

War and famine. Peace and milk.

– Somali proverb

The 20th Anniversary Issue

INSIDE THIS ISSUE

US Military Expenditure.	2
<i>Jurgen Brauer</i>	
Letter from the Director	3
Understanding Terrorism	4
<i>Lloyd J. Dumas</i>	
The War and the Economy.	5
<i>James K. Galbraith</i>	
Demilitarizing Lesotho.	5
<i>Dietrich Fischer</i>	
A New Deal for the World.	6
<i>Lucy Law Webster</i>	
Offsets and Economic Development: Having your Cake and Eating It?	8
<i>Geoff Harris</i>	
ECAAR Promotes Land Trust for Vieques	9
<i>Robert J. Schwartz</i>	
Green, Baby, Green.	10
<i>Kate Cell</i>	
New Openings for Nuclear Abolition	12
<i>Alice Slater</i>	
EPS at the AEA/ASSA.	15

Bush vs. Gore on Defense Issues

Lawrence R. Klein and Michael D. Intriligator (reprinted from April 2000)

The presidential campaign is well underway, but it is remarkable how little attention is being paid to the leading candidates' positions on defense issues.

Both Texas Governor George W. Bush and Vice President Al Gore fail to recognize explicitly the key role of reduced defense expenditures, beginning with FY 1993, in starting the whole process of Federal deficit reduction, the turn to surplus, and the reduction of the public debt. This remarkable economic achievement has been extended to state and local government budgets that have also benefited from these favorable fiscal trends.

Both candidates support increases in defense spending over the next few years to boost military pay and funds for health, education, and housing for the armed forces and their families. Both would ensure that American troops continue to have equipment and training to address challenges of terrorism and nuclear proliferation. Gore, however, would continue "Reinventing Government" reforms that have produced savings in the military budget. He would also resist efforts in Congress to advance priorities the military says it does not want or need.

Bush, by contrast, would rebuild US military power to deal with a "world of terror." He would charge a leadership team under the Secretary of Defense with creating the military of the future, one that is "lethal, agile, and easier to deploy." This, he says, will require more defense spending, with research and development up at least \$20 billion from FY2002 to FY2006. He would also strengthen US intelligence resources, especially human intelligence and early threat detection.

While both candidates support the

development and deployment of theater missile defenses, assuming the technology works, there are differences in their positions on national missile defense. Gore says the President will have to decide whether to proceed toward deployment based on: 1) the level of confidence in the technology; 2) its impact on US arms control interests; 3) an assessment of costs; and 4) an evaluation of threats. By contrast, Bush, noting that some nations, including North Korea, Iran, and Iraq, are developing missiles that may ultimately reach intercontinental range, has concluded that "the US government can no longer afford to drag its feet on building and deploying a missile defense system."

Sharp differences also exist on arms control issues. Bush says the United States "cannot continue to allow Cold War arms control agreements to restrict America's ability to defend itself and its allies." While he opposes ratification of the Comprehensive Test Ban Treaty, he supports a continued moratorium on nuclear testing. By contrast, Gore has called the CTBT the "tide of history" and said the United States should ratify it. On nuclear weapons, Gore believes in the value of nuclear deterrence for the foreseeable future, but does not think the United States needs a series of increases in its nuclear arsenal. He would like it reduced substantially through arms control.

On military procurement, Gore states that the Air Force does not require additional B-2 bombers beyond those authorized by Congress. He supports Congress's authorization to build six test F-22 aircraft, but says the Administration should negotiate with Congress over future F-22 purchases.

Continued on page 13

US Military Expenditure

Jurgen Brauer (reprinted from July 2004)

I have a single main message: United States military expenditure is not large and rapidly growing; instead, it is larger and rapidly growing - larger than is ordinarily reported in the news media; larger than the public appears to have in mind. The reason, I believe, is that what the news media report and what the public hears are numbers that come off the federal budget decision-making process, that is out of administration requests for and congressional debate and appropriation of funds for the national defense function of government.

