and I think we’re in real danger if we don’t act, and act fairly soon, and act fairly decisively. We’re in real danger of becoming a second-class economic power. Everything Bernard said is accurate. Those nations have a way to go to get to us. But we have a paralysis of leadership in this country. We’ve devolved into a level of partisanship and rigid ideology that is making it virtually impossible for us to get anything done. Unless we break out of it, unless we look toward the future, unless we start coming together again as people and putting aside all of these differences, I think we’re in tough shape. So it’s great to have a conference like this.

I’m going to talk a little bit about the issues, although the issues are so broad it is hard to talk about them all. Bernard knows infrastructure is one of the things I care very much about, and infrastructure is one of the things that we’d better get to, because our infrastructure’s crumbling. It’s not competitive anymore. It’s structured in a way that’s bad for the environment and sustainability, and all of those things have to change.

But one of the things I want to talk to you about today is the link between our eventual security as a nation and the necessary job production that, as Bernard so aptly said, is first and foremost on the American people’s mind in the short run, as well as in the long run. In 2004, when I was asked to speak at the Democratic Convention about the need for energy, I said, “Without a sound energy policy, we’re forced to deal with dictators and trade with terrorists to keep the lights on in our homes and to fuel our cars. A toxic mix of oil and terrorism threatens our very security. Every American is a victim of energy blackmail that robs us of our independence, corrupts our foreign policy, ruins our economy, and holds American industry hostage.”

Two years ago, the United States Patent Office reported for the first time in its history that more than 50 percent of the patents that it issued went to foreign companies or foreign nationals.

Then the next night, in a speech that got a little bit more attention, John Kerry said, “No young American soldier should fight and die because of our dependence on foreign oil.” That was the single best thing that John Kerry said during the campaign. He was right then, and he continues to be right today. Yet what’s happened? Six years later, Americans are still dying in a fight that is largely about our dependence on oil.

Now, I think I know Bernard, and know that he’s a very serious businessman. His efforts to get our nation back on track and to remain competitive have been nothing short of spectacular, and they’re based on his experience and his knowledge of the marketplace. He does see the writing on the wall, notwithstanding that somewhat optimistic opening, and so do I.

Our competitor nations are making enormous investments in infrastructure, in energy, in renewables and alternatives. They’re getting ahead of us on the curve. It used to be that every new invention, every new innovation, came from the United States of America. The reason we were the economic power is not because the Lord blessed us with so much natural resources, which He did – or She did – but because we were the innovators. We had the scientists, we had the engineers, we were the people who created things and made things happen. It’s not happening anymore. Two years ago, the United States Patent Office reported for the first time in its history that more than 50 percent of the patents that it issued went to foreign companies or foreign nationals. So we need our Congress, our federal government, to act, and it must act quickly, and it must act at scale. It must do things that are necessary to protect our environment, to drive down our use of oil and the emissions of carbons, and to create jobs.

Unfortunately, up until now there’s been very little action from Washington – the paralysis I talked about. Whatever action has happened to move us along on these goals has happened at state capitals, and I’m proud to say that Pennsylvania is among them.

First, in 2004, we passed what at the time was one of the most aggressive alternative energy portfolio standards in the nation. We said that by the year 2020, at least 18.5 percent of all the electricity produced at retail level pricing in Pennsylvania would have to come from identified alternative and renewable sources, sources like wind, and solar, and low-impact hydro-power, and biomass. More than half of the states have followed us now and have portfolio standards. Even though it’s slightly more than half of the states, those states represent a huge majority of the American population, so there’s strong evidence that the American people understand this and are committed to this approach. Alternative energy portfolio standards create the mandate, create the market for alternatives and renewables.

Next, we went even further by doing this for fuels as well. We’ve passed legislation that the administration pushed called the Penn Security Fuel Initiative. It’s sort of like an EPS for fuel.
It says that as production levels of biofuels and ethanol and bio-diesel increase, every gallon of gasoline and diesel fuel sold in Pennsylvania must contain a certain percentage, ramping up to 20 percent bio-diesel and 10 percent ethanol. We think we can reach this production level by no later than 2014. It will mean that of the 11 billion gallons of fuel sold in Pennsylvania now, one billion of those gallons will come from non-fossil fuel. To give you a frame of reference, that’s more than we’ll be importing from the Persian Gulf in 2020, had we not done this. It is an important step, one that I’d like to see replicated all across the nation. It’s also important to realize that our ethanol production, our reliance on ethanol, shifts in the statute to cellulosic ethanol, which is very, very important, because corn-based ethanol, I think, will phase out in America fairly soon.

The third thing we did was put our money where our mouth is. Before 2007, Pennsylvania had invested $900 million in laying the groundwork, the infrastructure, and incentivizing the development of alternative and renewable companies in the state. In 2007, we passed the Alternative Energy Investment Fund, which created an additional $650 million for the same purpose. That has leveraged over $4 billion of private investment and created at least 10,000 jobs. The Pew Center on the States estimates that Pennsylvania has created the third highest number of green energy jobs behind only California and Texas.

We’ve also adopted an ambitious plan to reduce our greenhouse gas emissions. This is very important because the Commonwealth of Pennsylvania produces one percent of all of the greenhouse gas emissions in the world – one percent of the world’s emissions! We are a very, very big coal state, and we’ve passed mercury standards for coal and others. These steps along with the action we’ve taken mean that we will be in a position to reduce our annual emissions by as much as 42 percent from 2000 levels, or the equivalent of more than 120 million tons of greenhouse gas emissions.

