

War and famine. Peace and milk. — *Somali proverb*

## The Annual Budget Issue

“Solvency... is not an issue for the US government... [The president] should not invoke the fallacious analogy between a household and the government.”

See page 8

### TABLE OF CONTENTS

Obama's Liberal Scorecard . . . . .	2
<i>Harold Meyerson</i>	
Letter from the Director . . . . .	3
Trade with China: The Long View . . . 6	
<i>Michael Valenti</i>	
Yes, We Can Cut the Defense Budget . . . . .	7
<i>Stephanie Gutmann</i>	
President Obama Is Hoisted on His Own Budget-Busting Petard . . . . 8	
<i>Marshall Auerback</i>	
Upcoming Events . . . . .	9
The Pillars of Economic Transformation . . . . .	11
<i>James K. Galbraith</i>	
Book Release: The Pentagon Labyrinth . . . . .	14
<i>Winslow Wheeler</i>	
EPS at the ASSA/AEA . . . . .	15

## A Plan to Cut Military Spending

Benjamin H. Friedman and Christopher Preble

Federal policymakers have supported many extraneous missions for the Department of Defense aside from the basic and constitutional requirement to defend the nation. The result is that America's military budget has become very bloated. The United States would be better off taking a wait-and-see approach to distant threats, while letting friendly nations bear more of the costs of their own defense, as we discuss in "Refocusing US Defense Strategy" ([http://www.downsizinggovernment.org/defense/refocusing\\_strategy](http://www.downsizinggovernment.org/defense/refocusing_strategy)).

There will always be disorder in various places around the globe, but that doesn't mean that all foreign problems are a threat to America. We should retain the ability to participate in multi-lateral efforts to mitigate humanitarian disasters, but we should not mistake such efforts as something relevant to our defense.

By avoiding the occupation of failing states and limiting our commitments to defend healthy ones, we could plan for fewer wars. By shedding extraneous missions, we can cut our force structure, which means reducing the number of US military personnel and the related costs for weapons, vehicles, and operations. The resulting US military force would be more elite, less strained, and less expensive.

This essay describes 19 proposals that would reduce US military spending by \$1.2 trillion over the next 10 years, or about 18 percent of projected military spending in the administration's budget. By 2020, the savings would be about \$150 billion annually. Although those are substantial reductions, the estimates are conservative. In several cases, we likely erred on the side of undercounting savings. A strategy of restraint could allow

greater savings as well; for example, cuts to the National Guard, the reserves, or our air- and sea-lift capabilities have not been included.

Some readers may wonder why we have not gone further, given that even steeper cuts would still leave the United States with a large margin of superiority over all rivals. The cuts we suggest are an initial harvest of restraint, and don't preclude further reductions. It would be prudent first to adopt changes like those we suggest, and then see if the political leadership is capable of adhering to a restrained defense strategy. The text (and related endnotes available online) provide readers with the information needed to understand how we arrived at our estimates. The table on page 11 summarizes our proposed spending cuts. Although the proposals fit within an overall strategic rationale, most of them could also stand alone as individual savings proposals.

**1. Cut the nuclear weapons arsenal.** The nuclear weapons arsenal should be cut to 500 deployed warheads. This would include a 50 percent cut in the number of delivery platforms, and would include elimination of the bomber leg of the nuclear triad and consolidation of nuclear laboratory and testing facilities. Our proposals would cut \$66 billion from the Department of Defense (DoD) budget and \$21 billion from the Department of Energy (DoE) budget over 10 years.

This proposal would retain six ballistic nuclear missile-carrying submarines (SSBNs), which would allow for at least four ballistic missile submarines to be deployed at any one time, saving \$3 billion over 10 years. These platforms, which were designed to carry as many

*Continued on page 4*

# Obama's Liberal Scorecard

Harold Meyerson

*This article was originally published in the Washington Post, December 22, 2010. Reprinted with permission of the author.*

With Republicans poised to take control of the House, Barack Obama has come to the end (at least, until 2013) of the progressive-reform period of his presidency. It's time to ask how he measures up when compared with his Democratic predecessors who had a kindred opportunity.

By the standards of his mid-20th-century predecessors, Obama's achievements, while substantial, are less far-reaching. Health-care reform was an epochal triumph, but unlike the social and medical insurance programs crafted by Franklin Roosevelt and Lyndon Johnson, it does not provide universal coverage, in part because Obama lacked the votes for a government-run public option, much less single-payer. The Dodd-Frank financial reform act limited Wall Street's capacity to tank the economy, but it did far less than legislation from the 1930s to constrain the size and conduct of big banks. Unlike FDR and LBJ, moreover, Obama never convinced the public that his landmark legislation would make their economic lives less perilous. This was no minor failing.

When Obama's record is measured against those of his two most recent Democratic predecessors, however, he clearly comes out on top. Jimmy Carter and Bill Clinton had larger Democratic congressional majorities than Obama did during their first two years but contributed surprisingly little to greater social or economic equity. (In fairness to them, more congressional Democrats in those days were Southern conservatives. In fairness to Obama, he, unlike his predecessors, had to overcome filibusters on virtually every bill.)

Unlike Roosevelt and Johnson, the three most recent Democratic presidents all suffered from a lack of left-wing street heat. What distinguishes Obama - and Nancy Pelosi and Harry Reid - is that they pushed through so much legislation despite the absence of legions demand-

ing progressive change (though there was a very effective mass lobby, if not a mass movement, for repealing the military's "don't ask, don't tell" ban).

Among the battles that Democrats lost, their failures to reform immigration and labor law stand out as missed political mega-opportunities. Both bills would have remedied the kinds of injustices that Democrats have historically remedied: immigration reform, allowing millions of American residents to claim basic human rights; labor law reform, helping boost Americans' long-depressed incomes by enabling private-sector employees to join unions without fear of being fired. Both bills would also have enlarged the pool of Democratic voters — and with that, the potential for further reform. Union members vote Democratic at rates far higher than their nonunion counterparts. Latinos and Asians who would eventually become citizens under the proposed immigration reform would augment the Democratic Party's advantage among voters of color.

It's no mystery why almost every Republican opposed these bills and almost every Democrat supported them. In the short term, the Republicans' descent into nativism and white neo-nationalism profitably exploits the anxiety of their base. In the long term, as the share of Latino Americans continues to rise, the GOP's racial policies are politically suicidal. Judging by the available evidence, though, Republicans don't, or can't, think long-term.

The greater mystery is why a handful of Democratic senators opposed immigration and labor-law reform. Democratic opponents of these bills — such as Nebraska's Ben Nelson, for one — gave short shrift to both democratic egalitarianism and Democratic prospects.

The battle Democrats haven't sufficiently waged during Obama's first two years was to restore the economy. The failure was, in part, intellectual: the president and his economic advisers didn't grasp that a recession that destroyed so much wealth, in an economy whose

major corporations are bent on expanding abroad rather than at home, required different trade and industrial policies and a larger stimulus to turn the country around. Obama should get credit, however, for keeping things from getting worse despite unified Republican opposition.

For all his victories, Obama's presidency will rise or fall on his success in rebuilding the economy. In the next two years, he'll have to become the president of internal improvements and industrial policy — approaches whose pedigree is as much 19th-century Whig and Republican (in a word, Lincolnian) as it is Democratic. There isn't a clear model for Democratic presidents after their reform window closes. Lincoln — not just the emancipator but also the champion of infrastructure development, tariffs and government help to industries — wouldn't be bad.

