

War and famine. Peace and milk. —Somali proverb

The “Economic and Security Future” Issue

[A] prosperous 21st century will not happen by itself. Formidable obstacles lie between us and the future we seek. These obstacles are not iron laws of economics, limits on natural resources, or demographics as destiny. These obstacles are fundamentally political.

—page 8

Welcoming Remarks

James K. Galbraith



We meet today at a very interesting time: the start of the final biennium of the Obama administration and in the wake of what one might call an interesting election. The outcome of that election does suggest that security issues and foreign policy questions may be particularly predominant the next few years.

The next two years may well define the security environment for a long time to come. A couple of those security questions have direct bearing on our economic future. One of them is the relationship with Russia, whether that deteriorates to further confrontation, or somehow arrives at a working and living relationship. The other one is Europe, where economic stress is leading rather inexorably toward a political confrontation. I was just in Southern Europe, and this is increasingly apparent, whether we're talking about Italy, Spain, or especially Greece. One has in the north of Europe the rise of an anti-European right wing, and in the south, the rise of a pro-European left which may represent the last chance for a change of policy that can give us a more stable outcome in that continent.

Here at home the interplay of economics and politics seems perplexing. Compared to Europe, especially to Southern Europe,

the United States economy has done reasonably well. There is steady growth, jobs have been created, unemployment is down, energy is plentiful and relatively cheap—a doubtful blessing for climate, but certainly a favorable factor for economic performance. So one has to ask why the surge of discontent, if that's what it was, that was behind the election results.

It has two sources, I think. One of them, now fading, is the legitimate anger at the unpunished misconduct of high players in the financial sector and elsewhere. The other appears to be a reaction against dependency, against the mechanisms that provide support for a large part of the population in a difficult economic climate. The resentment, if that's what it is, is understandable; but it remains for economists to point out that the demand must come from somewhere, and that the comparative resilience of our economy owes a great deal to the fact that the social insurance programs, and especially the universal ones of Social Security, Medicare, and so forth, continue to function very effectively and very elastically through this rather difficult period, sustaining purchasing power and incomes in a way that was not the case over much of Southern Europe. The social insurance system here bore an enormous burden, but did not crack.

Can we go on like this? It may be that, as a technical matter, we can. It seems likely that, as a political matter, we had better be thinking very carefully about the limitations of that approach. I think we can ask ourselves whether the design of social insurance programs can be made both more effective and more politically sustainable, perhaps by returning more strongly to the successful pattern of universal programs, moving away from ones that are likely to incur resentment because they're restricted to only part of the population. Beyond that, we probably need to think very carefully about how to develop new ways to sustain and develop economic and social and community life.

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ABOUT THIS ISSUE

This issue is comprised of edited transcripts from a conference held on November 17, 2014, in Washington, DC. Visit our website, epsusa.org, and click on "Past Events" for links to video and complete transcripts of the symposium.

Economists for Peace and Security, Bernard L. Schwartz Symposium:

The Economic and Security Future

November 17, 2014

Hyatt Regency Capitol Hill, Washington DC

Welcoming Remarks

James K. Galbraith, Economists for Peace and Security

Session One—World Security Situation - Russia, Iraq and Syria, and Beyond

Chair: Richard Kaufman, Bethesda Research Institute

- Carl Conetta, Project on Defense Alternatives
- Bill Hartung, Center for International Policy
- Heather Hurlburt, New America Foundation

Keynote

Damon Silvers, Policy Director, AFL-CIO

Session Two—Growth and Jobs

Chair: James K. Galbraith, Economists for Peace and Security

- Allen Sinai, Decision Economics
- Stephanie Kelton, University of Missouri – Kansas City
- Ralph Gomory, Sloan Foundation
- Bill Spriggs, AFL-CIO

Keynote

Senator Jim Webb

Session Three—Agenda Ahead: Climate, Infrastructure, Finance and Security

Chair: Marshall Auerback, Institute for New Economic Thinking

- Rachel Cleetus, Union of Concerned Scientists
- Bruce Bartlett
- Michael Lind, New America Foundation

Erratum

The last two issues of *EPS Quarterly* were incorrectly numbered as Volume 27, Issue 1, September 2014, and Volume 27, Issue 4, December 2014, respectively. They should have been identified as Volume 26, Issue 3, September 2014, and Volume 26, Issue 4, December 2014, respectively. We regret any confusion or inconvenience that resulted from this error.

SESSION ONE: World Security Situation - Russia, Iraq and Syria, and Beyond

Richard Kaufman:

I would like to provide some background and context for our discussion and I'll cite a few facts about the world security situation and where we stand today.

The US is into a second decade of armed conflict in the Middle East. Tensions are rising with Russia, heightened by the events in the Ukraine and Western economic sanctions. There is the potential for a confrontation with North Korea and Iran over nuclear developments. Tensions also have been increasing in the Far East between Japan and China. And China's rise as a world power poses an additional set of challenges. Among the larger questions raised in the interests of the world security situation are whether we can arrest what appear to be the trends towards permanent limited war in the Middle East and renewed cold war with Russia, as well as the likely increased defense spending that would inevitably result from those.

We should be mindful that, although defense spending has declined significantly under the Obama administration, it remains substantially higher in real dollars than the Cold War average and higher, too, than the peak Cold War level of the mid-to late '80s. We've just come down from the peak spending for the wars in Iraq and Afghanistan, but this "lower level" is still as high as the peak level of the Cold War.

In short, is this the new normal? And whether it is or isn't, what can be done about it?

Carl Conetta:

Twenty-five years after the end of the Cold War I am rather distressed to look around and find not a common global home, as many of us had hoped for, but a fine mess.

The contours of this mess include the prospect of a new cold war or wars with China and/or Russia. Cascading war and instability across much of the Arab and Islamic world carries the possibility of greater contention and less cooperation with China and Russia, while they potentially grow closer and move towards operating as a duo.

The problems that we see evolving today are more accurately traced to our overconfidence in military power and the increased use of it—not to its absence.

Another concern is revived and expanded US military involvement in Syria, Iraq, and possibly Lebanon, and delayed withdrawal from Afghanistan.

A final obvious implication is increased defense expenditure. Today our total defense expenditure sits at about \$585 billion, down from a high in 2010 of about \$741 billion in today's dollars, and most of

the overall reduction comes from reductions in war spending. I think we can expect presidential candidates in 2016 to vie in bidding up the budget, with up to a \$100-billion increase likely by 2018. Although the armed forces don't need it, the candidates need it for political purposes. Much of the progress of the past few years will likely be reversed.

There is a popular narrative that says when the US withdraws from the world, the world goes to hell. First, although we did withdraw troops from Iraq, we continue to be involved in about 15 other conflicts worldwide, posting continuously an average of about 250,000 troops overseas. As we withdrew from Iraq, we increased our involvement in Afghanistan. So in no sense can we really say that what happened was a withdrawal from the world.

The second, more important point is that the problems that we see evolving today in Ukraine, Syria, Iraq, and in our relations with China are more accurately traced to our overconfidence in military power and the increased use of it—not to its absence. We are standing in the ruins of a failed security policy that in its fundamental tenets spans three administrations. It comes in neoconservative and neoliberal varieties with some significant differences between them; but their core propositions are the same.

The first premise is that US security depends on US global military primacy and our role as the world's indispensable power. Beginning in the mid-1990s, the fundamental maxim was that this was not a

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Panel (l to r): Richard Kaufman, William Hartung, Carl Conetta, Heather Hurlburt

choice; it was essential to our security that we maintain such a position of primacy.