Now, all these things are good for the environment, they’re good for sustainability, and they’re also great job creators. We also passed in that same bill a very strict conservation statute. Conservation produces jobs: we’ve seen this with the investments that the President made in the stimulus money, investments to create conservation jobs, green jobs, etc.

The Pew Center on the States estimates that these folks were just grandstanding and seeking the limelight.

Fortunately there are respected politicians – not just our president – who see the light. One of the most important of them was former Republican chair of the Senate Armed Services Committee, John Warner, who said recently, “Leading military intelligence and security experts have publicly spoken out that if left unchecked, global warming could increase instability and lead to conflict in already fragile regions of the world. If we ignore these facts, we do so at the peril of our national security and increase the risk to those in uniform who serve our nation. It is for this reason that I firmly believe that the US must take a leadership role in reducing greenhouse gas emissions.”

Senator Warner couldn’t be more right. I was at a conference where Jeff Immelt, the CEO of General Electric, spoke. He said, and I think this is absolutely true, that one of the great challenges coming from global warming is the loss of water on the Earth. He envisions that unless we do something about it, unless technology can find an answer to its paucity, water – and China is a great example of a country that’s struggling for water; 70 percent of China does not have sufficient water – may be the next oil 25 years down the road. We may be fighting wars for water supply unless we do something to stop the effects of global warming.

What can we do? Is it a hopeless case? Not at all. If the federal government moves in and acts quickly to replicate some of the things the states have done, there are answers. I think the federal agenda ought to increase our investment in renewable energy sources and cutting-edge technologies like carbon capture and sequestrations.

But we think that this is not only a jobs imperative; it’s also a national security imperative. There were two stunning reports that were championed by respected retired members of our military brass recently. The first was called the “National Security and Threat of Climate Change,” and the second was called “Powering America’s Defense: Energy and the Risks to National Security.” In the first report, the opening quote read – and this an interesting quote – “Our dependence on foreign oil reduces our international leverage, places our troops in dangerous global regions, funds nations and individuals who wish to harm us, and weakens our economy. Our dependence and inefficient use of oil also puts our troops at risk. Our domestic electrical system is also a current and significant risk to our national security. Many of our large military installations rely on power from a fragile electrical grid that is vulnerable to malicious attacks or interruptions caused by natural disasters.”

When it came to climate change, our military brass said, “Climate change can act as a threat multiplier for instability in some of the most volatile regions in the world, and it presents significant national security challenges for the United States.” Now these are not peace activists or environmentalists. These are people who were the backbone of the American military for a long time. What was the political reaction to this report? Well, of course many in the Senate said that these folks were just grandstanding and seeking the limelight.

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the light, because the American Recovery and Reinvestment Act did have substantial dollars invested into energy and renewable energy, finding ways to produce the new cutting-edge batteries, hybrid vehicles, etc. – all of those things that are so important to break our dependence on foreign fuel.

The real issues surrounding climate change should be addressed by implementing cost-effective strategies to reduce or offset greenhouse gas emissions. Something has to be done, and while it’s true that on a political basis it’s unlikely that we’ll see any major cap and trade legislation – there’s just no energy left in the Congress to undertake something as fractious as that would be – there can be significant progress made towards this goal. Part of that progress would be enacting federal tax policies that offer predictable and long-term advantages to companies that invest in domestic solutions to energy and climate change. We need to make the tax credits permanent for alternative and renewable energy, without requiring renewal every year or two. You can’t get sufficient Wall Street investment in companies when the tax credits are not there, or when there are insufficient loan guarantees. Again, in ARRA, there were excellent loan guarantees for some of these new alternative and renewable energy companies; but we’ve got to make them a permanent fixture in our law, just like we did for oil and gas. It’s time to do that.

Next we have to encourage energy conservation and efficiency. The federal government should do what so many states have done: enact a nationwide renewable energy portfolio standard. Twenty-six states have done so; there’s no reason for the federal government not to do it. It’s all about dollars. The thing that’s so good about mandating with renewable energy portfolio standards is it gives certainty to investors. It’s like the Galbraith, Schwartz, and Rendell partnership has a shopping center, and we want financing. If we go to the bank and we show them signed leases for 20 years for every square foot of our shopping center, we’re going to get the money! That’s what the mandates are like; they’re like signed leases. They’re absolutely good-as-gold guarantees.

Lastly, the federal government should use its power as an off-taker. How many of you think that Boone Pickens is nuts? None of you, and I don’t either. Just contemplate for one second if every fleet of cars in the nation – starting with the incredible fleet of government cars and trucks, US government, Pennsylvania, New York, California, Texas, every state in the union, and all the utilities’ fleets, all the cable companies’ fleets, every fleet out there, post office fleets, every fleet out there – converted to natural gas? We would deal a body blow to the imported oil industry, and natural gas is cheaper, better for the environment, and Americans can get jobs making it.

That’s the thing that’s so enticing about this entire area. If I can tell you that we can do something that will 1) make us less dependent on foreign sources, and therefore give us political independence; 2) improve our environment; 3) create jobs; and 4) strengthen our national security, would you think that was a good idea? Of course everyone says, sure. Well, we’ve got the idea. Let’s make it a dedicated federal policy to invest in creating this new economy which will give us security, which will produce capital investment, which will create literally millions of jobs. Everyone who has taken a hard look at this says it will produce anywhere between one and two million jobs in a relatively short period time and a tremendous amount of capital investment.