If you are a government official, either in the executive or legislative branch, it makes a certain amount of sense to look at budget requests and to debate and appropriate funds for the national defense budget line item. But if you are an economist, you have a different objective and so you are looking at overall defense or military-related expenditure, regardless of whether this is budgeted in the national defense line item or not. For example, for 2003 – the last year for which I have complete data – the difference between budgeted, appropriated, and eventually spent funds (the so-called national defense “outlays”) and national defense outlays as defined by

the US National Income and Product Accounts (NIPA, for short) amounts to well over \$100 billion. Just to provide you with an inkling of the order of magnitude of that difference, think roughly of \$400 billion national defense BUDGET outlays versus \$500 billion national defense NIPA outlays. That is, in 2003, the United States spent about 25 percent more on national defense than the numbers you hear bandied about in the news media. And even the NIPA numbers are incomplete, as the accounting framework does not allocate a proportion of interest payments on the accumulated federal debt back to the military sector of the economy. In 2003, for example, that would add another \$35 billion of federal spending that should properly be counted as military-related expenditure so that for 2003, we approach \$520-530 billion in national defense outlays as opposed to the \$400 billion or so in budgeted national defense outlays – a difference on the order of 33 percent.

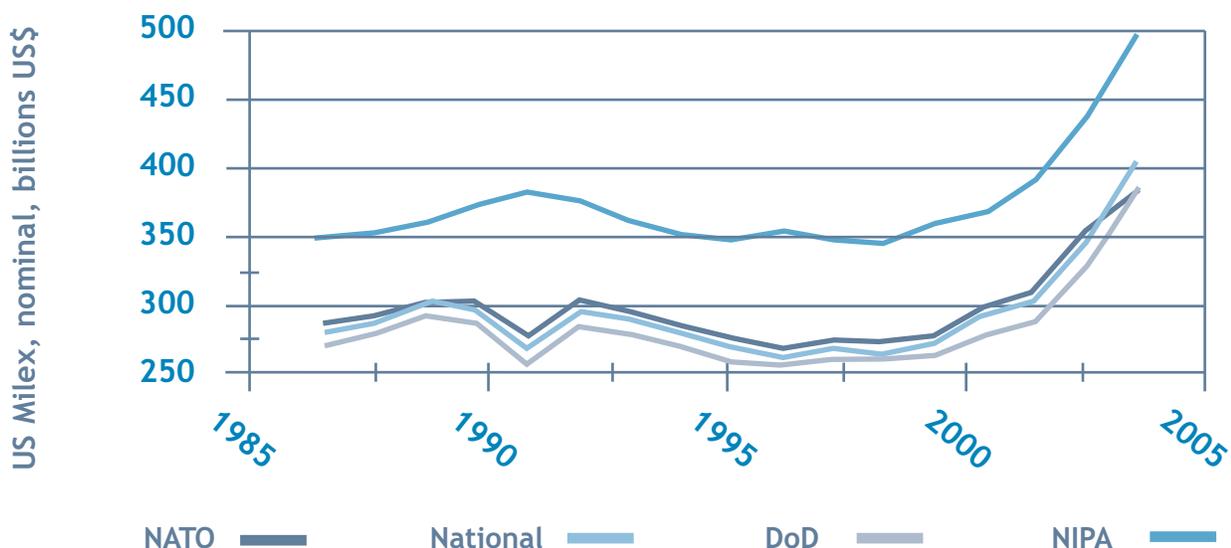
Prominent sources for countries' military expenditure include NATO, SIPRI, and the United States Department of State's Bureau of Verification and Compliance (US BVC). It turns out that

the BVC uses NATO figures for its own publication, World Military Expenditures and Arms Transfers. Likewise, the Stockholm International Peace Research Institute (SIPRI) uses NATO figures to report US military expenditure. In a word, three of the world's best known comparative sources on countries' military expenditure use the same figures for United States military expenditure. This is of course good news. The bad news is that these figures do not match what the United States itself reports about its own military expenditure.

News media reporters and the public-at-large pay unwarranted attention to US Department of Defense budget numbers. For FY2003, at about \$390 billion, these understate the actual total US military expenditure of \$520 by about \$130 billion.

Jurgen Brauer was Vice Chair of ECAAR. This article is extracted from a speech Dr. Brauer in June 2004 gave at “The Other Economic Summit,” an alternate meeting to the G-8 sessions in Georgia. The full article is available from Dr. Brauer's website at <http://www.aug.edu/~sbajmb/paper-Brunswick.pdf>.

US Military Expenditure, 1987–2003, according to NATO/SIPRI/BVC, the *Historical Tables* (total national defense outlays and DoD), and NIPA measures; nominal billions of US dollars. NATO 2003 is an estimate.



Letter from the Director

The very first issue of the ECAAR News Network (predecessor to the Quarterly) records that, "Economists against the Arms Race 'went public' at an 8 o'clock breakfast on Friday, December 30 [1988], the final day of the AEA annual meetings. Eighty people gathered and overfilled the room... [T]here was animated discussion of economics, disarmament, peace."