The second is that we can effectively put that primacy to work in transforming the security environment. We've used it to attempt to contain rising powers, patrol the global commons, stabilize fragile states, extinguish extremism, reform or even overturn what we see as rogue nations. What we're seeing today is the failure of those efforts at tremendous expense.

For example, in Iraq, at first the notion was to move in and topple a bad regime, which then would lead to the rise of good actors and a transition to market democracy. Instead we saw, in the second phase, the rise of insurgencies and the development of a government that falls far short of our expectations. In Syria the first and second phases took place simultaneously; and it seemed as though there were no good actors. In some sense that realization stalled our involvement there.

Over the past few years President

We remain stuck in a paradigm that overemphasizes military power.

Obama has restored the neoliberal version of this strategy with its greater admixture of diplomacy and emphasis on more discrete, standoff uses of military power rather than major campaigns. But the problem is that we remain stuck in a paradigm that overemphasizes military power. The choice inevitably comes down to how much military power, for how long, of what type. As long as we're operating in that paradigm, when we face a difficult situation, as we do in Ukraine and Syria, there is a tendency to escalate. The blue (Democrats') version of this strategy tends to feed back into the red (Republican) version, and we're left with the dilemma of how to extract ourselves from this paradigm altogether.

William Hartung:

Some in Washington have pointed to ISIS, Ukraine, Ebola, and general turbulence to argue that we need substantial increases in Pentagon spending. Part of the argument goes, the more we spend, the more everybody else will behave, even if we don't use our military. Bret Stephens makes the case for the United States as the world's policeman. But the Pentagon is not going to get what it wants in the next year or two. Even if budget increases are approved, I don't foresee a period of endless military growth, as happened between 1998 and 2010.

Luckily for the Pentagon, they have a whole other fund they can use called in Washington-ese the Overseas Contingency Operations Account (because you can't call it the War Fund). A lot of items that belong in the Pentagon budget show up there. In 2014, about \$30 billion of the \$80 billion OCO budget had nothing to do with any wars; it was just to cover items the Pentagon couldn't fit under the caps in their official budget. I expect this arrangement to continue, although I don't think the Pentagon can continue to get \$30 billion a year out of it because the war against ISIS is not the war in Iraq. We're currently at about 2 percent of our expenditures in Iraq at the peak of the Bush-initiated war. Even if the president puts in some ground troops, it's not going to be as costly. So if choices have to be made, what should they be?

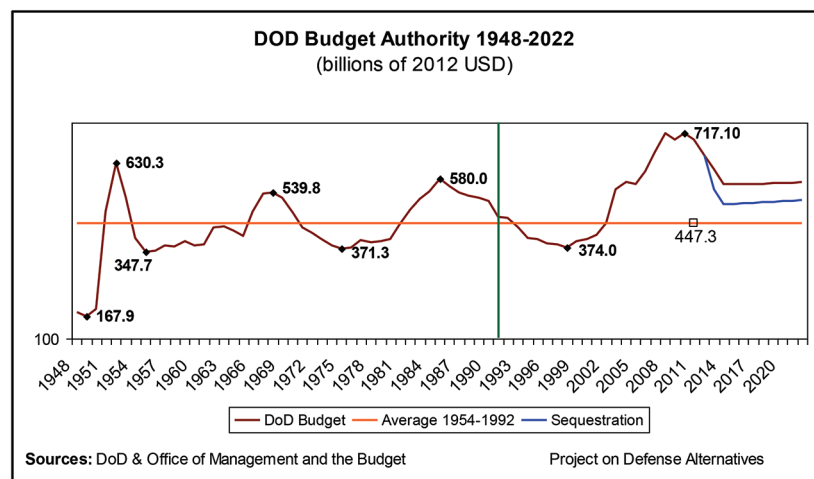
The Pentagon wants to buy a lot more weapons systems for more money than they have available. For example, the F-35 combat aircraft will cost \$400 billion over

the next couple of decades and \$1.4 trillion over its lifetime to procure and sustain, making it the most expensive weapons program ever undertaken by the Pentagon. It's not a great airplane; it doesn't do any of the many things it was designed to do particularly well. Scaling back and, if necessary, building upgraded versions of current systems to fill in any gaps could save tens of billions of dollars in the coming decade.

For the Navy's ballistic missile submarines at a minimum of \$5 billion each, a modest suggestion would be to build eight instead of twelve and configure them to be able to launch the same number of warheads as twelve.

The Army would like to have 490,000 troops, but it's only currently funded for 420,000. I think they could stay at that level or lower, because I don't believe we're going to fight another Iraq or Afghanistan. The current threats do not justify large increases in troops on the ground.

Finally, the United States is now the world's leading arms-exporting nation. A couple of years ago we sold \$69 billion in weapons, the largest amount in arms sales ever recorded. But we've had problems finding reliable partners. We've armed countries that have engaged in military coups; that have given their weapons to their adversaries, as the Iraqi army did; that have sectarian divisions, where some of the weapons are used to repress the civilian population rather than to fight the adversary we've assumed was being fought. We need stronger human rights provisions, stronger consideration of stability and where these weapons are going to end up. For example, in Afghanistan, many



of the weapons we've sent have ended up with Islamic extremists who are now fighting the United States or our allies.

My main point is we don't need to increase Pentagon spending under any current scenario, and we need to get our arms exporting policy under control, or we're going to be emboldening and actually arming our future adversaries.

Heather Hurlburt:

As long as our domestic political new normal is caught in heightened polarization, it's going to be very difficult to evolve any kind of coherent security strategy. The bad news is that a coherent strategy that we like is unlikely to emerge. The good news is that a coherent strategy that we *don't* like is also unlikely to emerge.

The conversation about American strategy needs to recognize that not everything in the world is happening because we made it happen. This becomes even truer as we move into an era in which the US does have peer powers economically, if not militarily.

A couple of factors have contributed to the scrambling and angst of the last year: A Russian government under Vladimir Putin will have very strong views about its neighbors' security status and identification regardless of US strategy. Similarly, the leader of China is balancing his own very challenging domestic issues with concerns about how China is perceived in the world, China's resource needs, etc. The US affects China's attitudes and concerns about Japan, Korea, its outer island chain, Tibet, and the Uyghurs only at the margins.

The US is going to face choices about responding to these two very big issues. We cannot avoid this dilemma; we can only choose our actions according to whether they help or harm specific interests. This is a conversation that we're not used to having domestically.

In the Middle East the US must take some responsibility for uncapping the bottle and letting out the forces of chaos and destruction with the decision to invade Iraq and the decades of propping up repressive forces across the region. And even here you have sectarian conflict, Sunni versus

Shiite, secular versus extremist, with the good old Israeli-Palestinian conflict layered over the top. There is nothing that the US can do to wipe any of those off the screen; so we must decide what our interests are when facing those conflicts.

So what is the new normal? Regardless of whether or not you believe that US withdrawal from the world actually hasn't been tried, or if you think that President Obama is just another wrinkle in the traditional model of neo-liberalism, or if you think that Obama is a significant departure, the experiment with withdrawing from the world is now over, de facto.

There is an awareness in politics that the when-in-doubt-push-the-fear-button strategy can go too far. Anxiety is very high, but war fatigue is also very high.

The experiment with getting the US off a war footing is also over. It will be fascinating to see whether Congress is able to negotiate a new authorization for use of military force in Iraq and Syria. Until now there's been reluctance to do this lest we put into law an even more expansive view of what an administration is permitted to do militarily than is already the case.