If we don’t do it, if we don’t dedicate ourselves to this, if we don’t become a leader in alternative renewable energy and the job creation that comes from it, guess who will. It will be someone else. It won’t be the United States of America. This is a vacuum that will be filled, and the only issue is, are we going to fill it? Are we going to be there first? Are we going to be there with the smartest technologies? Are we going to be the ones that produce all of these technologies? Wouldn’t it be great if we started exporting to China and the rest of the world new batteries, new cutting-edge batteries that nobody else has produced? Wouldn’t it be great if we had some form of new solar components that nobody else in the world produced? Of course it would. Wouldn’t it be great if we were the ones to come up with the most viable and cost-effective hybrid cars? Of course it would. We can do it. We’ve always risen to the challenge before. Properly focused, when we all act as Americans and get together, and put all this b.s. behind us, I don’t think there’s anything we can’t accomplish. But ladies and gentlemen, the reason this conference is so important is because the clock is ticking. It’s not an ordinary clock; it’s one of those timers used to tell you when something’s done in the kitchen, and at the end of the timer, a bell rings. The question is, will we be ready when that bell rings.
How to Budget for Jobs and Investments - Session One Summary

Chaired by Allen Sinai

Allen Sinai:
Recovery, rebuilding, restructuring, restoring, and reinventing America after the crisis of 2007–2009, in the wake of a lost decade and with the longest list of societal and economic problems ever facing the nation, is a unifying theme of today’s sessions on “Jobs, Investment, and Energy; Meeting President Obama’s Challenge.”

The last decade was one of poor economic performance; deterioration in public and private productive infrastructure; societal and international decay for the US and its role in the world; a declining US standard of living, absolutely and relatively; legacies of stunningly high, unsustainable and unacceptable federal budget deficits; debt; joblessness; and diminished expectations on the part of the American public by and large for the future. The US is perhaps beginning the long road back to health and real economic prosperity after having lost a huge amount of ground, which, without proactive efficient and effective policies, runs the risk of not being regained.

This is a topsy-turvy world. The haves look more like have-nots. Previous have-nots are becoming haves. Five of the seven G-7 countries – the haves previously – face potentially overwhelming sovereign debt problems. China, parts of Asia, Latin America, Germany, and perhaps Canada have relatively clean slates for the future. There has been a seismic shift in global economic and financial geography. Economic wealth and perhaps political power is moving from West to East, and prospects for growth and well-being look limited for the US.

Today’s sessions examine current research and thinking on these topics. Those speaking and the subsequent discussions are part of a process of open and free-wheeling public policy analysis debate. Proposals engaging public interest and involvement have always characterized this country, particularly in times of difficulty, and its ability to recover, to rebuild, and to reinvent itself, is one of the most striking characteristics of the history of America.

This first session is entitled “How to Budget for Jobs and Investments,” where joblessness is Public Enemy Number One. How and in what do we invest for the future? The responsible financing of initiatives and policies to deal with jobs and investments is an absolute necessity given the financial position of the United States.

Marshall Auerbach:
Unless myths like the vital importance of budget deficits and national insolvency are removed from the national economic discourse, we’re not going to be able to construct proper fiscal policy which will facilitate higher employment growth. Quoting Abba Lerner, fiscal policy should be conducted with regard to the effect that it has on outcomes, and not with some preconceived notion of what is financially sound or unsound.

We must bear in mind that focusing on national insolvency is ludicrous; we can create any amount of these things called dollars. During these times of high prevailing levels of private debt, trying simultaneously to reduce government deficits is actually going to make it virtually impossible to do so.

In Europe, they’ve taken this notion of fiscal sustainability to a perverse extreme. Fortunately, the US so far has just talked about restraining government spending; in the Euro zone they’ve gotten very serious about it with absolutely

Figure 1: PRIVATE NET SAVING AND PUBLIC DEFICIT, BOTH AS A PERCENT OF GDP
disastrous consequences, since it fails to take a holistic view of the economy.

With a government sector, a foreign sector, and a domestic private sector, these must all net to zero ex-post. This is the basic equation: aggregate income equals aggregate expenditure, and savings equals investments (Figure 1, page 6). It’s true for the economy at any time during any accounting period, but it’s not necessarily true for any one sector. Thus, when advocating running budget surpluses for too long, we are in many respects advocating private debt profligacy. Furthermore, while persistent deficit spenders ultimately default, this doesn’t happen with a government that has its own free-floating currency, as in the United States.

The United States could actually help to rebuild private sector savings via exports, if we don’t want to go the government deficit spending route; yet we can’t all run export current account surpluses, and it would be difficult for the US to do so in the near future. Many of us – Jamie Galbraith was one of the first to suggest it – have proposed that the federal government initiate revenue sharing with the states, because without that, federal government policy is in some ways mitigated by the states’ constant efforts to bring their budgets back into balance.

Finally, imposing fixed constraints like a fixed fiscal deficit-to-GDP ratio makes it harder to achieve or sustain private sector net savings. The domestic and private government sectors cannot de-leverage at the same time without a very significant increase in the trade balance, and that’s unlikely to happen over the next few years in the United States. By constraining both the fiscal channel and the nominal exchange rate options, the European Monetary Union countries have left themselves in a complete mess. We will head down that same route if we continue to follow the advice proffered by nations like Germany, for example. I think that provides a very salient and precautionary message for President Obama as he considers the advice of some of the leading deficit hawks who tell him he must start cutting budget spending right now.

Linda Bilmes:
State and local governments play a vital role in the economy, especially when it comes to jobs. In this recession, the states face a much tougher fiscal problem than the federal government does. States do not have control over their currencies, their interest rates, and other aspects of their economy; and 49 states, all except for Vermont, are not allowed to run a budget deficit.