The meeting was presided over by Lawrence Klein, co-chair of ECAAR. He introduced the morning's panel: ECAAR Trustee Robert Solow, Treasurer and Founder Robert Schwartz, Robert Eisner, Joseph Pechman, Dietrich Fischer and Lloyd Dumas. He went on to note "our professional obligation for rigorous analysis and substantive exploration of the issues."

I am pleased and honored to bring you this issue of the EPS Quarterly celebrating our twentieth anniversary. I thought it would be fitting to re-run a few articles from ECAAR/EPS's past – to give our readers a small taste of our activities over the last 20 years. This gave me the opportunity to re-read all of our newsletters. There were so many authors and articles that I wanted to share with you; we have done a lot of work in these years. Of course, I had to narrow down my choices for reasons of space.

The pieces I have chosen are, I hope, a representative sample. In "ECAAR Promotes Land Trust for Vieques" from the May 2002 newsletter, our founder, Robert Schwartz, describes his personal involvement in efforts to oust the US Navy from the Puerto Rican island of Vieques. Thanks in large part to several reports generated by ECAAR, the movement was eventually successful and the Navy left its base there in 2003.

The 2008 US presidential election is over and the next phase of policy and action is yet to be decided. I was struck by an article in the April 2000 newsletter by Trustee Lawrence Klein and Vice-Chair Michael Intriligator comparing George W. Bush and Al Gore's positions on defense spending. The article concludes, "The differences between [the candidates] on defense issues affect the US economy and the security of the entire world. These are clearly much more significant issues than most of those now debated by the candidates and covered by the media," as hauntingly apt a statement in 2008 as it was in 2000.

Grants from the Ford Foundation were integral in several major projects. Among them was the Global Register of Experts on the Economics of Military Affairs. GREEMA is a registry, or directory, consisting of 460 entries from over 50 countries of experts in the field of economic aspects of military affairs. A short article by Dietrich Fischer, reproduced from the Summer 1994 issue, gives an example of the utility of the directory.

In 2002, ECAAR initiated a project on the economic costs, benefits, and unintended consequences of the use of barter arrangements, or "offsets," in international arms transfers. Using the relationships of our international affiliates, and funds from the Eisner Project Development Fund, we co-hosted a conference in Cape Town, South Africa. Here we reprint a report of the conference by ECAAR member Geoff Harris.

There is also a random sampling of other short articles. I was often struck by how pertinent the thoughts and advice contained in these articles are still.

I am pleased also to have recruited all three of my predecessors in the position of staff director to write new articles for this issue. Each brought her own character and particular areas of special interest to the organization; each of the pieces they wrote for this edition focuses on the current state of affairs in her field.

The selection process has been a learning experience for me. Although I have worked for ECAAR/EPS since the summer of 2002, I was unaware of many of the projects and activities from earlier times. In going back through the newsletters, I was able to see the progression of the organization and really understand the richness of our history.

From its beginning, EPS has provided conference sessions, reports, studies and publications which have clarified and illuminated the intersection of economic and security policy. Here's to another twenty years of providing rigorous analysis, substantive exploration and practical, constructive counsel to social scientists, citizens, journalists and policy-makers worldwide.



EPS Quarterly is published by Economists for Peace and Security, which 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.

Contact us:
EPS at the Levy Institute
Box 5000
Annandale-on-Hudson,
NY
12504
USA

Tel: +1 845.758.0917
Fax: +1 845.758.1149
Email:
info@epsusa.org

Thea Harvey
 Executive Director

Catherine Cohen
 Newsletter Editor

Lucy Law Webster
Myles Ren
 UN Representatives

Contact the editor:
 catcohen@epsusa.org

© Economists for Peace
 and Security 2008

Understanding Terrorism

Lloyd J. Dumas (reprinted from December 2001)

The devastating terrorist attack that struck the United States on September 11, 2001 shattered New York's massive World Trade Center, a piece of the Pentagon, thousands of innocent lives, and the illusion that sophisticated technology and powerful weapons could keep us safe.

Thousands of ordinary people became the victims of an enemy who cared nothing about our fleets of warships, bombers and missiles – an enemy who turned the fruits of our own technological brilliance against us.

Of course, terrorism is not new to the United States. More than a century before Timothy McVeigh brought down the Federal Building in Oklahoma City with a truck bomb, the Ku Klux Klan was committing widespread terrorist violence. New York's World Trade Center itself was the target of an international terrorist attack in 1993. What was different about September 11 was chiefly the scale of the carnage. But that is a very important difference.