Our political culture for the next two years is likely to feature intense fear-mongering, and that will make it much harder to have rational conversation about national security issues. Remember September 2013, when Congress and the administration were shocked by uniform bipartisan public reluctance to intervene militarily in Syria? There is an awareness in politics that the when-in-doubt-push-the-fear-button strategy can go too far. Anxiety is very high, but war fatigue is also very high. We're not going back to the full upward slope on Pentagon spending anytime soon.

In addition to weapons systems, another major driver of Pentagon budget growth is health care and retirement benefits. Members of Congress who fall all over themselves to make sure there aren't COLAs for civilians vote every year to give the military a higher COLA than the one the Pentagon requests. This year, again, the Pentagon put forward a budget that included a request for members of the military to pay a health care copay. But there continues to be a political debate about whether such reforms are feasible. If you can't change the conditions under which new members of the military get benefits and retirement, or ask retirees who are pulling down six-figure salaries in the private sector to pay for their own health care, then you don't have money for weapons systems, training, or nifty unmanned gadgets.

We're also going to see warfare among the services. The Navy and the Air Force say, "We're not going to be invading any more countries soon, so we can cut the Army; but we need more of our gadgets." And the Army says, "You're not actually winning the war in Syria with your planes and your missiles; the only way you can win wars is with us." We've forgotten what this sort of internecine warfare looked like during the past decade of endless growth in the Pentagon budget.

Over the next two years we are going to be in an environment where our political leaders have no incentive to stake out really strong strategic positions because the public can't figure out what it wants and what those strategic positions correspond to. At the same time the Russians, the Chinese, and ISIS are very clear about what *they* want. It would be nice to say that this conflict is somebody's fault, but it's a conflation of factors; we can't blame any one person or party.

Right now our military leaders are actually among the proponents of making hard choices. They are saying that retired four-star generals don't need free health care and that we can't intervene everywhere in the world. But there's no room to have that conversation - not because civilians are stupid, or weak, or ill-disciplined, but simply because our economic and political incentives are so perverse right now.

KEYNOTE

Damon Silvers:



To understand what's to come, we have to understand what happened in the recent mid-term elections. The AFL-CIO did an exit poll of all voters in eleven swing states asking, "Has your family's income risen, stayed the same, or fallen in the last year?" Eight percent said that their income had risen, 33 percent were treading water, and 54 percent said their family's income had fallen. Our view is that that's the whole story of this election.

But here's the puzzling part: We also asked this same group what policies they want to see adopted. By large margins, they favored investing in education and infrastructure; increasing Social Security benefits; closing Social Security's deficit by removing the cap on Social Security taxes; raising the minimum wage; ending tax breaks for companies that outsource jobs; and passing comprehensive immigration reform with a path to citizenship. A majority felt that the Republicans, whom they had just voted for, had no plan for improving the economy.

The amazing thing about the poll response to people's income levels is that it tracks pretty closely Thomas Piketty's data. It's confirmation that the American people have a pretty keen understanding of how things are unfolding around them.

Between 1935 and 1980, average incomes in the United States grew quite

dramatically, and 70 percent of income growth came from the bottom 90 percent. The top 10 percent provided a disproportionate contribution, but not even the majority. The economy we live in now looks very different. Although incomes on average rose between 1997 and 2012, ALL of the income gains went to the top 10 percent. The average disguises the fact that, for the bottom 90 percent, incomes fell.

What explains the fact that these voters, with this experience and these policy preferences, just elected Senate candidates who are pledged to do the opposite of what the electorate said they wanted? The answer is that in the same poll 62 percent of the voters in swing states said that corporations had too much influence on both parties, and 82 percent said politicians of both parties do too much to help Wall Street and too little to help average Americans.

You would think that this would lead to a to-hell-with-all-of-them approach to voting. But remember, the Democratic Party is supposed to be the party that stands up for the ordinary person against the power of economic privilege. If it's not doing that, why vote for it? After eight years of Democratic control of Congress, and six years into the presidency of Barack Obama, where do we stand? Compared to Inauguration Day in 2009, the wealth of the one percent has largely recovered; the 99 percent are poorer.

I say this not to take away from the real achievements of the Obama administration. President Obama's stimulus undoubtedly saved us from a depression; and had the policy ideas of the Republicans been adopted instead, we would look like Spain or Greece today. Similarly, the Affordable Care Act and the Dodd Frank Act, flawed as they both are, are nonetheless dramatic improvements over the way things were before they were passed.

Nonetheless, these achievements simply did not cut it with the voters. The Democratic Party's fragmentary agenda didn't offer a credible promise of renovating our nation's economy, nor was it able to inspire our nation's electorate. In races where Senate Democrats embraced a populist economic agenda, they won easily.

The truth is that the Democratic Party has been profoundly wounded by the

economic and political consequences of bank bailouts and austerity. Politically, the bank bailouts fundamentally undercut the Democratic Party as the party of working people. Economically, the choice to bail out bankers rather than homeowners, followed by the "pivot" to fiscal consolidation in late 2009, created an economy of slow growth and stagnant or falling wages.

The voters punished the Democrats for these choices. In a larger sense, the decline in wages that was the key in this election was the clearly foreseeable consequence of a generation of neoliberal policies pursued by both parties.

So now we face a lame duck session, followed by a new Congress in which Republicans have declared they wish to get things done. Progressives and a significant number of Republicans have a common agenda, including infrastructure investment, comprehensive immigration reform, and moving against currency manipulation. There are significant policymaker voices in the Republican Party that really want to take on too-big-to-fail banks, either by limiting their size directly, or by reinstating Glass-Steagall.

The Labor Movement is eager to work with anyone to reach these goals. But I'm not holding my breath because the conflicts within the Republican Party are fearsome. One conflict is between those who believe in government enhancing US competitiveness, and those who believe that government should, if possible, disappear. Even in the business wing of the Republican Party there are paralyzing conflicts. For instance, on the issue of corporate tax reform Republicans have to consider the demands of powerful companies that essentially have stopped paying taxes, and, at the same time, the demands of less devious firms that are paying taxes and want to have their tax rates lowered. The only way to do both is to cut the corporate tax system as a whole, which would affect revenues in a big way and would have to be paid for under the current congressional rules.

More fundamentally, how much time are they going to spend attacking the Affordable Care Act, seeking to undo President Obama's executive order protecting

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families from deportations, and holding hearings attacking climate scientists? Every moment spent on these issues represents time taken away from actually accomplishing something, good or bad.

The next two years are very unlikely to produce real steps toward addressing our nation's most fundamental problems at the federal level. The real question is what will the Democratic agenda be in 2016 and the years to follow? Our country needs an economic program that is not hobbled by the demands of Wall Street; that aims at an economy strong and inclusive enough to support a reinvigorated democracy, make the investments needed to stop climate change, and realize a vision for a competitive America and a sustainable world.

This is the kind of program the voters supported in our exit poll: a transformative increase in the minimum wage; investments in our country, in our schools, our roads, bridges, ports, and airports on a scale not just to catch up, but to surpass our global competitors; a change in the access of the entire American people to the digital age; access to education in universities, community colleges, and in the workplace without debt peonage; and a right to bargain with one's employer without fear.

To move forward we need a big economic agenda that directly addresses how we're going to prosper in the 21st century, starting with ending wage decline. Falling wages and rising productivity is the definition of injustice; but too many Americans think that we have no choice, that any other path will cost us jobs and growth. Too many of us have come to accept economic serfdom as the best we can do.

In part, organizing and winning fights, like the \$15-an-hour minimum wage in Seattle, is itself the best cure for this type of despair, and nothing would be more transformative of our economy and our society than a big organizing victory for low-wage workers of employers like McDonald's and Wal-Mart. But even these basic facts require message discipline around a simple truth: Economic inclusion, real wage growth, is the key to prosperity.