**[S]tates face a much tougher fiscal problem than the federal government does. States do not have control over their currencies, their interest rates, and other aspects of their economy...**

State and local governments are also especially sensitive to economic downturns because they rely for revenues on individual taxes, sales taxes, property taxes, and user fees and charges. In terms of the balance sheets, the states owe about a trillion dollars more in their obligations for pensions and health care and other retirement benefits than they have assets to pay for them. I want to make three points regarding this situation, and particularly around the impact of state cutbacks.

First, we should be allocating much more stimulus money directly to the state and local level, instead of to things like tax cuts, with their far lower multiplier. Close to 100 cents of each dollar from the Recovery Act that goes to state and local government deficits is spent. Because state and local governments have not been allocated enough money from the federal government, states have had to raise fees, cut services, borrow from pension funds, and even sell off park lands and statues. At least 35 states have raised taxes, and I’ve seen figures ranging from 140,000 to 400,000 state employees who’ve been laid off. These state and local cuts have severely blunted the impact of the federal stimulus package, because the increased federal spending has been heavily offset by the decrease at the local level.

The second important point related to my current research is that state and local government spending is actually more job-intensive than federal government spending. About 80 percent of local spending goes directly to salaries for frontline workers. Therefore, one of the most important ways to stimulate job creation is to address fiscal problems at the state and local level. I suggest two specific areas where the federal government can target funding to assist states and local communities in addition to direct operating subsidies. One of the things we can do immediately is to assist states and localities finance infrastructure investments so they do not have to rely entirely on borrowing by themselves. Another area where the federal government can directly help is to improve the job training that happens mostly at the local level. The federal government can be helpful both in subsidizing training and in labor market planning to determine where we have skills gaps. For example, while the US aims to construct a new generation of nuclear power plants, there aren’t enough Americans with the proper training to build them. Subsidizing the education of a labor force to build those nuclear facilities is a prerequisite to achieving that aim.

Finally, looking ahead, the situation for the next few years appears very dire for state and local budgets. In many communities, property values which have been hard hit are only valued on a rolling basis, so the full impact of the lower property values is not going to be realized until next year. When it does, it will depress consumption, reducing sales taxes and property taxes. If we do not take strong action to assist the states and municipalities, this negative spiral could continue to undermine the economy, and even precipitate a second recession.

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Session One – How to Budget for Jobs and Investments (continued)

James Galbraith:

To the extent that we are not in the second great depression, we owe that fact primarily to the budget deficit. We owe it, first and foremost, to the automatic stabilizers that are built into the institutions of the federal government, to the fact that as output and employment went down, spending went up.

In contrast, very little was gained by the actions that were taken with respect to the largest banks. That is to say, that flooding the biggest banks with essentially zero-cost funds had very little effect apart from the wealth effect that results from the stabilization of prices in asset markets. The reason to believe that facts simply in that, although federal budget deficits went up, and incomes were stabilized from that point of view, bank lending went down very sharply and has not recovered.

Spending out of current income has somewhat normalized, spending from new credit has not; the question going forward is how long will that question continue?

One possibility is that the collapse of home prices will result in a protraction of slow economic growth; a second possibility is that, based on recent averages, slow economic growth; a second possibility is that, based on recent averages, home prices will result in a protraction of slow economic growth.

Professional – and particularly official – forecasters have all basically wedded to the second possibility. I doubt that they will be right. Thus, the question I would like to ask is how should we best take account of the risks associated with the outlook in our situation? Rather than having the federal government pull back from the economy and doing too little, it should get involved, even to the extent of doing so much that it might have to pull back from some projects in the future. The risks of doing too little far outweigh the risks of doing too much. If we do not act substantially to move policy forward, unemployment could stay higher, and interest rates would very likely stay lower for quite a long time.

Looking out further, there is a second problem with the way in which our official budget forecasts are made. Their long-term projections commit two very serious errors of inconsistency: first they claim that healthcare costs will rise faster than average costs indefinitely, and secondly the Congressional Budget Office (CBO) does not factor in the growth of GDP when calculating the growth of federal debt repayment as a proportion of GDP. There's a third serious flaw in the methods that we presently use as a matter of official discourse in these areas. It is the failure to reconcile the condition of the public sector to the condition of the private sector, with which it is in effect inexorably linked. If the private sector is not lending, if investment is collapsed and private savings exceed it, as now, then the public deficit must and will reflect this fact. The CBO and the Office of Management and Budget implicitly assume that private sector lending will just resume, although there is no foundation on which to base such an assumption. If lending were to be resumed due to a boon in some activity within the private sector, then the budget would shrink like it did in the 1990s. Furthermore, the steady interest rates on US Treasuries suggest that there is in fact little perceived risk of default.

The deficit hawks – I've heard them described as the deficit hysterics – have built a powerful case against social security, Medicare, and, by extension, against some open-ended fiscal assistance to states and localities. Their long-term investment programs to rebuild the country and solve our environmental and energy problems are based on the strength of forecasting models built into the budget process. My conclusion for you today is that those models are fundamentally flawed, internally inconsistent, and incoherent as economics.

The United States has in the past, when it was necessary, undertaken bold programs of public and private investment. It could do that again in the future; the country would not go bankrupt. On the contrary, it would get rebuilt, its people would make a living, and we would have the chance to begin to deal with the actual issues that are going to affect us for the generation to come.
Rebuilding America: How to Do It and How to Pay For It - Session Two Summary
Chaired by James K. Galbraith

Sherle Schwenninger:
I want to start it off by stating for you the three assumptions that I'm making. First, we're going to need a new, big source of economic growth in the coming decade to replace the debt-financed consumption that was supported by housing wealth of the past decade or two. Second, this is going to have to be led initially by public sector investment. Third, that investment needs to be aimed at rebuilding our productive capacity and our quality of life in the future; but we also should aim to have some eventual improvement in our net export position because that would also contribute to economic recovery. The most promising element of the trade balance that represents a potential for rebuilding the economy lies in energy.