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## Letter from the Director

I had written most of a first draft of this letter before I went back and read last March's letter. I found I was repeating myself. The war in Iraq still drags on but gets little news coverage. The war in Afghanistan still makes little sense but is gobbling up treasure and lives. We may be cutting a few obsolete weapons systems from the defense budget, but overall it continues to go up.

So what has changed? The feeling of hope that rode in with the Obama administration has ridden back out of town. My wait-and-see attitude has drifted perilously close to cynicism. Tea Partiers are mad as hell (at what no one is quite sure) and Republicans rode that wave of anger into office. In this annual budget issue we take on their loud cries for cuts in federal spending.

There has been lively discussion among the peace and security crowd this budget season. With the Republicans pushing so hard for cuts, many have felt that this is an ideal time for finally trimming some of the fat from the defense budget. In this issue, we bring you two pieces, from a self-described conservative and two libertarians, joining their voices in asking for defense cuts along with any other belt tightening measures. As Chris Preble points out, by estimating high and then asking for less the DoD budget can go up and lawmakers can still talk about making cuts. "The Department of Defense will spend \$78 billion less over the next five years than previous projections... In Washington-ese, this constitutes a cut. But the base budget will increase — from \$549 billion to \$553 billion, the largest budget in the department's history. In the past 12 years, the budget that has doubled in real, inflation-adjusted terms."

Also to assist in sorting out the defense budget and its relative merits, we are happy to include brief excerpts from the new handbook-guide to the Defense Department, *The Pentagon Labyrinth: 10 Short Essays to Help You Through It* from the Strauss Military Reform Project.

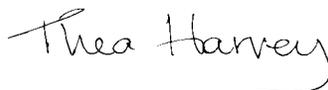
EPS has of course argued for many years that the defense budget is larger than necessary, leaching resources that

could be creating better rates of return elsewhere. We are loath to argue with any movement in that direction.

HOWEVER...you will see on the back cover of this issue that we strongly feel that all the emphasis on deficit reduction is unwarranted hysteria. Our *Statement on Federal Spending and the Recovery*, released February 28, begins, "The budget...does not make economic sense and is likely to do more harm than good." To further explore this theme, I have chosen an article in which Marshall Auerback explains why *President Obama Is Hoisted on His Own Budget-Busting Petard*. As far back as last June, Marshall realized that, "the president wants to keep the focus on jobs and the economy and get serious about runaway spending. His problem, however, is that only half the message is getting through to Congress, which is starting to listen to him on the second point -- at the expense of the first."

From that jumping off point, we bring you several pieces which examine the Obama administration's policies and processes. Harold Meyerson, in *Obama's Liberal Scorecard*, notes that, "Unlike FDR and LBJ, Obama never convinced the public that his landmark [financial reform act] would make their economic lives less perilous." Michael Valenti, who is interning with EPS this semester, examines current and future trade relations with China. And James Galbraith reacts to the State of the Union address with some proposed *Pillars of Economic Transformation*.

I am normally an optimistic person; I look for the opportunity in every situation. As I said, I am struggling to maintain my attitude of late. I am proud and grateful to be part of an organization "that places first priority on sustaining economic recovery and on dealing with the country's true economic and social problems," before the false bogeyman of deficits.



### EPS QUARTERLY is published by ECONOMISTS FOR PEACE AND SECURITY

EPS promotes economic analysis and appropriate action on global issues relating to peace, security, and the world economy.

Newsletter articles are based on the views of the authors and do not necessarily represent the views of the Directors, Trustees, or members of EPS.

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## A Plan to Cut Military Spending (continued)

as 192 warheads, will deter any leader foolish enough to contemplate a strike on the United States. To make doubly sure, we would retain 150 Minuteman III Intercontinental Ballistic Missiles in the continental United States. We would also forgo the purchase of Trident II missiles for the SSBNs and upgrades to nuclear cruise missiles, and shelve plans to deploy nuclear weapons on the F-35 Joint Strike Fighter. Because a smaller arsenal requires less support, we would consolidate nuclear weapons production and testing facilities, which fall under DoE's purview.

**2. Reduce the size of the Army.** Reducing the number of active-duty Army personnel from the current legislated end strength (547,400) to 360,000 would save \$220 billion over 10 years. This figure draws on a Congressional Budget Office (CBO) calculation that estimated the costs of expanding the Army by 65,000 personnel. We assume that our savings would be about 2.5 times the value of the CBO estimate.

**3. Reduce the size of the Marine Corps.** Reducing the size of the Marine Corps from 202,000 to 145,000 would save about \$67 billion over 10 years. We would phase in these personnel reductions over 10 years. The estimated savings were obtained by modifying the CBO projections for the Army.

**4. Reduce Marine Corps expeditionary strike groups.** A reduction in the number of Marine Corps expeditionary strike groups from 10 to 6 would save \$7 billion over 10 years. These reductions are consistent with cuts in Marine Corps' personnel cited above. This proposal would decommission four Amphibious Assault Ships, four Amphibious Transport Dock Ships, and at least two Dock Landing Ships, while eliminating associated air wings. These cuts are justified because the likelihood of the Marines attacking a well-defended coast from the sea without support from carrier air power is remote, and the speed to deployment gained by having Marines sea-based is rarely worth its cost. By reducing the number of expeditionary strike groups to 6, \$2.4 billion would be saved in operation and maintenance (O&M) costs over 10 years.

Associated naval personnel cuts would save \$4.6 billion.

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risky missions.**

**5. Build and operate fewer aircraft carriers and naval aircraft.** Reducing the number of operational aircraft carriers (CVNs) from 12 to 8 would save \$40 billion over 10 years. Current Navy plans call for 12 carriers by 2020. This proposal would continue production of the new Ford Class CVN 78, which will be deployed in 2015. Canceling procurement of CVN 79 and all future Ford Class CVNs would save \$16 billion over 10 years (approximately \$7 billion for CVN 79 and \$9 billion for CVN 80). By decommissioning the Nimitz, the Eisenhower, and the Vinson, at least \$5 billion over 10 years would be saved in reduced O&M costs, including associated air wings. These savings would be partly offset by the decommissioning costs of about \$1 billion per vessel. Another \$12 billion would be saved in forgone procurement of 60 F-35 Joint Strike Fighters. Associated reductions in personnel would save \$10 billion.

**6. Build and operate fewer tactical submarines.** Reducing the number of tactical submarines would save \$32 billion over 10 years. Current plans show the number of fast-attack submarines declining to 40 ships by 2028. The Navy can reach 40 in 2020, eight years earlier, by slowing the rate of procurement from two to one new vessel per year. Thus, instead of spending \$5.8 billion per year, we could spend \$2.9 billion per year, saving \$29 billion in procurement and \$1 billion in O&M costs over 10

years. Decommissioning the four active guided missile submarines would save at least \$500 million in O&M over 10 years, but we estimate that these savings would be offset in the short term by the costs to dispose of the vessels. Savings from reductions in personnel onboard tactical submarines would be \$2 billion.

**7. Build and operate fewer destroyers.** We would save \$34 billion over 10 years by reducing the number of destroyers (DDGs) that the Navy buys and operates. This reduction is accomplished by maintaining the number of DDG-51s at the current level of 62. The Navy has already proposed stopping production of the DDG-1000 at 3, and instead plans to buy 8 Flight IIA version DDG-51s and as many as 8 Flight III version DDG-51s by 2020 at an average cost of about \$2 billion. We would allow production of the three DDG-1000s to proceed but build no additional DDG-51s, and, where possible, reallocate funds already authorized. Avoiding production of 16 DDG-51s would save at least \$30 billion, plus \$1 billion in associated O&M costs and \$1 billion from reductions in personnel.