This is true for three reasons: First is the relationship between broad wage growth and aggregate demand, and the need to

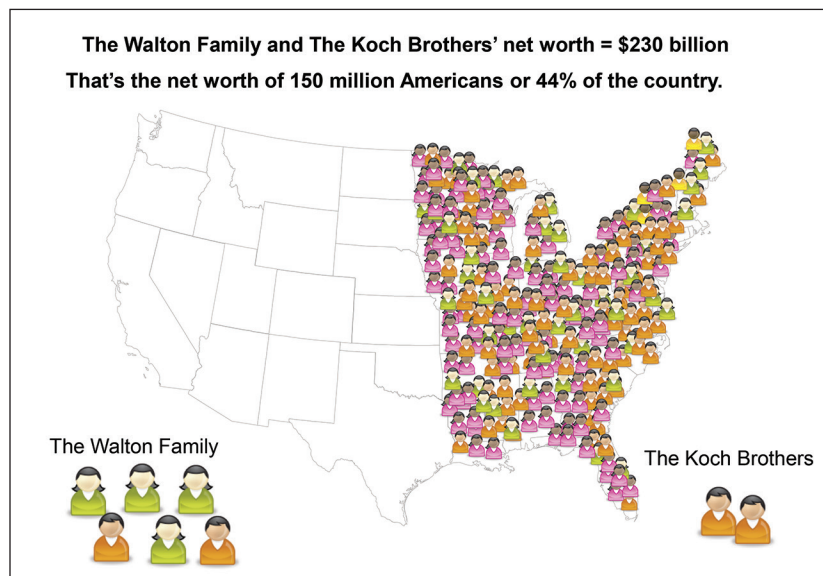
have broad wage growth to spur a virtuous cycle of business investment, innovation, and productivity.

The second is that a country that excludes people from fully participating in its economy because of racism, sexism, homophobia, or because they are immigrants denies itself the fruits of its people's creativity and their capacity to fully contribute.

Third, a radically unequal society is unlikely to be able to summon the social solidarity to make the necessary public investments. Public investments require taxes. The Koch brothers and the Walton family are worth more than 45 percent of the American people.

the labor market by whether the real wages are rising with productivity. Based on her public statements, it seems Janet Yellen is open to this point of view.

These points are connected to some deeper issues. Three huge structural facts about American society are about to change: We will soon be surpassed by China as the world's largest economy, and the gap is going to grow. Currently, we are roughly 22 percent of world GDP, while China is 17. The OECD predicts that by 2030 we will be only 18 percent, and China will be 27. To give you a sense of the magnitude of this change, no one is alive who can remember when the United States was not the world's largest economy.



Those eight people's desire not to pay more taxes effectively outvotes the majority's desires for schools, roads, bridges, universal broadband, affordable higher education, doing something about climate change—and on and on.

There is another point that must be central to our strategy, because it's equally true: Wages are falling for 90 percent of Americans—men, women, whites, African Americans, Latinos, and Asians. To deal with the real problem and to win the fight, we need a majoritarian approach. Raising the minimum wage must be paired with policy measures designed to raise wages broadly across the labor market, starting with an insistence that the Federal Reserve measure the health of

Secondly, we're going to be a nation whose majority will not be white, a majority-minority country. Get ready for a society where the artificial identity of white itself diminishes in meaning. I am convinced that my grandchildren may not understand what the term *racial minority* means.

Third, our nation's focus on carbon-based fuels, so long a source of competitive advantage, is going to become a drag on our competitiveness. If that doesn't happen, our nation's ability to feed itself is going to be under pressure from climate change, and our nation's major coastal regions will come under increasing pressure from rising seas as the century progresses.

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This doesn't mean that carbon-based fuels are going to disappear. Natural gas, oil, and coal will be important parts of our economy for some time to come. Critical applications like jet fuel and metallurgical coal have no substitutes, and the natural gas boom is going to be a significant driver of job creation for years. But the relative importance among these fuels is rapidly shifting.

While this future is coming, America's strategic response to it will determine what it means for America--and not only in relation to domestic policy. Our foreign and military policies also will be completely shaped by our nation's responses to these realities. In this context, the extent of our involvement in the Middle East seems to be a relic of the economic and energy posture of the 1970s and 80s. On the other hand, our sustained inability to think clearly about our relationship with China, and our insistence on subcontracting that relationship to business interests in the US that have a clear desire to keep wages low in both countries seems to me a form of madness.

The truth is that the 21st century should be a time of unparalleled prosperity for the United States, not in spite of the trends I've outlined, but because of them. These trends offer the prospect of escaping from the worst aspects of our history—our racism, our imperial past—while growth of foreign markets should propel our economy. If only our economy were broadly competitive. If only we harnessed the true potential of our workforce and leveraged the strength of our domestic market properly instead of trying to destroy it.

America stands on the brink of a new age of prosperity in which scientific and engineering advances in computing, biotech, and energy can transform our lives

for the better in ways as dramatic as the automobile, the washing machine, and penicillin transformed the lives of our great-grandparents. In the 21st century, America need not prosper at the larger world's expense. In fact, our path to a prosperous future is truly dependent in ways it's never been before on the prosperity of the larger world around us. If you doubt that, just look at what austerity has done to us.

The decline in wages that was the key in this election was the clearly foreseeable consequence of a generation of neoliberal policies pursued by both parties.

But a prosperous 21st century will not happen by itself. Formidable obstacles lie between us and the future we seek. These obstacles are not iron laws of economics, limits on natural resources, or demographics as destiny. These obstacles are fundamentally political.

We live in a country in which our politics have become entwined with destructive social and economic thinking based on the idea that we are isolated individuals. Behind this utterly false conception lies vast, organized economic and political power focused on maintaining and intensifying economic inequality. The result is the paradox that

America possesses the greatest accumulation of wealth in human history, while its population's incomes are falling. Worst of all, our nation's political economy of selfish individualism undermines its people's confidence in our democracy and future, when we should be moving boldly to build the better world that our country's democratic legacy and scientific and technical ingenuity uniquely prepare us to create.

This set of political problems stands directly in the way of our country taking the most basic steps it needs to take to prosper in the 21st century. Consider energy: We refuse to do anything to help the millions of people whose jobs are disappearing and whose communities are decomposing due to the decline in the Appalachian coal economy. Then, environmentalists and the Democratic Party are surprised that Mitch McConnell is reelected to the Senate from Kentucky. I for one am not at all surprised that, if the politics of coal are defined by Mitch McConnell, on the one hand, and, on the other, Mike Bloomberg, a New York billionaire who wants to shut down the coal industry and have miners bear the costs, that the people of Kentucky choose McConnell.

We need to be able to choose something other than authoritarian elites or simply elitist elites. We need a truly democratic—with a small 'd'—set of policy options that support a rebirth of solidarity in our public life. We need this not just because without it our future will be bleak; we need it because it can renovate our national home politically, economically, and technologically. The future that so many of us look to with cynicism and even outright despair can be far better than our past. And that is something worth fighting for.

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SESSION TWO: Growth and Jobs

Allen Sinai:

From a cyclical point of view, the outlook for growth and jobs appears very positive. The US economy is continuing to show all the signs of normal business expansion: solid real economic growth; lower unemployment; stable and then increased wage and price inflation; and pretty good and healthy financial conditions for households businesses, financial institutions, state and local governments, and even, believe it or not, the federal government. The last deficit number was -2.7 percent of GDP—a huge cyclical improvement. Very low interest rates are an exception; you don't usually see them in a normal business expansion.