President Obama has laid out a new framework for economic growth going forward, and it places a heavy emphasis on green economy and green jobs. The problem I have with what the Obama administration has done to date is that the whole approach borrows much too heavily from an economic environment that was more appropriate to the 1990s, that it applies more to the private software and information technology world than to the world of energy development.

That approach might be contrasted to a sort of neo-New Deal, a reconstruction finance authority model of economic rebuilding in the energy sector, particularly where public investment crowds out private investment rather than subsidizing the demand for private firms. Initially you have major public investment that makes private investment more attractive. Infrastructure goes hand-in-hand with energy development, so it's best to wait and see that a major technology has some potential before committing to long-term building projects. It also provides much greater multiplier effects in terms of job creation, which will benefit low- and moderate-income individuals. It will avoid prematurely raising energy costs on local businesses and on the transportation needs of low- and moderate-income workers. It's more likely to create self-generating economic returns in terms of the operation of regional financial authorities. Finally, if it's matched with long-term research and development, it's more likely to lead to sustainable breakthroughs in new energy sources, as opposed to starts and stops of premature commercialization of some inferior options in the short term.

Innovation... comes from business opportunity. When entrepreneurs see that they have a chance to build a business, to make profits, they pick up and use new technologies.

John Alic:
The focus of my comments is really on climate change and technological innovation for climate change. The energy and climate problems are closely related, but they're not really the same. Governor Rendell several times came back to the question of new technology and where it comes from. Today I want to talk about a study that came out late last year, conducted for the National Commission on Energy Policy by the Consortium for Science, Policy and Outcomes (CSPO, at Arizona State University) and the Clean Air Task Force.

We will start by looking at three technologies to try and understand what these technologies needed for more innovation. They are solar photovoltaics, post-combustion capture of CO2 from coal-burning power plants, and direct removal of CO2 from Earth's atmosphere. A word about the last one: it is quite possible to pull carbon dioxide, which of course is the major global warming gas, right out of the air. The questions are, how do you do it practically and at reasonable cost?

Our findings are, first of all, that none of these technologies really need breakthroughs or scientific advances. For the next ten to twenty years at least, innovation will be dominated not by "breakthroughs" but by incremental advances in technologies already in view. Policies must focus much more effectively on scale-up and demonstration.

Innovation does not come only from research; it comes from business opportunity. When entrepreneurs see that they have a chance to build a business, to make profits, they pick up and use new technologies. Some of the most significant innovations of the 20th Century, including the microprocessor, are simply technology development without any new research. Innovation is driven by the promise that government is going to buy innovative results in the form of new products. From the CSPO report, "Innovation Policy for Climate Change," we have three recommendations.

First, we need to view greenhouse gas reduction as a public good, that the attempts made through carbon pricing to rely on market mechanisms could work if we get the prices high enough. We’ve thought from the beginning that it’s very difficult through cap and trade, or through carbon tax probably even harder, to boost the prices to a level high enough to induce very much genuine innovation.

Second: we need agencies that can compete with DoE. DoE does two things: nuclear weapons and remediation and science, mostly big science. Climate change is not a science project. It’s an industrial development project, a technology development project, and the Energy Department does not traditionally have strong linkages with industry. They have excellent scientists and engineers, excellent laboratories, and they do research. That is not fundamentally what this problem needs. We do need research, of course – we need

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Session Two - Rebuilding America: How to Do It and How to Pay For It (continued)

more. But the government in our view also needs to buy stuff, because that’s where the business opportunities that stimulate innovation come from. The purchasing power of federal, state, and local governments, if harnessed to buy the products of American industry, will be a very powerful force in stimulating innovation.

Finally, we need to link our research and demonstration activities with procurement, with the realization that climate change, a global problem, is a public good. We need to buy things in ways that will stimulate innovation from private firms. The logical starting point is the electric utilities sector, because that is a manageable problem in an operational sense. We have only about 1500 coal-burning power plants which represent about 35 percent of carbon dioxide output. We know technologically pretty much how to do this. We need to scale it up; we need to get started.

John Robert Behrman:
I am going to discuss with you the formation of a West Gulf Reconstruction Authority. It would advance the macroeconomic agenda that others have discussed here with simple but very purposeful financial insurance that would provide credit for technology-based public and private enterprise.

In Houston, we already know that our part of the US has always been tropical; that because of subsidence of land caused by tectonic and sedimentary geology, the West Gulf already has a higher sea level. Every year we face the prospect of huge storms, each with the power of many, many nuclear weapons.

As wind goes, Hurricane Ike was a Mickey Mouse hurricane. However, the storm surge was gigantic, and a large area was significantly inundated. This is not that bad, frankly; but storms like this will be hitting somewhere on the West Gulf every few years. Ironically, under present policies we keep replacing the damaged property rather than dealing from a planning and standards perspective with what we absolutely know will happen again and again.

A category 5 hurricane hitting the Galveston Bay area will basically kill the entire Houston economy. The damage in my area, up at the Texas Medical Center and Rice University, will not be bad; but the entire economy will collapse due to the damage that would be caused to several vital industries.

W]e need to link our research and demonstration activities with procurement, with the realization that climate change...is a public good. We need to buy things in ways that will stimulate innovation...