**8. Terminate the Littoral Combat Ship (LCS).** The Navy should halt the LCS program and consider developing a less expensive class of frigates or corvettes. Current LCS costs are roughly three times the initial estimates. The high costs undermine the idea — always questionable — that the LCS could take on particularly risky missions. Cost has also undercut the LCS's modularity, where commanders could select a mission module, a package of software and equipment that can be swapped in and out to tailor each LCS to a mission. There are three such modules: mine warfare, anti-submarine warfare, and surface warfare. Presumably because of cost constraints, the Navy is building only about as many modules as ships, limiting flexibility.

Besides the 4 LCSs already (or nearly) completed, the Navy plans to build about 24 in the next 10 years, at an average cost of \$620 million each. Forgoing these vessels would thus save \$14.9 billion over the next 10 years, plus

## A Plan to Cut Military Spending

\$3.1 billion in associated O&M costs. While researching alternative platforms, the Navy can refurbish 14 Perry class frigates at a cost of roughly \$100 million each. These ships, along with destroyers, could perform the LCS's missions. After subtracting the costs of refurbishing and retaining the frigates and the additional personnel costs they require, net savings would be \$14 billion over 10 years.

**9. Build and operate fewer Air Force fighters.** The Air Force should eliminate six strike wing equivalents, netting \$89 billion in savings over 10 years. The drawdown would be accomplished by accelerating the retirement of aging airframes, especially F-15s and F-16s, and purchasing 301 fewer F-35s than currently programmed. The estimated cost per new aircraft is \$200 million, which translates into \$60 billion in reduced procurement expenses, plus \$29 billion in reduced personnel and O&M expenses.

**10. Terminate the Expeditionary Fighting Vehicle.** The Expeditionary Fighting Vehicle is 14 years behind schedule and 160 percent over budget. It serves an archaic mission — amphibious

assault on a hostile shore. The last time such an amphibious assault occurred was the Inchon Landing in September 1950. In the highly unlikely event that the United States again employs Marines in this way, existing platforms, including the Assault Amphibious Vehicle 7A, will suffice. This proposal would save the approximately \$11 billion needed to complete the program and purchase 573 vehicles.

**11. Terminate the V-22 Osprey.** The Marine Corps should stop V-22 Osprey production and save the \$23 billion estimated cost for the rest of the procurement. The V-22's cost is extraordinarily high relative to alternatives. It lacks reliability and lift. Its relatively small size means that other aircraft will have to bring supplies such as heavy weapons to the Marines it transports, but no supply aircraft can fly as far and as fast, meaning that either V-22s will drop Marines off in places where they cannot be equipped to fight, or more likely, it will not be used at full range, undermining a primary argument for its procurement. Proven rotary-wing aircraft, such as the MH-60 and the CH-53, should handle this mission. After subtracting the cost of

procuring and operating alternative platforms for troop and material transport, total savings for the elimination of the V-22 program equal \$15 billion over 10 years.

**12. Realign the missile defense program.** The administration's FY 2011 budget requested \$9.9 billion for missile defense, which is similar to spending levels in recent years. Our proposal would save about \$60 billion over 10 years by shifting missile defense funding from procurement to research and development and canceling components with excessive cost overruns. Assuming that DoD currently plans to spend an average of \$9 billion annually, reducing spending to about \$3 billion annually would save at least \$60 billion over 10 years.

**13. Cut the Pentagon's civilian workforce.** A smaller military requires fewer civilian support personnel. As discussed on page 10 in the section on overhead, the Pentagon has excessive administrative apparatus even for its current broad missions. Accordingly, we would reduce the Pentagon civilian workforce by nearly a third, with most of

*Continued on page 10*

### DEPARTMENT OF DEFENSE SPENDING BY FUNCTION, 2010

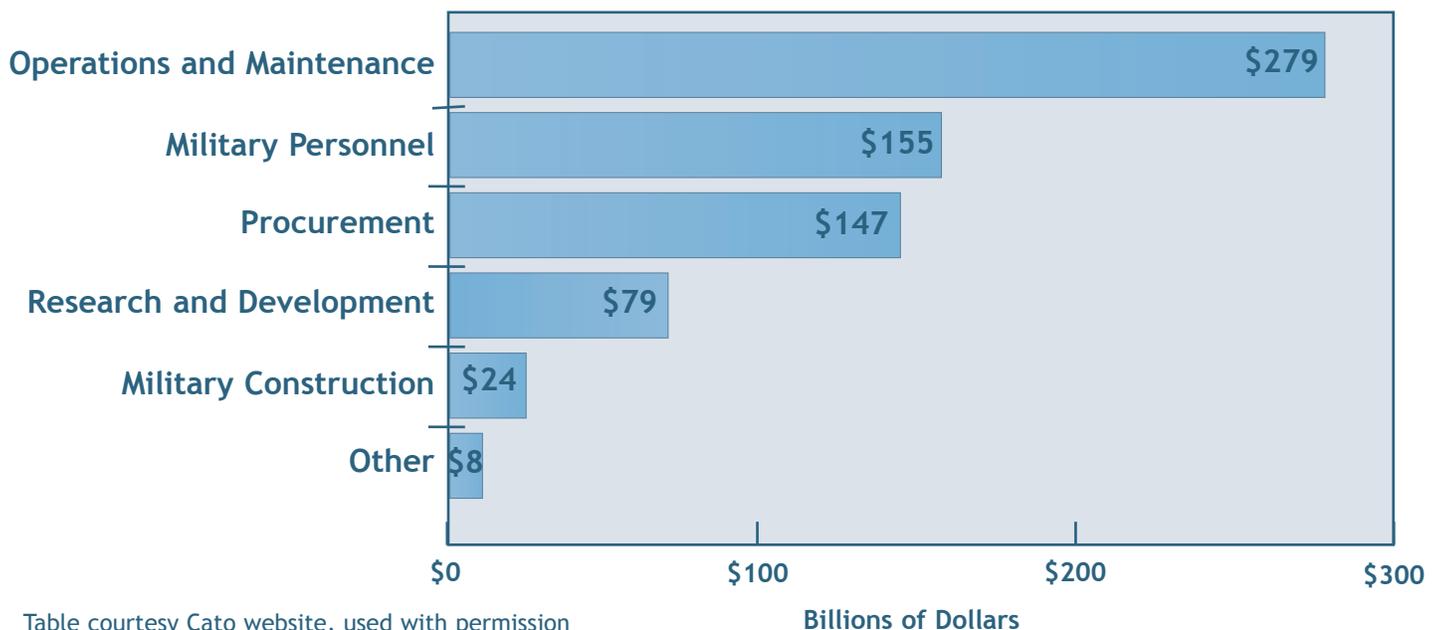


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## Trade with China: The Long View

Michael Valenti

President Obama signed a trade agreement with Chinese president Hu Jintao on January 19 by which China has agreed to purchase \$45 billion in US exports. The deal consists of large Chinese purchases of aircraft, agriculture, telecom, and technology companies. It is estimated that the deal will support 235,000 jobs in twelve states. The agreement was announced as President Hu arrived in Washington for a state visit with president Obama. The event marks President Hu's first visit to the White House since 2006, and the first time since 1997 that a trip to the US by a Chinese president was accorded the status of an official state visit. Presidents Hu and Obama conducted a series of talks, the results of which, in addition to the trade deal, were commitments by the two nations to cooperate on fighting terrorism, China's commitment to curb software and media piracy, and for Beijing to allow the yuan to further appreciate against the dollar.