The Fed's monetary policy clearly has recognized normalization in its ending of quantitative easing. Short-term interest rates should start to move back to positive levels around the middle of 2015. Later, the balance sheet will be allowed to run off. By that time the balance sheet assets will be a much smaller proportion of GDP and not really something to worry about.

Is there a danger of relapse? Although the US economy is healthy enough that it can be resistant to things that three or four years ago might have thrown us into a tailspin, if there are any negative shocks it will be hard to continue a normal business expansion.

We do have some positive shocks going on. Oil prices should stay lower permanently. The current price of \$70 a barrel should subtract two-tenths to three-tenths of a percentage point from the US inflation rate and give us a couple of tenths percentage points of extra growth. And if it lowers inflation, the Federal Reserve can take longer to raise interest rates.

There is also a productivity shock. We've seen record-high profit margins for the S&P 500 quarter after quarter after quarter. This is because of technology-driven productivity that raises growth rates, lowers unemployment, and lowers inflation. We also have tight fiscal policy and easy money. These are three positive shocks that should make us feel better about the future of the US economy.

The bottom line on growth and jobs for the US forecast: real GDP growth this year of 2.1 percent; next year, 3.2 percent; the year after, 3.5 percent. This will be growth in the private sector; federal government purchases are going down a little. Inflation: 1.5 this year; 2015, 1.8 – below the Federal Reserve target of 2 percent. The unemployment rate at end of December this year: 5.7 percent; 5.1 next year; 4.5 to 4.2 at the end of 2016—full employment without a major acceleration of inflation. This will cause a reexamination and lowering of the natural rate.

Jobs: 230,000 a month this year, which was a good deal higher than last year; 255,000-260,000 jobs a month next year. This isn't the 300-400,000 jobs a month we used to get, and it says there is more work to be done to create more and better jobs; but the thrust of policy no longer has to be on steering the US into a situation in which growth from cyclical factors will be adequate.

The thrust of policy now should be on tax reform: thinking about the mega-rich and whether, because of the way they have gotten rich, they should be taxed at higher rates than just the normal rich; and thinking about cutting taxes for the middle class as a stimulus to income and growth and to compensate for inequality. All economists would like to see full-fledged tax reform because it will create efficiencies in the

system to give us more growth. I don't think that will happen until after the next presidential election.

The economy's going to be a lot better. Consumer sentiment is increasing, and probably a year or two from now, rather than 85 or 90 on the University of Michigan Consumer Sentiment Survey, we'll be at the more normal 100 to 110 of a very vibrant expansion.

Stephanie Kelton:

It is important to examine the lessons learned in the aftermath of the Great Recession so that we can figure out the correct way to respond when the next crisis comes.

Hyman Minsky asked (in 1982) why we hadn't experienced, another economic meltdown of the magnitude of the Great Depression since the 1930s. His conclusion was that the US had put in place institutions that could contain a crisis. These institutions couldn't prevent a crisis, but they could keep it from being of the same magnitude. He believed that with a big central bank and a big government we were unlikely to repeat the kinds of depressions that had been so common in our past.

Between 1875 and 1913, very severe meltdowns were common. Since the introduction of a central bank, the New Deal, and the Great Society, we still get booms and busts, but they're much smaller and shorter. The Great Recession, as bad as it was, was nothing like what we would have experienced a century-and-a-half ago, because our institutions contain the swings in output and employment.

(continued on page 10)



Panel (l to r): Allen Sinai, Bill Spriggs, Stephanie Kelton, Ralph Gomory

When the financial crisis began in 2008, central banks around the world sprang into action to contain the situation. They stepped up and acted as lenders of last resort. Our government responded by passing the Recovery and Reinvestment Act legislation. Much has been written about how the stimulus stabilized the economy and saved or created some 1.6 million jobs. But there's another viewpoint: It wasn't so much the stimulus that did the heavy lifting; it was the automatic stabilizers that Minsky was talking about, the institutions that kick into effect automatically when the economy goes into a downturn, that don't require emergency legislation or anything else.

Lots of people have called this last recession a balance sheet recession. Government deficits help repair balance sheets by providing the rest of the economy with net financial assets that allow people not only to earn more income, but to service debt, pay down debt, and rebuild savings.

The unemployment rate and the government deficit as a percent of GDP move as nearly perfect mirror images of each other. As unemployment rates come down, people get jobs, earn income, and pay income taxes; and we spend less to support the unemployed. That is an automatic stabilizer at work.

This interrelationship is way too often overlooked as we obsess over government deficits and debt. As deficits shrink, the non-government surplus in the rest of the economy is also shrinking. We celebrate

the falling deficit, never recognizing that it comes with increased risks for the non-government sector.

So we have been learning the wrong lesson. While Congress was fighting over how to reduce the deficit, the deficit was falling endogenously, responding passively to an improving economy. Before the fiscal cliff and the sequester, the deficit in the US was falling at its fastest pace since the end of World War II. The economy was healing and unemployment rates were coming down.

The heavy lifting had already been done by the automatic stabilizers, and the economy was already on its way to repair and recovery; but the Fed's monetary policy and quantitative easing have been getting the credit. I'm concerned that we've learned the wrong lesson. The wrong lesson would be that fiscal policy really isn't necessary, and the Fed can manage it all; that if the Fed can just "normalize" interest rates, then we can go back to using conventional monetary policy to stabilize the economy.

We need a much more ambitious use of fiscal policy. Monetary policy is not going to create the conditions going forward for continued robust economic growth and recovery and job creation. It's not going to help with the long-term unemployed, so-called secular stagnation, and so forth. We need a much more ambitious program to deal with what really ails us—the challenges, the future, climate, unemployment, inequality, infrastructure, and the like.

Ralph Gomory:

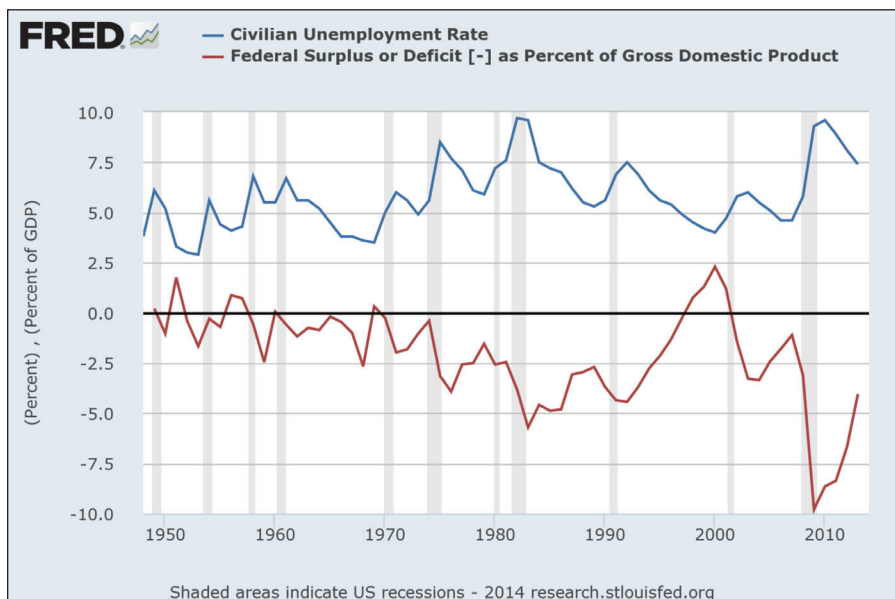
It is not enough to have a growing economy when inequality is a problem. For the last 30 years we have been living in a nation that is steadily separating into the rich and the rest. Productivity has increased, but the benefits have gone almost exclusively to the owners of stock and corporate leaders, not to the mass of Americans.