In the scenarios projected by some hurricane models, much of our population and most of the nation’s key petrochemical infrastructure could be damaged or demolished by powerful storms. World financial markets, incidentally, already recognize and discount these vulnerabilities, depressing investment in new fuel technologies and hydrocarbon refining or redefining capacity in our area. The political negligence in the face of the threat in this area really makes it Russian roulette. Either the center left embraces engineering and economics in a practical way, or we’ll face devastating consequences.

My proposal is financially unexciting, but purposeful (as well as well as flexible) over the course of many, many credit cycles, not just between asset bubbles. We’re dealing with an industrial complex that grew up after World War I and gets more complex by the day. From an engineering standpoint, the Authority will tackle large but fairly mundane civil and environmental problems, with potential for rapid job creation in the vulnerable areas, as well as long term industrial engineering problems that would benefit the whole of the national economy permanently. There actually two problems here: in addition to industrial vulnerability, we have agricultural vulnerability because this area is basically the foundation of the food chain for the whole South Atlantic.

It’s not difficult at all to frame energy policy as national security policy in Texas. Our national fuel policy is based on cheap oil in Houston. If we want another fuel policy nationally, we have no better place to start. Some institutions, with the moral authority and technical proficiency of large scale World War II and Cold War civilian and military projects, need to be revived. We know that some government-financed or guaranteed lending programs have degenerated into unsound policy rackets and claims-processing bills that are incompatible with international conventions and markets for securities or finance. So the West Gulf Authority would re-engineer building standards, lending instruments, and insurance policies in order to provide a more reliable domestic and a much larger international market for building materials and energy conservation technologies suitable for tropical markets. Driven by business opportunities, real economic development is something we can do.

Michael Lind:
I’m going to talk about three particular crises facing our nation: the financial situation of states, unemployment, and the need to rebuild our manufacturing.

First of all, the states are facing hundreds of billions of dollars in shortfalls as a result of the collapse of the world economy. If they crater, this will drag down the national and possibly the global economy into a double-dip recession. Ordinarily, you do not want to issue debt for ordinary operating expenses. This is the greatest crisis since the Great Depression, however; and we need to rethink some of these rules. A short term solution I propose is that the federal government should consider purchasing deficit bonds from the states. In the long term, in order to avert these sorts of
crises at the state level in future economic downturns or even ordinary cyclical recessions, we need to nationalize Medicaid and unemployment insurance. One of the advantages of federalizing these two programs would be these would be automatic stabilizers, because the federal government has a much easier time borrowing money in crises than the individual states do.

Jobs: a lot of the proposals for infrastructure and new investment manufacturing would generate a great many jobs, because those two things have among the highest multiplier effects of economic activities. However, we live in an economy in which 80 percent of the workforce is in the service sector, who realistically are not going to get jobs in infrastructure and manufacturing. We need to create demand for their labor and one way of doing so is to issue elderly people service sector vouchers for services like housekeeping, transportation, and grocery shopping. Because the service sector vouchers can only be redeemed by certified employers, this tends to dry up the black market in labor, and it leads to more tax revenues coming in.

Manufacturing: first I propose the creation of manufacturing bonds. We call them Made-in-America bonds. The model for these bonds is the successful Build America Bonds for infrastructure, included by Congress in the American Recovery and Reinvestment Act in 2009. This is an indirect way in which the federal government is very successfully subsidizing infrastructure, and the model could be applied to bonds that states, cities, and counties use to encourage manufacturing in their jurisdictions, as part of economic development programs that are already ongoing. A more ambitious proposal is what we call the manufacturing credit system. We propose establishing a series of regional cooperative manufacturing credit banks. They would be paired with an entity called the Federal Manufacturing Loan Marketing Association, or Manny Mac, in the tradition of Fannie Mae and Freddy Mac and Sally Mae. Raising those names, I have to address the bias that exists against GSE (government-sponsored enterprise). The ones that ran amok were the ones that were deregulated and privatized on the theory that efficiency requires markets in competition. In fact, Fanny Mae and Freddy Mac were very successful. However, once they became publicly traded corporations, like other private corporations, they tried to raise shareholder value by jacking up their shareholder prices, and that was the source of this long train of disasters leading the subprime mortgage crisis.

You’ve probably never heard of the Federal Home Loan Bank system. That’s the third housing GSE, and they haven’t been involved in any scandals. Neither has the Farm Credit System. Why is that? It’s because the Farm Credit System and the Home Loan Bank System are organized on cooperative lines – not cooperative in the sense of individuals, but cooperative in the sense that commercial banks, thrifts, and credit unions own these entities, and they’re divided up regionally. These regional banks are owned by local lending institutions. Because the local lending institutions are the owners, they are not going to engage in dodgy lending practices. They cannot just palm them off and avoid suffering the consequences.

So while the publicly traded private version of government-sponsored enterprises has been a disaster, we think that the cooperative GSEs can provide a model for indirect government financing of manufacturing. Possibly we should consider applying this model to other areas as well, including infrastructure and energy.

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Energy and Climate: What is the Program? - Session Three

Summary

Chaired by Richard Kaufman

Richard Kaufman:
President Obama came into office committed to a clean energy economy and mitigating climate change by reducing emissions. Just last week, one year after its formation, a federal group called the Inter-Agency Climate Change Adaptation Task Force issued a report discussing energy and water resources, among other factors, and steps toward what it terms “a complete US adaptation strategy.” But the actual strategy remains to be recommended in a later report. One might be discouraged by the lengthening time being taken to develop a strategy to address the issues of energy and climate change. My 30 years’ experience on Capitol Hill leads me to be a little suspicious when an administration takes a long time to study, and study, and study long-term problems that are getting worse and worse.