The visit is seen to embody an evolution in diplomacy between the world's major economic superpowers. Relations between the two nations have been characterized as somewhat prickly in the past few years leading up to the summit. The Obama administration got off to a shaky start with China, beginning with the Copenhagen Climate Conference in December 2009. Discourse between China and the US has since been tarnished somewhat by disagreements over a \$6.4 billion arms package that the US sold to Taiwan in January 2010 and by President Obama's visit with the Dalai Lama last February.

At the heart of any bad blood these days, however, is the role that many Americans believe Chinese monetary policy has played in exacerbating the American economic downturn. The US House of Representatives overwhelmingly passed legislation last September which would penalize China with trade tariffs for undervaluing its currency. The Obama administration has wisely side-stepped the rhetoric on Capitol Hill which vilifies China as the bogeyman responsible for US economic woes. The

fact of the matter is that the value of the yuan is but one of many factors that contribute to the trade imbalance with China. This reality is evidenced by the revaluation of the renminbi in 2005, and its negligible effect on the US trade deficit. Moreover, this rhetoric seems to suggest that making Chinese consumer goods more expensive in the United States will somehow create American manufacturing jobs. It presumes that the United States is in a position to compete with China in producing the vast array of consumer goods which account for the trade deficit, iPods, Nikes, laptop computers, and the like. That is simply not the case, regardless of the value of the yuan.

**[T]he value of the yuan is but one of many factors that contribute to the trade imbalance with China... evidenced by the revaluation of the renminbi in 2005, and its negligible effect on the US trade deficit.**

The House tariff bill also ignores the fact that US exports to China were nearly \$100 billion in 2010, an all-time high, and have increased rapidly in the past decade. There are significant structural issues in both China and the US which do contribute to the trade imbalance. The value of China's currency is but a small part of it. To roundly proclaim that the value of the yuan is costing American jobs is either ill-informed or disingenuous.

The Obama administration is keenly aware of the fact that the future of relations with China are being built today, and that hostility toward China on Capitol Hill seems rooted in the same "us versus them" parochialism that went out with the cold war. Unlike US-Soviet relations in the wake of World War II, the

fates of the United States and China are far too interwoven and nuanced to leave room for such aggressive posturing as the Chinese tariff bill introduced by the House. The United States is China's second largest trading partner, and China still owns over \$800 billion in US securities.

Unfortunately, the shaping of a re-invigorated discourse with China compelled the Obama administration to tiptoe around China's more egregious shortcomings — namely, its abysmal human rights record, as embodied by the imprisonment of dissident writer and recent Nobel laureate Liu Xiaobo. Decorum further dictated muted discussion of US concerns over China's increasingly aggressive foreign policy in the ASEAN region. These issues must be addressed, but perhaps the long view, one in which the Obama administration establishes a solid foundation of cooperation and open communication, are seen as the groundwork upon which a more frank dialogue of these issues can be built.

Viewing the trade deal within the context of President Obama's stated objectives upon entering office is illuminating. China hardly came up during the Obama campaign, yet relations with China become the elephant in the room when discussing every facet of the future of America. As is apparent witnessing the debate over jobs creation, America has to look long and hard at a set of corporate and government policies which have resulted in the drastic decrease in manufacturing jobs in this country. It hardly seems likely that the future of America lies in sneaker assembly or iPod soldering, as Senator Brown's tariff legislation seems to suggest. So, what business should America be in, exactly? What, exactly, is America's role in the twenty first century? Hopefully, intelligent analysis of America's relationship with China might provide some answers.

*Michael Valenti is an intern at EPS and a student of the humanities at Dutchess Community College.*

# Yes, We Can Cut the Defense Budget

Stephanie Gutmann

*This article was originally posted February 8, 2011 on the National Review Online website. Printed with permission of the author.*

I love my fellow conservatives (well, most of them) but often find myself getting very frustrated over an apparent blind spot. There's this idea that cutting spending is great, except for the military budget, which apparently is sacred. "How much is world order worth?" asked a prominent analyst in the Wall Street Journal the other day. Another big shot opined in Commentary that "serious cuts to the defense budget" necessarily mean that "the armed services are almost certainly going to have to make do in the future with even fewer resources than they have in the past few years."

This is simply not true. The Department of Defense is a government bureaucracy, cousin to the Department of Education, the Department of Agriculture, and the rest. That means it has the same "Dawn of the Dead" zombie instincts. Its underlying, primal, blind, grasping need is to feed and repel threats — and always, always to expand itself.

If the US military seems perpetually short on money (as when soldiers in Iraq complained about not having hard-shelled vehicles), it's because a top layer of bureaucracy soaks up most of the bucks before they can trickle down to the guys on the ground. Conservatives understand this dynamic when applied to the Department of Education, so why not to the DOD?

I'm not a line-by-line expert on the military budget, but common sense says there's a nice layer of lard that can be pared before we hit muscle and bone. Who knows, the services might even work better if forced to run a little leaner. The Marines — the service that gets the least money per capita — is also considered to be the most effective.

At least we could go over the budgets with the proverbial fine-toothed comb. At least we could talk about what we might cut. I put the question of possi-

ble cuts to military friends via that great world-changer and regime-toppler Facebook. Here are some of the suggestions they came up with — along with my notes:

- "How about the thousands of troops in Germany and the UK?"
- "All-Army Sports. We have a war going on. We don't need professional sports teams." [Did you know that the Army fields its own sports teams? I didn't, but here's their website: [http://www.armymwr.com/recreation/sportsandfitness/all\\_army\\_sports.aspx](http://www.armymwr.com/recreation/sportsandfitness/all_army_sports.aspx).]

**If the US military seems perpetually short on money (as when soldiers in Iraq complained about not having hard-shelled vehicles), it's because a top layer of bureaucracy soaks up most of the bucks before they can trickle down to the guys on the ground.**

- "The US Army Soldier Show. Yes, it was founded by Irving Berlin, but we need Soldiers in our warfighting units, not tap dancing around the world (literally)." [The writer is not referring to the halloved USO Shows. Those are a private venture.]

- "The Commander of the Army and Air Force Exchange Service. The PX system does not need a General Officer in command. Hire a competent executive away from Wal-Mart, Sears, or JCPennys and let him go to town." [While we're at it, do we really need expensively-trained servicemen and -women manning the base supermarkets and ship's stores anyway? Isn't this a job that we might consider privatizing?]

Speaking of wasting trained personnel, that same retired Army man recommends taking a look at "the number of aides-de-camp to General Officers who have that all important duty of holding hats, carrying briefcases, and basically being personal servants. Since most of the servants are commissioned officers, if the duties are so important, then assign them to some wounded enlisted soldiers who are not capable of combat duties."

Then there are institutions like the Defense Department Advisory Committee on Women in the Services, a group of civilian women assigned a military staff and then mandated to "examine and advise on matters relating to women in the Armed Forces of the United States." To carry this out, they go on tours of bases, ask a lot of clueless questions to which they're guaranteed not to get many honest answers, and have big meetings in hotels. Probing the needs of military women may be a worthy mission, but the DACOWITS are redundant. Military women have a lot of outlets for complaints these days, most notably an always receptive media. The DACOWITS's yearly budget is "only" \$700,000 but where there is one DACOWITS there are more.