This is happening because of a fundamental change in our corporations. Major corporations create a good portion of our GDP; they also have considerable power over who ends up getting this value that they create. They have chosen to exercise that power in a way that enriches their shareholders at the expense of their wage earners.

If share ownership were well distributed among all Americans, maximizing the return to the shareholders might be reasonable from a national point of view; but share ownership is highly concentrated. One-third of the stock market is owned by the richest one percent of Americans; two-thirds, by the top 5 percent; the remaining one-third is spread thinly over the remaining 95 percent of Americans. The maximization of shareholder value just means making the rich richer.

In the '90s, shareholders started giving their management massive stock options. These options offered the possibility of wealth far beyond what had ever been seen, if only they could get the stock price up. This new compensation structure induced top management to align themselves with the shareholders rather than with their fellow employees and to run their companies to maximize profit and stock price.

There were two closely connected results. The first was that CEO compensation, most of which was now stock options, went up by a factor of about 10. The second was that wages stood still. Holding down wages is enormously valuable to shareholders. If management can hold the hourly wage at \$10 instead of \$20 in the average Fortune 500 company, that makes a difference of a billion dollars a year in profits. And if the shareholders can get this difference for the mere price of \$10 million or so



paid to their CEO, this is truly a bargain. The corporate CEO, far from being the overpaid creature we think he is, is wildly underpaid in relation to what he is saving the company by holding down wages.

If you don't like this picture, we need to ask, what do we want from our corporations? To begin with, corporations make the complex goods and services, the phone networks, the airlines, the automobiles that the modern world requires. And we want them to do that effectively. Corporations create value, and we can measure the value that a company contributes to the GDP. Value added goes up and down with the business cycle; but the conflict between wages, taxes, and profits never goes away. Today's corporations have become expert at holding down wages and avoiding taxes, thus creating profits. That is why wage-earning America is in recession, while corporate profits and top management compensation are setting new record highs.

Taking these realities into account makes a strong case for our government to provide the incentives for companies to change how value is divided up, encouraging structural change in our corporations that allow the voice of more than the shareholder to be heard by the board of directors.

We should not overlook one other obvious factor: As they are presently motivated, our global corporations ship jobs and technology overseas to reap the significant profits offered by the mercantilist practices of some of our trading partners. Their actions and the huge trade imbalance that these actions create threaten both the present and future ability of our country to create value. Our present unthinking embrace of so-called free trade agreements must stop.

Let me conclude: Our great American corporations today are doing well for their top managers and for their shareholders, but not for the country as a whole. The growing concentration of income and wealth threaten both the long-range productivity of the country through extensive off-shoring, and democracy itself through the concentration of political as well as economic power in the hands of a few. It is time for fundamental change in the direction taken by our corporations.

Bill Spriggs:

We are now at a record for the number of consecutive months of growth in the private sector market, though we still have not addressed many of the fragilities in the real economy. Because the financial world dominates the way we look at the economy, of course they're quite confident that the economy is robust and we are moving in the right direction.

I am more pessimistic. Despite the administration's claim that manufacturing is back, it isn't. Almost all manufacturing growth has been in the auto industry, which way overcorrected during the downturn and is now coming back to what could be considered normal at the current level of inequality and the size of the market.

Fortunately, the size of the auto loan market is small compared to the economy. Its collapse is not going to bring down the banking system nor cause financial catastrophe. It *will* collapse the real economy.

Furthermore, a strong auto industry is only fueled as long as people have jobs. Higher interest rates may be fine for monetary policy, but they're not so fine when you're trying to afford an automobile. Many states have cut income taxes and are therefore dependent on sales taxes. If people lose their jobs and stop buying cars, states lose revenues.

So we have very fragile state and local governments and a very fragile auto market; and any shock to the real economy is going to be dangerous because we cannot tolerate a slowing of job growth. Any policy based on the assumption that we're at normal and that it's okay to slow down is putting us at great risk in the real economy.

When we say that we got the financial sector right, and that we now have the private sector balance sheet right, we have to remember that what we did for the financial sector was allow them to write off foreclosing on people's homes. The household sector debt disappeared not because people restored their wealth; they ended up with no debt because they went bankrupt and lost their homes. The middle class is defined by owning some wealth; but many in the middle class are antsy and frightened because we haven't addressed their real balance sheet and they know they don't have a personal

safety net. Their reaction to the next downturn is going to be as extreme as during the Great Recession, when they stopped consuming because that was the only thing they could do. I am far more nervous than some of my fellow panelists because I think we have convinced ourselves that because the financial sector is fine, everything's okay; and it's not.

Thanks to the Affordable Care Act we are able to sustain the continued growth of the health care sector. Our growth has been in the health sector, fast food, and renormalization of the auto sector. In the long run, however, this is neither healthy nor sustainable growth.

We've held on in higher education, but that's masking a lot of our employment problem. Young people are taking out debt because they're hiding from the labor market, literally hiding out in their parents' basements. That's not sustainable, and another shock to their parents' income.

So we are very fragile. The auto and higher education sectors are dependent on changes in interest rates, which are, I fear, going to rise prematurely because people are overconfident about what is sustaining the economy.

The last time we had a Great Depression it led to extremism as governments refused to understand what people were going through. That allowed idiots to come up with their own very dangerous solutions. ISIL is an example of that. We are not going to have a peaceful solution to this Great Recession unless we learn that lesson as well.

We have people who believe the most absurd things here in the United States. We cannot ignore that extremism. The ghosts in our closets are real, and when they feel threatened, they will come out. Another downturn, and the faith of the American people in this system is going to be put to a very great test. We have to be very careful that we don't end up in the hands of the wrong people with the wrong solution. Germany had a very intelligent people. We should not think that just because we think we're smart, we're immune. We treat ISIL as sort of funny, but they represent the tip of the iceberg of this kind of extremism that threatens world security; and if we don't get serious and learn our lesson from the last Great Depression, we're going to repeat it.

KEYNOTE

Senator Jim Webb:



I was asked to talk about the state of our national security, the issues that face us today.

I grew up in the military. My father was a pilot, served in World War II, then in the Berlin Airlift, and later was a pioneer in missile programs. My son dropped out of college, enlisted in the Marine Corps, and saw hard combat in Ramadi, Iraq, which is a place a lot of people are talking about right now with the most recent uprisings. I served as a marine in Viet Nam and spent five years in the Pentagon. I also was able to serve on the ground as a journalist in Beirut, when our marines were there in 1983, and then again in a number of different places in Afghanistan as an inbed in 2004. As a senator, I spent years on the Foreign Relations Committee and the Armed Services Committee.

If I were to look at the challenges today, the first thing I would point out is that our foreign policy and the determinations of how we use the military around the world have been on autopilot since right after 9/11. This country needs to articulate clearly what policies and situations around the world would require the use of our armed forces.

I see three different points at which we lost our ability to do that: The first was at the end of the Cold War, when we lost a clearly defined universe in which we could

articulate our foreign policy for the use of force and the potential use of force. From the middle of Viet Nam, about 1969, when the Nixon Doctrine was enunciated, to the end of the Cold War, we operated on a pretty clearly understandable set of principles. President Nixon and Secretary of State Kissinger worked on those principles early in their administration, and they held up. Basically, they were that we would honor our treaty commitments; we would provide a nuclear umbrella so that we could work against proliferation of nuclear weapons and also give guarantees to our allies who were without their own nuclear arms; and we would not get involved in local conflicts other than to assist governments that suited our national interests in arming themselves, training people, etc. That doctrine obviously gave way to the realities of the post-Cold War universe, where it became much more difficult to articulate with whom specifically we were at odds.