Sub-national terrorists have now entered the realm of mass destruction. As bad as they were, the attacks of September 11 could have been worse. Terrorists might yet get their hands on weapons of mass destruction. Bio-weapons were on the minds of terrorists long before the recent anthrax attacks. In 1995, a member of the American white supremacist Aryan Nations pled

guilty to buying three vials of frozen bubonic plague bacteria – by mail. That same year, the Japanese Doomsday cult Aum Shinrikyo killed a dozen people and injured thousands more by releasing nerve gas in the Tokyo subways. And there is some evidence that that was a dress rehearsal for much larger attacks the cult was planning for 1996.

All the information necessary to design a crude, inefficient nuclear explosive – many times as powerful as the Oklahoma City bomb – has been publicly available for decades. In 1996, TIME reported that scientists at Los Alamos designed and built more than a dozen terrorist-type nuclear weapons using “technology found on the shelves of Radio Shack and the type of nuclear fuel sold on the black market.”

Terrorists might also be able to steal or buy a ready-made weapon. In 1997, Russian General Alexander Lebed claimed Russia had lost track of some 100 “suitcase” nuclear bombs.

Terrorists could also escalate the level of destruction by conventionally bombing an industrial toxic chemicals plant, a nuclear power plant, or a toxic chemical or nuclear waste storage area. This thought has not escaped their minds – there were almost 700 bomb-related threats against US nuclear facilities from 1976-1994. The fourth jetliner that crashed in Pennsylvania during the barrage of hijackings on September 11 was

looping back toward and went down about 120 miles from the Three Mile Island nuclear power plant.

Fighting Terrorism

In the short run, terrorism is most effectively fought by improved intelligence, greater international cooperation and a far better understanding of the character of terrorist groups.

In the long run, the best way to end terrorism is to drain the pool of marginalized and humiliated people from which demagogues like Osama bin Laden recruit people so frustrated that they are willing to die to strike a blow against those they hold responsible for their pain. That cannot be done with military strikes – or better police work. It can only be done by helping them to develop economically and politically, by taking their economic and political rights just as seriously as we take the rights of those whose worldview aligns more closely with our own.

No one who feels that they and their people are respected and taken seriously by the world flies airliners into buildings.

Lloyd J. Dumas, a member of the ECAAR Board of Directors, is professor of political economy, University of Texas at Dallas, and the author of the recent book, “Lethal Arrogance: Human Fallibility and Dangerous Technologies.”



Newton Meyers - Fall 1991

The War and the Economy

James K. Galbraith (reprinted from December 2001)

As I write, the war in Afghanistan seems to be nearing an end, one that will permit food to reach the Afghan people through the winter, and that raises hopes for a new political solution in that country eventually.

Whether we have achieved similar success in the larger struggle against violence and terror is less clear. Secretary Rumsfeld, in particular, has warned that we are entering a war that will not end in our lifetimes. There is little reason to doubt his judgment. And particularly not, if Americans draw the wrong lessons from the Afghan experience and place too much faith, from this point forward, in the effectiveness of military power.

The task of economists now is to pro-

vide alternatives. We need to spell out the steps that must be taken – in the governance of the world economy – to reduce the awful temptations of violence, terror and war. These must involve measures that improve the capacity of the United Nations, that reduce the flows of armaments in volatile regions, and above all provide the financial and regulatory frameworks necessary for sustained growth in impoverished and highly unequal regions. Since none of this can happen unless the United States and its industrial network are themselves stable and prosperous, economists also need to give their attention to the policy changes in this country that are required to end the present downturn and restore stable,

balanced growth and full employment.

The mission of ECAAR is therefore more vital than ever before. Rather than Secretary Rumsfeld's vision of a perpetual war, we seek to lay the conceptual foundations for a just and lasting peace. We ask all members of our profession who share this objective to join us, to provide financial support; above all we ask you to share your ideas and energies, and to contribute your work to this cause.

James K. Galbraith holds the Lloyd M. Bentsen Jr. Chair in Government/Business Relations and is a Professor of Government at the LBJ School of Public Affairs, University of Texas in Austin, where he teaches economics and other subjects. He also serves as Chair of EPS.