Here's another. Could we at least talk about the US Army Veterinary Command? The US military employs many noble animals: bomb-sniffing dogs, mine-spotting dolphins. They get sick, they get wounded (one would imagine especially the dogs deployed to Iraq and Afghanistan), but something about the US Army Veterinary Command raises my excessive bureaucracy radar. Perhaps no one's looked at its budget since we had a horse-drawn cavalry. Perhaps it's due.

Just a thought.

*Stephanie Gutmann is author of The Kinder, Gentler Military (Scribner, 2000) and The Other War: Israelis, Palestinians and The Fight for Media Supremacy (Encounter, 2005). She lives with her husband, also a journalist, in Piermont, New York.*

# President Obama Is Hoisted on His Own Budget-Busting Petard

Marshall Auerback

*All it takes is simple accounting to stop obsessing about the deficit and start focusing on unemployment.*

So the president wants to keep the focus on jobs and the economy and get serious about runaway spending. His problem, however, is that only half the message is getting through to Congress, which is starting to listen to him on the second point — at the expense of the first. Well, it's his own fault. Even as the president (rightly) continues to trumpet the real economic benefits that have accrued from his \$787 billion spending bill, which helped to sustain demand and create jobs, he capitulates to the common deficit dove position that our government ultimately faces a "national solvency" constraint. He and his advisers still do not realize that there is no economic doctrine, no magic number, which would imply a firm external constraint on public spending, when dealing with a sovereign government issuing debt its own floating rate, non-convertible currency.

To put it another way, Obama still fails to comprehend that a desired level of aggregate demand is altered by the public sector's fiscal balance. So in the longer term, the public sector should tighten fiscal policy only if aggregate demand is deemed to be "too high" — because we are close to full employment — and not to "fund" anything *per se*, as the president implies when he talks about dealing with "runaway government spending." At that point, we may indeed have a resource constraint, or an inflation constraint, but not a national solvency issue.

Let's take a step back and give the president a needed tutorial in Basic Macroeconomics 101. At an economy's most basic level there are three major sectors: 1) a private sector that includes both households and firms; 2) a government sector that includes both the federal government and all levels of state and local governments; and 3) a foreign sector that includes imports and exports. At the aggregate level, the dollar spending of all three sectors combined must equal the income received

by the three sectors combined. Aggregate spending equals aggregate income.

But there is no reason why any one sector must spend an amount exactly equal to its income. One sector can run a surplus (spend less than its income) so long as another runs a deficit (spends more than its income). The government sector is in the unique position of being able to create new net financial assets,

**The President must break away from defining "fiscal sustainability" in relation to some sort of arbitrary level of the public debt/GDP ratio... the core weakness at the heart of the European Monetary Union today.**

by virtue of its ability to create currency. When a private entity goes into debt, its liabilities are another entity's asset. Netting the two, there is no net financial asset creation. When a sovereign government issues debt, it creates an asset for the private sector without an offsetting private sector liability. Hence government issuance of debt results in net financial asset creation for the private sector. Private debt is debt, but government debt is financial wealth for the private sector.

Solvency, then, is not an issue for the US government. In failing to recognize this crucial point, the president in effect legitimizes the position of the deficit hawks, who argue that national government fiscal policy is ultimately predicated on the type of constraints faced daily by households. Rather, the president should affirm that fiscal sustainability does not include any notion of financing imperatives faced by a sovereign government. He should not invoke

the fallacious analogy between a household and the government.

Households neither have the power to levy taxes, nor issue currency, nor to demand that those taxes are paid in the currency it issues (well, they can do this, but it's called "counterfeiting" and it's a jailable offense). Rather, households are users of the currency issued by the sovereign government. Here the same distinction applies to businesses, which are also users of the currency. By virtue of the constitution, the US federal government is the sole issuer of our currency, and the dollar, which is nothing more than the government's IOU, is always accepted in payment.

To anticipate the next objection of the Flat Earth Economists, let's deal with the risk of currency evaporation, which is usually alleged when we point out that the dollar is always accepted in payment. Consider the Russian financial crisis of 1998. Even then, the ruble didn't vaporize and disappear. It just made a one-time adjustment from 6.45 to maybe 28 to the dollar, even though the entire payments system shut down for almost six months. This is despite the fact that in Russia in 1998, there was complete debt default of both local and foreign currency, no faith, total meltdown of GDP, and a central bank shut down. Yet the ruble neither disappeared, nor did Russians stop using it as the currency unit of account settlements.

The President must break away from defining "fiscal sustainability" in relation to some sort of arbitrary level of the public debt/GDP ratio. This is arguably the core weakness at the heart of the European Monetary Union today. As Professor Bill Mitchell notes in his blog, [bilbo.economicoutlook.net](http://bilbo.economicoutlook.net), fiscal sustainability is directly related to the extent to which labor resources are utilized in the economy. The goal of fiscal policy is to generate full employment. Even Ronald Reagan seemed to understand this concept better than President Obama. The goal of the Reagan tax cuts was to generate growth and reduce unemployment; the message wasn't muddled by references to the

## President Obama Is Hoisted on His Own Budget-Busting Petard

importance of returning the federal government deficit to "manageable levels," as the wars wind down and the economy recovers from the recession. The concept of fiscal sustainability is not defined in terms of public solvency. A sovereign government is always solvent (unless it voluntarily imposes constraints on itself, as the US government and others are doing).

The president must first point out that the collapse in private spending over the past two years has meant that output and employment growth are still at terribly depressed levels and urgent fiscal intervention is required. If the public deficit (which is, after all, nothing more than an accounting tally that reflects the gap between government receipts and expenditures) does rise to offset the fall in private spending, then aggregate demand can continue to support the high levels of output. Households will continue to reach their desired saving levels and employment will not fall. Double digit unemployment is de facto evidence that we are doing too little, not too much.

Failure to support economic growth via fiscal stimulus, as is now being urged by the deficit hawks and by the president "over the longer term," will clearly worsen today's dire situation. It will drive up

the output gap – that is, the difference between potential or full employment output and actual output, the latter being determined by the state of overall spending power in the economy (see here for a broader explanation).

It is ironic that a president supposedly in possession of such great oratorical skills continues to muddy his message as badly as the BP oil spill is now tarnishing much of the Gulf coast. Obama is undoubtedly correct to focus on jobs and the economy, but wrong to obsess about "runaway spending." Our economy faces such strong headwinds that a huge fiscal expansion is required, which will mean deficits even larger and perhaps more prolonged than those now projected. We still need to replace 8 million lost jobs. If the president had any understanding of basic accounting identities, then he could make the case to the public far more coherently. He would also likely have greater success in channeling congressional action toward genuine job creation, not the deviant form of crony capitalism that has inefficiently tied up so much of our government resources and helped to discredit the very actions that prevented the economy from going over a cliff. I'll leave the final word to my friend, Warren Mosler, who

understands these things better than the president (and most of Congress, apparently):

"Fiscal policy does not have to introduce moral hazard issues. It can be used to sustain incomes from the bottom up at desired levels, and not for top-down bailouts of failed businesses. Sustaining incomes will not keep an over-bought market from crashing, but it will sustain sales and employment in the real economy, with business competing successfully for consumer dollars surviving, and those that don't failing. That's all that's fundamentally needed for prosperity, along with a government that understands its role in supporting the public infrastructure."