This country needs to articulate clearly what policies and situations around the world would require the use of our armed forces.

The second reality that has affected our foreign policy is the manner in which we became involved in issues in the Middle East and how we continue to address those issues. This goes back to 1987, several years into the Iran-Iraq War, when I was Secretary of the Navy. I used to meet with Secretary Weinberger just about every day, and his philosophy was not to pick sides. He said, "This is the worst regime in the world versus the second worst regime in the world, and I don't know which one is which."

At that time, Kuwait was the strongest ally of Iraq, and we decided to reflag Kuwaiti oil tankers and call them American

oil tankers essentially as a provocation against Iran moving oil through the Strait of Hormuz. Some of you will remember Iraqi aircraft attacked a United States Navy ship in the Persian Gulf, the *U.S.S. Star*, killing 37 American sailors; and yet we ended up tilting toward Iraq in the Iran-Iraq War. Within a few years after that, Iraq invaded Kuwait, and we ended up in Gulf War I.

That conflict has not been positive for our national security interests nor our national wealth. We have strong national security interests in that part of the world, but they should not be addressed by our becoming an occupying power. This obviously came to a head with the invasion of Iraq. Six months before the invasion, I argued strongly against it in a piece in *The Washington Post*, saying, "We're going to unleash sectarian violence, we're going to empower Iran. We're going to destabilize the region, and we're going to be in the middle of it ... We went into Japan after World War II as an occupying power and our soldiers became 50,000 friends. If we become an occupying power in Iraq, our soldiers are going to become 50,000 terrorist targets." And that is essentially what has happened. The nature of how we define our involvement in that part of the world has changed, and it is going to have to change again in terms of how we pursue our national security objectives.

The third development that concerns me has been the expansion of presidential authority to determine when to use military force without having to consult Congress. There are a couple of reasons for this: One is that our foreign policy has become so complicated that it's difficult to debate it properly in Congress. The other is that the president's unilateral use of military force has been facilitated by the evolution of smarter weapons, special operations, and small forces that don't require "boots on the ground," though they're still clearly an attack against another country. This is a dangerous development in terms of how the United States addresses issues around the world.

I spoke repeatedly on the Senate floor about how we went into Libya. It was not a civil war. The logic that we used for our intervention was different from that in any situation that I can remember in terms of

the unilateral use of force by the president. There were no treaties at risk, there were no Americans at risk, there were no imminent attacks that were going to come out of Libya. We hadn't thought through the end result of an intervention. Clearly, at a minimum, it should have been brought to the Congress and debated; and we could not get a debate on the Senate floor in the summer of 2012. We could not get this issue brought to a vote. The end result was that, in the name of a newly enunciated concept called humanitarian intervention, we established a precedent by which the president unilaterally can determine if there's the need for "humanitarian intervention" anywhere in the world and inject the United States military into that situation without consulting Congress. This is not a healthy principle to be allowed to continue. Which is why I think it's a very smart move for the president to say he wants a vote on what he's doing with ISIS in the Syria-Iraq area.

Foreign policy has become so complicated that it's difficult to debate it properly in Congress.

Our foreign policy as to how and when we decide to use military force has become very vague.

We need a clear doctrine, so that our fellow Americans can understand the logic determining our decisions to use force, so that our potential adversaries can understand, and so that our allies also can understand and adjust. What are the conditions that require the use of American force in other parts of the world? What do we stand for? Where exactly do we draw the lines, so that people can understand when these lines are crossed?

We need to get a lot smarter about how we use the American military on the ground.

And we really need to come to grips with whether or not the president—any president—should have unilateral power in deciding to use force.

SESSION THREE: Agenda Ahead—Climate, Infrastructure, Finance and Security

Rachel Cleetus:

Climate change is real and it's impacting the US and the world now with worsening droughts, floods, sea level rise, ocean acidification, threats to public health, and food shortages. These risks are only going to worsen if we don't take steps to cut our emissions and prepare for the changes underway.

From an economic perspective, climate change is the greatest market failure of our time. Unfortunately, our failure to address this problem means we're very likely to hurtle past the two-degree Centigrade threshold that many had as the goal for climate policy. We're already headed to three and four degrees, and beyond.

That's not a reason to stop taking action. That's actually a reason to double down, and to invest in preparation. This is an anthropogenic problem so we know exactly how to tackle it. We have the solutions to make the transition away from dependence on fossil fuels. These include generating electricity from wind and solar, moving to low-carbon fuels, and stopping tropical deforestation.

What's missing is political will. It's very easy to defer action because there's a sense that climate change is a slow-moving inevitable disaster, but it's not going to affect me in this election in which I'm running now.

But it is here and now. We're starting to see more and more extreme weather events. In the eastern and southern US we have some of the highest and fastest rates of sea level rise in the world. We've seen flooding events from Maine to Texas, and not just during storms like Hurricane Sandy; they're happening during regular high tides. In the Norfolk, Virginia area this is now a routine fact of life. This is what's going to change the political calculus. If you've got rising sea levels threatening people in your district right now, you really can't walk away from the problem.

There have been important developments recently. The EPA proposed limits on carbon dioxide from existing power plants, the first time this country has placed limits on this largest source of our CO2 emissions.

The danger is we get stuck in an over-reliance on natural gas, which is still a fossil fuel and is going to require a heck of a lot of infrastructure and pipelines to scale up. That money could be better spent investing in better transmission of wind from the Midwest to the Southeast, for example.

The US and China made the historic announcement of a pledge to limit carbon emissions. The US pledged to reduce emissions 26 to 28 percent by 2025, and China said it would peak its emissions by 2030. The US, in addition, just made an announcement of a \$3 billion pledge to the Green Climate Fund, which supports developing countries in making the transition to clean energy.

This is what's going to change the political calculus. If you've got rising sea levels threatening people in your district right now, you really can't walk away from the problem.

When the two biggest emitters come together and make such an agreement, dominoes start to fall. Europe has already made a pledge of a 40 percent reduction by 2030, and this should unlock the Indias and Japans of the world to make a similarly ambitious offer.

Climate change fundamentally affects every aspect of our economy. Every economic actor will have to participate in the solution, including the implementation of deliberate, ambitious government policy. The problem will not be resolved by the market on its own; but the market does have a very important role to play. Putting a price on carbon is a critical policy that can

(continued on page 14)



Panel (l to r): Michael Lind, Rachel Cleetus, Marshall Auerback, Bruce Bartlett

provide incentives to the private sector to scale up clean energy. It's already happening; wind and solar costs have fallen dramatically in the last few years. But it's not happening fast enough given the climate threat that we face.

Finally, the biggest problem that climate change poses is that it worsens inequality. Its worst impacts are on those who have had the least to do with the emissions that are causing the problem. Any fair solution has to acknowledge that fact. There are people in the world today who need to get access to electricity before we even start talking about low carbon. We need to deal with this huge equity-moral-ethical consideration even as we're trying to solve the climate problem.

This is one of those moments in time where citizens really have to speak up, know the facts, know the science, go to vote, make your politicians answerable; because climate change is going to fundamentally affect the lives of our children, our grandchildren, and our grandchildren's children in the years to come.

Bruce Bartlett:

I'm here to talk about politics. The previous speakers all cited serious problems that need to be dealt with; but, let's face it, they're not going to be addressed under current circumstances because the Republican Party has gone nuts. It's the party of morons, religious kooks, and crackpots. By the way, I'm an ex-Republican.

I don't see things changing anytime soon; but there is some hope that the Republican bubble will deflate, though of course not through their own desires. Their desire is to take over the White House and ram rightwing nutty policies down the throats of the American people, as has been done in Kansas and Wisconsin.