The possible consolation is that President Obama has been in office for just a year, that he has already addressed major issues with some success, and we can hope that energy and climate change remain high on his agenda. But what should the federal government actually do about energy and climate change? The task of this panel is to set forth some ideas for addressing those twin and interrelated emerging crises.

Marcellus Andrews:
I want to talk for a moment about uncertainty, risk, and climate pricing. We know that we have to get the price of carbon right in order to give people incentives to use less carbon, in order to give producers and innovators an incentive to come up with alternatives. We have to expand our energy portfolio and invest in mitigation infrastructure. But we also need to get the price of climate risk right.

Insurance is the mechanism of pricing the risk on people’s property, on people’s lives, on people’s health. It is the device we use to tell people where they should live, and where they should locate their factories, and whether they should go someplace else if it’s too risky.

If we allow the insurance markets to function, the signal they will send is that it is very dangerous to live on the Gulf Coast, or Long Island, or in Florida. That leaves only the very wealthy able to afford the insurance necessary to live in these areas. It leaves the poor and working class people who are the cooks, hospital orderlies, and gardeners, who can not afford insurance, exposed to life-destroying climate risk.

This [insurance] will marry market mechanisms to properly price risk with public sector initiatives, providing protections for persons and property in a way that is safe for everybody...

Therefore, we need a mechanism that sends this very simple signal: not only is it dangerous for you to live here, it’s dangerous for you to live here and employ somebody who is too poor to buy the same insurance you have.

Hence my suggestion to the Obama administration would be a proposal, originally made by Howard Kunreuther, that essentially requires compulsory natural hazard insurance be paid by all business persons, homeowners and property owners. This will marry market mechanisms to properly price risk with public sector initiatives, providing protections for persons and property in a way that is safe for everybody in the community.

We have a vast financial apparatus that systematically misprices risk, that puts people in harm’s way, and that uses public resources to backstop providing claims in ways that might actually worsen economic opportunity for large numbers of populations. We simply cannot do that. That doesn’t make any rational economic sense; it doesn’t make any risk-management sense. If we don’t price risk correctly, then all the infrastructure and reconstruction projects that we’re talking about won’t matter at all to the lives of millions of people.

Kate Gordon:
My own area is mostly focused on competitiveness in exports and manufacturing. I just finished a paper a couple of weeks ago called “Out of the Run-in,” which compared the United States to Germany, China and Spain. It asks, “Which are the countries doing that are sustaining economic growth and climate policy well, from an economic development perspective?” We looked at what those three countries have done in the past five to ten years to invest in a range of climate and energy policies that move their economies forward and increase their export economy.

What we found was that these three countries do not separate climate and energy like we do in this country. We have an artificial separation between climate policy and energy policy, as if those aren’t ultimately interrelated. We also have an artificial separation between green jobs and jobs.

All three of these countries take a three-pronged approach. The first prong is to create markets and demand for clean energy technology. For instance, all three of these countries have carbon reduction goals that meet or exceed the European Union requirement of 20 percent below 1990 levels of carbon emissions by 2020.

Second, they have renewable electricity standards, efficiency standards, and strong building codes. Each of these countries has committed to a finance structure that helps to spur the private markets. They each also have a green bank-type structure of a publicly owned institution that provides flexible financing instruments to a variety of energy technologies across the value chain.

Third, each of them has a significant commitment to infrastructure, whether that’s the grid, the smart grid, and/or
integrating renewables into a grid. We found that these countries essentially have long-term policies and goals. Every one has a national strategy on clean energy. They have identified growth areas in the country based on existing strengths, and moved to build up those sectors, to train people for building up those sectors. Now they’re seeing results from it.

What are we doing in the United States? Almost none of this. There is a chart in the paper that looks across these areas – markets, finance, infrastructure. In every area the US has either a short-term policy or a state-by-state policy. The result is that there just isn’t enough demand in the US, so companies end up moving abroad.

What can we do? Look at where we’re strong or where we have an advantage – manufacturing, energy-efficiency products, and innovation. We have to look at what we do well and devise a strategy that both highlights our strengths and generates demand for clean energy. A comprehensive approach is absolutely necessary, including: a cap on carbon, renewable energy standards, efficiency standards, a green bank to create a flexible financing instrument, and incentives for retooling manufacturing facilities and retraining workers.

So it’s not all happening overseas, but it could all happen overseas if we don’t take a really comprehensive approach.

Charles Hall:

Energy return on investment is my thing – EROI. That is simply energy delivered to society minus energy put into that activity.

I’m an ecologist fascinated by energy and natural selection. A predator such as a trout or cheetah cannot expend more energy in chasing prey than it gets from that prey, obviously. It must also pay for its own repair, depreciation, replacement, R&D. Similarly, if we’re going to look for a real energy alternative to fossil fuels, we have to include all of those costs. The economist’s argument is that technology will overcome depletion; don’t worry about depletion. The geologist’s argument is that depletion is real and will overwhelm technology. So who’s right?

In the early 1900s, the US got something like 100 barrels for every barrel of oil it spent looking for it. When we started doing these studies in the 1970s, we were getting back about 25 for 1. We were getting somewhere between 11 to 18 for 1 in the 1990s, and our most recent data indicate it might be going down to about 5 to 1 for us today. It’s declining at about twice that rate for the world as a whole. Why are we getting lower energy return on investment? Well, we’ve found and used up the best oil fields. It didn’t take a lot of geology to find East Texas.

Okay, how to do energy return on investment, and do it properly? We will obviously have to include the direct costs: the steel that’s used, the helicopters to fly guys out to the oil platforms, etc.; then the indirect costs, including the steel that’s used to run these rigs, etc. Should we include the environmental impacts? Big questions on that. In the numbers I’m using, we don’t. Should we include supporting labor? Should we include the infrastructure to use that energy?