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### UPCOMING EVENTS

**April 26 – 29, 2011.** The 9<sup>th</sup> Biennial Pacific Rim Conference will be held in Brisbane, Australia, hosted by Queensland University of Technology's School of Economics and Finance. Program highlights include keynote addresses by Edward J. Kane, Boston College, and WEAI President Paul A. David, Stanford University. Information is available at <http://www.weainternational.org/>.

**June 16 – 17, 2011.** The Fifteenth Annual Conference on Economics and Security will be held in Bristol, UK, hosted by Economists for Peace and Security (UK), the University of the West of England, and Bristol University. If you would like to present a paper, please send a title and an abstract of less than 300 words as soon as possible. Both should be sent before April 1, 2011 to [John2.Dunne@uwe.ac.uk](mailto:John2.Dunne@uwe.ac.uk). For more information, visit <http://carecon.org.uk/Conferences/Conf2011>.

**June 27 – 29, 2011.** 11th Annual Jan Tinbergen Peace Science Conference will be held at University of Amsterdam, The Netherlands. Go to <http://www.europeanpeacescientists.org/jtinbergen.html> for more information.

**June 29 – July 3, 2011.** The 86th Annual Conference of The Western Economics Association International will be held in San Diego, California. Visit <http://www.weainternational.org/> for details.

## A Plan to Cut Military Spending (continued)

the cuts coming through attrition. The civilian workforce will total 789,000 in FY2011 and cost \$77 billion. Reducing the civilian payroll by 30 percent over 10 years would save about \$105 billion. This estimate mirrors reductions in personnel between 1991 and 2001, when civilian manpower was reduced by roughly 34 percent and total civilian compensation declined by just over 24 percent.

**14. Reform military compensation.** Currently, some components of military compensation, including tax advantages and housing allowances, are not included in the pay raise calculations that are pegged to changes in the civilian sector. We propose including these benefits when pay raises are calculated, phasing the reform in as forces are withdrawn from Afghanistan and Iraq. That would save \$55 billion over 10 years.

Premiums for DoD's health care system, TRICARE, have not risen in 10 years. Lower premiums encourage military retirees earning full-time civilian salaries to choose TRICARE even though health coverage is available through their employer. According to a June 2009 CBO report, reform of TRICARE could save more than \$60 billion over 10 years. Such changes are more reasonable under a restraint strategy because that strategy would greatly reduce the burden on military personnel.

**15. Reform maintenance and supply systems.** According to the CBO, reform of DoD maintenance and supply systems would save \$13 billion over 10 years. Reforms would include consolidating DoD retailing, changing DoD's depot pricing structure for equipment repairs, and easing restrictions on contracting for depot maintenance.

**16. Cut military construction and housing.** The cuts discussed here would allow reductions in the buildings needed to accommodate DoD personnel and thus in the military construction and family housing budget. The budget for these activities has been over \$25 billion in recent years, although the administration sees spending falling to \$14 billion by 2015. We propose cutting projected spending by 20 percent, or about \$30 billion over 10 years.

**17. Reform command, support, and infrastructure.** About 40 percent of DoD's budget goes toward overhead, including rents, depreciation of equipment, facilities maintenance, utilities, headquarters staff, information technology, and other defense-wide support programs. The Defense Business Board, a DoD advisory group, recently noted that this overhead ratio is at an historic high, reflecting rapid growth in Pentagon management costs in recent decades. As part of an effort to shift \$100 billion from swollen overhead costs to force structure over the next decade, the secretary of Defense recently suggested closing Joint Forces Command and several other small DoD organizations, hiring fewer contractors, and reducing staff in

**Premiums for DoD's health care system, TRICARE, have not risen in 10 years... According to a June 2009 CBO report, reform of TRICARE could save more than \$60 billion over 10 years.**

the Office of the Secretary of Defense.

Those are welcome initiatives, but the savings should be used to reduce the deficit, rather than going into other programs. Furthermore, deeper cuts are warranted. The size of DoD under a strategy of restraint would need even less administrative support. We could, for example, eliminate or consolidate the geographic Combatant Commands. Because some of these savings are reflected in the cuts to civilian personnel and intelligence counted elsewhere, we follow DoD and estimate that cuts to overhead could save an average of \$10 billion per year or about \$100 billion over 10 years.

**18. Reduce intelligence spending.** In 2009, then director of National Intelligence Dennis Blair stated that the

US intelligence budget was \$75 billion. That included \$45 billion for the National Intelligence Program and \$30 billion for the Military Intelligence Program. That amount is greatly expanded from the \$27 billion spent on intelligence in 1998. In turn, the 1998 intelligence budget exceeded the 1980 intelligence budget by almost 80 percent in real terms. This rapid growth is excessive given the historically mild threats we face.

Redundancy in intelligence analysis can be useful by producing competing perspectives and thoroughness, but the explosion in intelligence spending has spawned organizational confusion and excessive overlap. The Central Intelligence Agency, for example, is now carrying out paramilitary activities that should be the exclusive province of Special Operational Forces. Under our strategy of restraint, there would be even a larger excess in intelligence spending as a result of there being fewer enemies and military missions. Thus, we propose to cut 15 percent from the intelligence budget. Assuming that intelligence spending would otherwise remain at \$75 billion annually, a 15 percent cut would save about \$112 billion over 10 years. Roughly 20 percent of total intelligence spending falls outside of the "defense" function in the federal budget; about \$22 billion of these savings would come from other sections of the budget.

**19. Reduce research, development, testing, and evaluation.** In coming years, DoD plans to spend about \$73 billion annually on research, development, testing, and evaluation. Policymakers should reduce total RDT&E spending by 10 percent annually, which would generate about \$73 billion in savings over 10 years. The reduced spending levels would still greatly exceed what would be required to maintain the US military's quantitative and qualitative superiority over other nations for the foreseeable future.

See <http://epsusa.org/publications/newsletter/newsletter.htm> for all endnotes and references. This article was originally posted on the Cato website in November of 2010. Related articles and blog postings can be found at <http://www.downsizinggovernment.org/defense>.

## A Plan to Cut Military Spending

### DEPARTMENT OF DEFENSE PROPOSED SPENDING CUTS

<u>PROGRAM</u>	<u>10-YEAR SAVINGS (\$BILLION)</u>
<u>Strategic Capabilities</u>	
1. Cut the nuclear weapons arsenal	\$87
<u>Army and Marine Corps</u>	
2. Reduce the size of the Army	\$220
3. Reduce the size of the Marine Corps	\$67
4. Reduce Marine Corps expeditionary strike groups	\$7
<u>Navy and Air Force</u>	
5. Build/operate fewer aircraft carriers and naval aircraft	\$40
6. Build/operate fewer tactical submarines	\$32
7. Build/operate fewer destroyers	\$34
8. Terminate the Littoral Combat Ship	\$14
9. Build/operate fewer Air Force fighters	\$89
<u>Other Weapon Systems</u>	
10. Terminate the Expeditionary Fighting Vehicle	\$11
11. Terminate the V-22 Osprey	\$15
12. Realign the missile defense program	\$60
<u>Workforce and Compensation</u>	
13. Cut the Pentagon's civilian workforce	\$105
14. Reform military compensation	\$115
<u>Infrastructure and Administration</u>	
15. Reform maintenance and supply systems	\$13
16. Cut military construction and housing	\$30
17. Reform command, support, and infrastructure	\$100
<u>Other Savings</u>	
18. Reduce intelligence spending	\$112
19. Reduce research, development, testing, and evaluation	\$73
<u>Total proposed cuts (FY2011-FY2020)</u>	\$1,224
<u>Total department outlays (FY2011-FY2020)</u>	\$6,864

Benjamin H. Friedman is a research fellow in defense and homeland security studies. His areas of expertise include counter-terrorism, homeland security and defense politics. He is the author of dozens of op-eds and journal articles and co-editor, with Jim Harper and Christopher Preble, of *Terrorizing Ourselves: Why US Counterterrorism Policy Is Failing and How to Fix It* (Cato Institute, 2010). He is a graduate of

Dartmouth College and a PhD candidate in Political Science and an affiliate of the Security Studies Program at the Massachusetts Institute of Technology.