The Republicans have gained control of the House for the foreseeable future because of gerrymandering, and I think the Senate's going to go back and forth for a long time to come because you can't gerrymander the Senate. I think as people develop the idea that the Republicans have control of the House, they're going to think more and more about the Democrats as the party that blocks their nuttiness. During most of the postwar era the Democrats had a lock on the Congress. I think people elected a lot of Republican presidents during that time because they didn't really trust either party with complete control.

People are going to be sensible enough to elect a Democrat to block the nuttiness, and that's probably going to be Hillary Clinton. I don't expect Mrs. Clinton to advance much of an agenda; I think she'll be a stay-put, keep-the-trains-rolling kind of president who doesn't do much of anything to advance the Democratic agenda. That's going to frustrate an awful lot of people.

The bright side is the Republicans have gotten so nuts, I think they're prepared to nominate somebody who would make Barry Goldwater look like a liberal. The best thing that could possibly happen—and

I'm praying and hoping for it—is that they nominate some lunatic like Rick Santorum or Ted Cruz. I'd like to see them lose all 50 states, and then what's left of the sane wing of the Republican Party can finally reassert control and put the cranks back where they belong. The problem is that the sane wing is going to try to rally around Jeb Bush or somebody like that, and it won't work. What they need to realize is that they're not going to win anyway, so they might as well let the nut cases have what they want precisely so that they can lose really really badly. Maybe by 2020 the party will be capable of nominating somebody who not only can win, but deserves to win.

I think there's a sizable chance that Hillary will serve only one term; I just don't think she'll give people a very good reason to reelect her in 2020. Maybe I'm wrong; maybe she'll turn out to be another Lyndon Johnson. I don't see that happening because there will be Republicans in Congress who hate her just as much as they hate Obama.

A piece of advice from a non-Democrat to an audience mainly of Democrats: You waste too much of your time talking about substance to people who don't know and don't care about it. You can't go through them, but maybe you can go around them.

I do think there is at least some hope that the Republicans will collapse, and maybe out of the ashes some good things can finally happen.

Michael Lind:

I'm going to talk about the increasing convergence of geopolitics and geo-economics. As China and other developing countries reach the middle-income trap, naturally their growth is going to slow. The developing countries are going to have slow growth driven chiefly by productivity because of their reduced labor markets. That's not necessarily bad, but it means affluence grows at a slower rate than in the period of early industrialization.

The political responses to slow growth historically have been to export domestic unemployment by promoting current account surpluses, mercantilism, protectionism, and immigration restriction. Neo-classical economists say none of these can ever work and that utilitarian globalism is bad in the long run for the human race as a whole. That may very well be the case, but in the short run national leaders and populations are looking out for their selfish interests. Successful mercantilism, protectionism, and immigration restriction do benefit some people in the short run, whatever they do in the long run.

I see 2014 as the end of the post-Cold War period. There was a "Cold Peace" between 1989 and 2014. Because of events in Ukraine, China, East Asia, and in the Middle East, various illusions died this year, and we're now starting a new era.

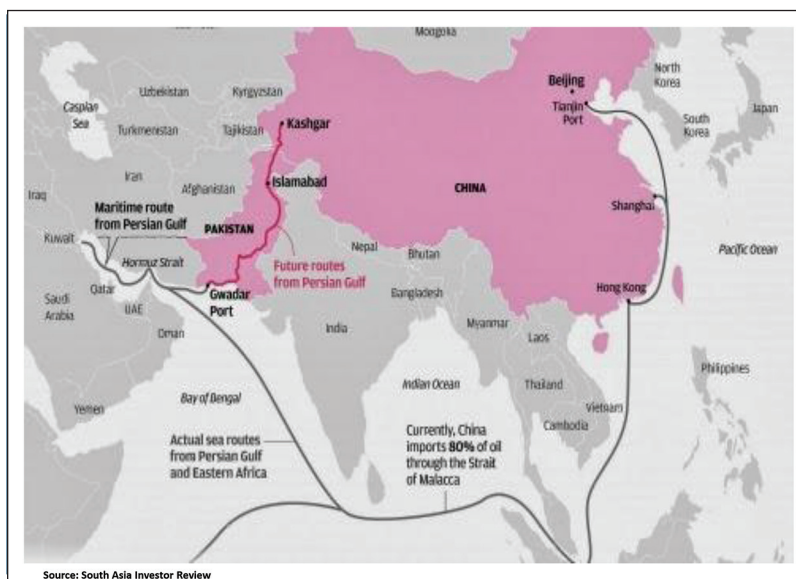
Let's look at the brief era that just ended. Political scientist Barry Posen describes the consensus among the Democrats and Republicans after the end of the Cold War as liberal hegemony, a kind of Pax Americana in which the United States specialized in providing military security for the other industrial nations in areas like the Middle East. In return, the other industrial nations gave up their great power ambitions regionally and globally, the way West Germany and Japan had during the Cold War. They made cars; the US made wars. We were the global cop, policing a world market in which there were no longer great military rivalries.

This era came to an end with Russia's reassertion of a Eurasian sphere of influence and China's much more gradual assertion of its own great power prerogatives in its immediate environment. I think that US policies actually recognize this. Quietly, the

Obama administration has given up on the goal of hegemony. We see this in foreign policy, in the pivot to Asia, which is classic balance-of-power realism; and in the abandonment by the US of global schemes like the World Trade Organization in favor of much more strategic alliances dictated more by military considerations than economic ones. For instance, the Trans-Atlantic Trade and Investment Partnership and NATO almost completely overlap; essentially, the TTIP is an economic version of NATO.

vulnerabilities. President Putin is addressing these by means of long-term natural gas and oil deals with the Peoples Republic of China.

Most world commerce and a lot of oil flows through the Straits of Malacca from the Middle East to the East Asian countries, including China, Japan, and South Korea. Part of America's claim to being the sole superpower is the fact that the US both protects these sea lanes and in theory can threaten to cut them off. In response, the



Similarly, the Shanghai Cooperation Organization, which originally had China and Russia at its core, now has expanded to include a number of Central Asian and East Asian countries as participants or observers. So, with the exception of Brazil, there's a very striking overlap between the SCO as a geopolitical alliance and the increasingly important BRIC group.

China has proposed an East Asian trade pact, the Regional Comprehensive Economic Partnership, which excludes the United States but includes most of the other countries of East Asia. This is in response to the Trans-Pacific Partnership, which includes Australia and a number of countries along the periphery of China, but excludes China. Clearly there's a war of trade pacts that arguably are really military alliances in disguise.

Much of the opportunity for a resurgent Russia to exert weight is based on its petroleum and natural gas exporting power to Europe; but the supply lines have

Chinese government is developing a number of overland pipeline projects.

Whatever we call this new era, it's probably not going to be a repeat of the Cold War; but the illusion of perpetual American hegemony in a global market policed by the Team America world police has died. Even with a more hawkish Republican in the White House in 2016, America's relative decline and war fatigue will impose constraints on US policy.

The danger is in drifting back to the historic norm in which discussions about the organization of the world economy and the great power alliances weren't separable. For the last couple of centuries, there have been great power rivalries, and the pattern of trade and investment was influenced as much by the strategic imperatives of security alliances as by strictly commercial considerations. The result is a very simplified pattern in which geopolitics and geo-economics converge; but unfortunately it's also a very conflictual one.

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19th International Conference on Economics and Security

June 25–27, 2015, Grenoble, France

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- Economics of conflict and war
- Post-conflict reconstruction
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- Economics of security
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