My co-authors and I decided that what’s needed is an energy return on investment of somewhere between 5 and 10 to 1, especially if we want education, health care, stuff like that. EROI will strongly affect net economic growth, cost of government, ability to pay back debts. This is why coal remains so attractive; it has a very high energy return on investment, about 60 to 1. Wind turbines are about 18 to 1, if we don’t include the backup systems and other additional costs. Photovoltaics are about 6 to 1, and bio-diesel and tar sands are close to 1 to 1.

A continually lower EROI will diminish discretionary and infrastructure spending as more resources are required for production and consumption of energy. The burden will fall mainly on the poor. Whether we’re running on remaining fossil fuels or alternatives, as their energy return approaches zero, it will take so much out of the national output. I believe this is not a cycle, but a trend.

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Lisa Margonelli: Charles just provided a fabulous segue about the hemorrhage, the impact of energy cost on our discretionary income. The erosion of discretionary income is already here. We’re paying $1.05 billion a day for our gasoline in the US. In January 2009, people were spending more like $600 million dollars a day. This is an enormous chunk that’s coming out of our productivity that goes just toward gasoline.

It doesn’t hit everybody equally. It particularly hits the lower middle class, people who have to work three jobs, who don’t have access to credit. They have to buy the least efficient car on the market to commute to those three jobs. They can’t change where they live, because they might live in a place like an edge of a suburban area, and have to commute to three other edges for their jobs. They can’t change their house, they can’t change their jobs. They’re caught in a kind of energy trap.

I want to suggest a couple of things to think about. First, when we talk about green jobs, there’s kind of a problem because we can create only a limited number of green jobs. But if we don’t make all of the jobs greener, we’re going to have a lot of people who can’t get to their jobs when gas is $5 a gallon. There is a choke point because of the incredible vulnerability of the lower middle class to energy prices. It means we need to start remodeling everything. We need to stop picking the solutions to our problems, and start trying to find big, toothy problems that will yield both large savings in energy and large savings in energy spending, as well as carbon savings.

Rather than think about big, centralized, stationary sources of energy, like New Deal hydroelectric dam projects, we need to think about the energy as a network. That changes the whole paradigm of investment, because instead of investing in big projects, we need to start investing in people’s homes. I need to invest in my neighbor’s duct work. I need to invest in a smart grid, so that everybody pays a fair price for power, and pays for the amount that they use, not for the amount that their neighbor uses, which is what we have now.

We could reduce the carbon intensity of the grid by recapturing industrial waste power, creating a different political situation in the manufacturing- and energy-heavy Midwest and South. Or, to just reduce the draw of air conditioning by 10 percent, e.g. through the use of modern swamp coolers, we’d be looking at almost the equivalent of all the installed solar and wind in the US today. We would save a lot of money while developing a technology that we could export, and really bite into our carbon contribution. There are lots of other similar things that we can do, and we need to start focusing on saving money, and address the underlying financial and political concerns of the people who oppose green-
George Kenny runs the Electric Politics website, conducting extended interviews on core issues like the environment, politics and defense. The subject of his May 21 interview with Winslow Wheeler, director of the Straus Military Reform Project and EPS Fellow, was the F-35 "Joint Strike Fighter." The interview covers not just why this gigantic defense program should be canceled, but won't; it also probes other sacred cows of modern defense technology, for example, addressing why we no longer can mass produce fighters and the bane of modern combat aircraft - the "multi-role" fighter design.

Hear the full interview at http://www.electricpolitics.com/podcast/2010/05/the_f35_boondoggle.html

"May 24, something amazing happened: the connection between war funding and poverty was finally made in Congress, thanks to Rep. Grayson of Florida, who introduced the 'War is Making You Poor Act.' It doesn't get any more direct than that title!
"...If this bill were passed, it would ensure that the wars in Iraq and Afghanistan are funded completely through the $549 billion allocated for the Pentagon budget. This would leave the additional $159 billion for 'emergency war funding' for a good old-fashion tax break. With this money, the first $35,000 of every individual's income and $70,000 of every married couple's income will be tax free. This would put more money in the hands of everyone in the US – an economic stimulus with a multiplier effect that would help put our economy back on track and America back to work. Additionally, it will lower the national debt by $16 billion."

To read the full article, visit http://ofpeaceandpolitics.wordpress.com/2010/05/24/war-makes-you-poor-who-knew/
See information on the "War is Making You Poor Act" at http://www.thomas.gov/cgi-bin/query/z?c111:H.R.5353:

"When Barack Obama arrived at the White House, he quickly acted on the foreign policy promises he'd made in his presidential campaign, drawing up a timetable for withdrawing troops from Iraq, seeking diplomatic 'engagement' with adversaries such as Iran and North Korea, and trying to 'reset' the contentious US relationship with Russia.
"But until last month, he hadn't laid out his broader approach to the world beyond our borders. Now he has, in the recently released National Security Strategy, a lengthy essay required by Congress.
"The short version... is this: We still want to do a little bit of everything, but after almost a decade of war, we're overstretched and need to concentrate first on fixing the domestic economy. When it comes to problems overseas, we'll do what we can as long as it doesn't cost too much."

The complete article is available at http://www.latimes.com/news/opinion/commentary/la-oe-mcmanus-20100606,0,1433841.column
To read President Obama's National Security Strategy in full, see http://www.whitehouse.gov/sites/default/files/rss_viewer/national_security_strategy.pdf
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