Christopher A. Preble is director of foreign policy studies at the Cato Institute. He is the author of three books including *The Power Problem: How American Military Dominance Makes Us Less Safe, Less Prosperous and Less Free* (Cornell

University Press, 2009), which documents the enormous costs of America's military power, and proposes a new grand strategy to advance US security. Preble is also the lead author of *Exiting Iraq: How the US Must End the Occupation and Renew the War against Al Qaeda* (Cato Institute, 2004). In addition to his books, Preble has published over 150 articles in major publications.

# The Pillars of Economic Transformation

James K. Galbraith

In his 2011 State of the Union, President Obama outlined a sweeping program for economic transformation, resting on innovation, education, infrastructure, deficit reduction, and governmental reform. The New America Foundation asks whether these are the right “pillars” of a national agenda.

Three of them — innovation, education and infrastructure — are on the mark. But deficit reduction, as a goal of policy, contradicts these goals. And “government reform” is just an old slogan without substantial content, as the text of the State of the Union address itself reveals.

From the beginning, the Great Crisis has demanded a strategic response. The President's conceptual failure in 2009 was the notion that a sufficient “stimulus” program, coupled with measures to preserve Wall Street, would suffice to “restore credit flows” and “get the economy moving again.” This was never true. The stimulus and financial measures could stabilize things, but they could not by themselves restore growth, prosperity, and high employment. Policies based on this vision would have disappointed, even if the “stimulus” had been markedly bigger and better than it was.

The new vision stresses innovation to cope with our energy and climate challenges. It stresses education as social policy and for economic competitiveness. It stresses infrastructure not only for competitiveness, but also for quality of life. These are simple matters to speak of — matters of vision, direction, orientation stated in very general terms — but they are moves in the right direction.

However, the President chose not to specify what actions Congress should take. Implementation, in other words, was missing. Given the futility of our politics, one can understand why he was reticent. In the real world, the path from intention to results is paved with actual proposals and actual decisions, which must be based on realistic technologies, not pipe dreams. You cannot simply wave a wand.

On innovation: did the President really hold out hope for fueling cars with water and sunlight? (Yes, he did.) Did he promise that 80 percent of our electricity can come from “clean” sources (and what, if anything, does that mean?) Does he really think that biofuels can “break our dependence on oil”? He said so. That he said so is a sad commentary on the place of science in the Obama White House. That he didn't mention the threat these initiatives are supposed to deal with — global warming — is sadder still.

**In the real world, the path from intention to results is paved with actual proposals and actual decisions, which must be based on realistic technologies, not pipe dreams. You cannot simply wave a wand.**

So how about a new set of national labs, spread across the states, to carry out basic research, technical development and evaluation — to get credible and apolitical answers to these questions and to plot the best path? How about a new program of research consortia, research parks and joint ventures, again on proven models and with competent, autonomous review boards? How about regional planning centers to adapt new technologies to local conditions? How about a Cabinet department to coordinate these efforts for energy security and against climate change?

On education: exactly how does the Administration propose to find and retain 10,000 new science, technology, engineering, and math (STEM) teachers per year? Undergraduates in these areas take four years to train; to get the best students into the profession will require creating jobs and guaranteeing that they

won't later be cut. Short-cuts like Teach for America can help, but in 2009 Teach for America placed only 700 STEM majors in the schools, and most of those only teach for a couple of years. They don't “become teachers” as the President called for; they go on to do something else.

Let's also ask — why only STEM? American competitiveness depends at least as much on style, design, creativity and art — and especially on the liaison between technology and art. If you like exports, Hollywood is a big winner. And if you understand that education is actually not about exports, nor even about jobs, but about our quality of life, then you appreciate even more the need for a balance between science, technology, engineering and math, and music, art, literature, history and economics. Well, maybe not economics. But accounting, certainly.

On infrastructure, the grand goals include giving 80 percent of Americans “access” to high-speed rail in 25 years, and 98 percent of all Americans access to broadband within 5 years. [His reasoning is curious: he said, “It's about a rural community in Iowa or Alabama where farmers and small business owners will be able to sell their products all over the world.” Actually this has been true for a long time: Alabama was settled, with its slaves, to supply the British mills with cotton. But I digress.]

Goals of this kind are needed. But who is specifying how they will be achieved? Where can I get a map of the new high-speed rail network of which the President spoke? How will they be paid for? Who exactly will make the technical decisions and carry out the work? These questions were not discussed. In every known successful case, they require an organization capable of making decisions and of guaranteeing finance over long periods of time and against many obstacles, and of surviving in the face of changing political winds. Surely it's time, therefore, for a National Infrastructure Development Bank, an idea that has languished on the progressive agenda for nearly 30 years.

## The Pillars of Economic Transformation

Having laid out his big goals, the President undercut them with references to deficit reduction. In the real world, the deficit isn't a policy objective; it's an outcome. If the economy improves, deficits will decline. If it doesn't, they won't. Meanwhile, dwelling on the issue just encourages the historic enemies of Social Security and Medicare, who twist everything into an attack on these programs.

It's true, President Obama didn't say much about deficits or debt, and what he did say, he buried deep in the speech. It's true that he didn't use the weasel-word "entitlements." He left it to the Republicans, for once, to be the doom-and-gloom Walter Mondales of American politics. That's good. But even less would have been better. If you are going to ramp up spending on such "discretionary" matters as innovation, education and infrastructure, and if you are committed to deficit reduction but not to tax increases, then you have either to cut defense, or Social Security and Medicare. The President proposed none of these things. But since he didn't, he would have been better off not mentioning deficits at all.

On government reform, the President said little. Actually he said more as a defense of regulations than about the evils of government interference:

"...I will not hesitate to create or enforce commonsense safeguards to protect the American people. That's what we've done in this country for more than a century. It's why our food is safe to eat, our water is safe to drink, and our air is safe to breathe. It's why we have speed limits and child labor laws. It's why, last year, we put in place consumer protections against hidden fees and penalties by credit card companies, and new rules to prevent another financial crisis. And it's why we passed reform that finally prevents the health insurance industry from exploiting patients."

In my view, these were the best lines in the speech.

What was missing? The victims of the actual crisis were invisible. The unemployed. The involuntarily retired. The underwater, the foreclosed, and about-to-be-foreclosed. The states and localities, slipping ever-more-deeply into financial crisis. The victims of financial fraud, incompetence and abuse, now extensively presented in the Report of the Financial Crisis Inquiry Commission. The President chose to ignore them all.

One can make people invisible — it is a special power, granted by the media to the President, to do so. But they don't

disappear. One can ignore them, but their problems don't go away. One can look to the long term, but the short term is where the harm and hurt are.

The President needs a few people in high places to focus on the most pressing immediate issues — housing, jobs, retirement — and how to deliver relief. A temporary reduction in the Social Security full-benefit retirement age, and cutting the age of eligibility for Medicare to 55, could work wonders. A jobs program aimed (say) at expanding care for needy elderly would help. Open-ended revenue sharing to sustain key public services, or the federalization of Medicaid, could save the states and cities. A Home Owners Loan Corporation as in the New Deal, and effective foreclosure relief, partly through a right-to-rent law, would move the housing crisis toward resolution.

Let's get it done.

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## Book Release: The Pentagon Labyrinth

Winslow Wheeler

This new publication from the Center for Defense Information (CDI) aims to help newcomers as well as seasoned observers learn how to grapple with the problems of national defense, using insights the authors have gleaned in the course of their more than 400 years of combined experience.

Each year, people are hired to address defense issues in the Pentagon, on Capitol Hill, in think tanks and throughout the media. Some of them will have experience in the armed forces; some have studied national security in universities; some have worked in the Pentagon or the defense industry. Many of them might consider a handbook for defense “newbies” to be beneath them, but few of them will have had the depth of experience across all the disciplines represented by the authors of this book: decades in military service, intelligence, weapons design, Pentagon defense management and analysis, weapons testing, journalism, military history and congressional staff work.

How many times does one read articles stating the cost of a weapon as described by a hired consultant for a manufacturer or an advocate from inside the Pentagon? That price tag is published as if it were authoritative; there’s not a hint that more objective sources would cite a very different figure. “Penetrating the Pentagon” by George Wilson, as well as the essay on costs, might help readers more effectively identify the journalists whose work they may want to read more (or less) in the future.

Herds of analysts, each with decades of experience inside the Washington Beltway, read with great seriousness the Pentagon’s periodic “Quadrennial Defense Review” and opine on its contents — without appreciating that it is fundamentally a sham analysis of the Pentagon’s problems. The book’s first essay

(“Why Is This Handbook Necessary?” by Chuck Spinney) will explain.

It is not just conventional wisdom but biblical text that the F-22 is a world-class fighter aircraft; almost no one believes anything else. “Evaluating Weapons: Sorting the Good from the Bad” by Pierre Sprey can start the reader on an adventure that leads to a very different conclusion.

Seasoned staffers on Capitol Hill have taken offense at the suggestion that senior Pentagon civilians and high ranking military officers would lie to them. Yet the Constitution’s system of checks and balances and the separation of powers in our federal government were conceived on just that premise: that interested factions in the Pentagon bureaucracy could — and do — go to great lengths not only to mask what is going on inside DOD but actively to present an alternate picture. The essay “Congressional Oversight: Willing and Able or Willing to Enable?” explains further.

Each section of *The Pentagon Labyrinth* is a brief essay, not a chapter. They are short and readable, rather than dry academic exercises. The footnotes are at the bottom of each page, not only to show sources but also to provide explanations and some additional references to allow the interested reader to probe more deeply. The footnotes in electronic copies of *The Pentagon Labyrinth* should come to readers as active links. For the hard copy, the editors have tried to make the footnoted URLs easy to transcribe. The authors respectfully submit that even those who consider themselves expert in Pentagon matters can find something useful to learn in this handbook.

The handbook ends with a list of suggested readings, contributed by the authors. These readings are, the editors believe, unusually informative documents that provide valuable further insights into the defense



problems introduced in each essay. Many of the references are hard to find elsewhere; some have never been published before, even on the Internet; a few of them are of historic significance — even if they have been hard to impossible to find up to now.

There are also two websites for the entire text of the handbook and the informational materials. Items not previously available on the Internet were scanned to be electronically available for this handbook. These include selections of the works of Chuck Spinney and Pierre Sprey that are not otherwise accessible, a classic article by Dr. Thomas Amlie on the vulnerability of radar, unpublished Pentagon reports and other hard-to-find, invaluable materials. Download any of the essays or other materials at the websites for the Straus Military Reform Project of the Center for Defense information (at [www.cdi.org/program/index.cfm?programid=37](http://www.cdi.org/program/index.cfm?programid=37), or [www.cdi.org/smrp](http://www.cdi.org/smrp)) and for the Project on Government Oversight (POGO) (at <http://dnipogo.org/labyrinth/>).

EPS at the Annual meetings of the Allied Social Sciences Association and American Economics Association  
January 6 — 9, 2011 in Denver, Colorado

January 7, 2011

**Pressures on the Paradigm**

Panel Moderator:

James Galbraith (University of Texas at Austin)

Participants:

William K. Black (University of Missouri, Kansas City)

L. Randall Wray (University of Missouri, Kansas City; Levy Institute)

Jan Kregel (Levy Institute of Bard College)

Marshall Auerback (Madison Street Partners)



Jan Kregel

January 8, 2011

**Afghanistan - Costs and Exit Strategies**

Panel Moderator:

Michael Intriligator (University of California, Los Angeles)

Participants:

Roger Myerson (University of Chicago)

Lloyd J. Dumas (University of Texas, Dallas)

James K. Galbraith (University of Texas, Austin)

Nake Kamrany (University of Southern California)



Thomas Schelling

January 8, 2011

**EPS Dinner Honoring Thomas Schelling**

Chaired by Michael Intriligator

Speakers: Roger Myerson, Peyton Young, and George Quester

Talk by Dr. Schelling: "Where Are the Terrorists' Nuclear Weapons?"



Session II panel, left to right: Roger Myerson, Michael Intriligator, James Galbraith, Lloyd J. Dumas, Nake Kamrany

*For more photos as well as audio recordings from the meetings and dinner, visit <http://epsusa.org/events/aea.htm>.*

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*Netherlands and Belgium:*  
Philip Verwimp  
*Russia:* Stanislav Menshikov  
*Spain:* Juan Carlos M. Coll  
*South Africa:*  
Terry Crawford-Browne  
*United Kingdom:* J. Paul Dunne

## FEDERAL SPENDING AND THE RECOVERY

### A STATEMENT BY DIRECTORS, TRUSTEES AND FELLOWS OF ECONOMISTS FOR PEACE AND SECURITY

Annandale-on-Hudson, New York - February 28, 2011. The budget adopted by the House of Representatives on February 19, 2011 does not make economic sense and is likely to do more harm than good. First, the rationale for the measure is based on a false premise. Secondly, the budget cuts being proposed will impede and may end the recovery. If the recovery fails, unemployment will increase and the financial crisis could re-emerge.

The premise that the US government is broke is false. The US government has never defaulted and will not default on any of its financial obligations. Deficit spending is normal for a great industrial nation with a managed currency, and it has been our normal economic condition throughout the past century. History proves, and sensible economic theory confirms, that in recessions, increased federal spending – not balancing the budget – is the tried and true way to return to a path of sustained growth and high employment.

Eliminating waste in government spending is desirable. But that is not what the House proposes; indeed the House budget failed to address the largest waste in federal government, namely in the military, and the House failed to remove our most egregious subsidies, such as to oil companies. To adopt a policy of deep budget cuts at this stage of recovery is to surrender to irrational fears in the service of a political, not an economic, agenda.

As economists, as citizens, and as long-time critics of waste in government, we call on the Senate to reject the House proposal and to craft an alternative that places first priority on sustaining economic recovery and on dealing with the country's true economic and social problems, which include unemployment, home foreclosures, the fiscal crisis of states and cities, our infrastructure needs, energy security and climate change.

See the statement and its full list of signators at  
<http://epsusa.org/publications/policybriefs/federalspendingandtherecovery.pdf>