Demilitarizing Lesotho

Dietrich Fischer (reprinted from Summer 1994)

ECAAR's Global Register, funded by the Ford Foundation, has already provided a useful service. Recently, an Internet message related that a researcher in Lesotho was urgently seeking information about how Costa Rica was able to abolish its military. Carol Reiley Urner, an American working with the Primary Education Project in Maseru, Lesotho said that the army in Lesotho was in mutiny against the government and the people, and that that government would like to abolish the army, but was powerless, because the army had all the firearms. She asked how Costa Rica had been able to succeed in eliminating its army.

I contacted Luis Guillermo Solis, the Costa Rican participant in our Latin American workshop for the Global Register, who has since left the Arias foundation to become Costa Rica's Ambassador-at-Large for Latin America. He set out some key points of President Figueres' 1948 strategy to abolish Costa Rica's army which was adopted in the new constitution in 1949.

First, the military was relatively small, which was helpful. Second, the elites who were fearful that the army could rebel against them created a series of institutions to guarantee legitimacy for the civilian administration. Among them

were the following five measures:

1. They created a central comptroller's office (Controlaria de la Republica) with monopoly control over all public expenditures. Its head is appointed by 2/3 of the votes in Congress for 8 years at a time. This helps prevent massive corruption.

2. They established a Tribunal of Elections, staffed by High Court Justices appointed for 8 years, essentially a fourth branch of the government, to prevent electoral fraud.

3. The police, responsible for crime prevention and public security, are not under a single command, but divided into two separate ministries: the Ministry of the Interior is responsible for security in rural areas, and the Ministry for Public Security is responsible for urban security. Both ministries are civilian. In this way, no chief of police is able to exert monopoly control and seize state power by force.

4. Police officers hold civilian ranks (such as "Inspector," etc., like in Great Britain) not military ranks (such as lieutenant, captain, colonel, etc.).

5. There are autonomous institutions responsible for electricity, water, telecommunication, banking, not under the central government, in which opposition parties enjoy a certain minimum rep-

resentation. Political power is widely dispersed. This would also make it harder for any small group to seize illegitimate power.

Finally, Costa Rica relies heavily on the collective security mechanisms of the United Nations for verification and enforcement.

After I sent this information via the Internet to Carol Urner in Lesotho, I received a grateful reply from her a few days later, with more detailed information about the struggle going on there. Carol will share this information at a forthcoming meeting of local NGOs, and hopes they will take up direct contact with Luis Guillermo in Costa Rica, to learn further details.

Once the full register is widely available, it can become a powerful force for peace by making such type of information accessible quickly on a global basis.

Dietrich Fischer is a Professor and Academic Director at the European University Center for Peace Studies, Burg Schlaining, Austria (www.epu.ac.at). He is a former MacArthur Fellow in International Peace and Security at Princeton University, a member of TRANSCEND, the international peace and development network, and a fellow of EPS.

A New Deal For The World

Lucy Law Webster

This is a “How To” article on two themes: how to put an end to war and how to make a New Deal for prosperity and dignity for all worldwide.

War is a human institution; it does not arise inevitably from any natural cause. Although we humans have spent many thousands of years in competitive relationships with frequent violent confrontations, we now know how to distinguish between healthy competition and destructive conflict. And we know how to prevent dysfunctional violence. Furthermore, the “boys will be boys” attitude toward war is one game in animal-spirits mode that has become unacceptably dysfunctional with the development of modern military technology.

We know how to ensure economic security and social dignity for all. The vast inequalities of the present world system are not the only factors contributing to our proclivity to approach our diverse interests in a confrontational way, but reducing these inequalities would reduce mistrust and tension. Here again there is nothing preprogrammed into our genes that makes inequality or injustice inevitable. We are the masters of our fate, or at least we could be. However, existing economic and social structures and the history of adverse interactions do of course contribute to human insecurity. It should also be noted that there are various kinds of deliberate fraud and extreme selfishness that can undermine the implicit social compact. This is why citizen monitoring and governmental regulation are needed – that profit seeking by the few not destroy the lives and trust of many.

As economists and social scientists we give significant attention to the global structures that contribute to human welfare and to warfare, but, in my opinion, we do not give enough attention to process. We must seek cause and effect sequences that engender benign spirals for benign, humane results. As I wrote in an earlier issue of this publication, when Jean Monnet and Konrad Adenauer helped create the European Coal and Steel Community, they had a future EU-type institution in mind as well as the efficient use of scarce resources.

Thus, one very important how-to principle is to seek structures that make cooperative interaction easy, giving dignity to all participants. Learning by doing is the greatest multiplier; it amplifies, broadcasts, and teaches for an emerging, adaptive interactive global system.

Another principle is to look ahead, and widely. It is not enough to work for short-term compartmentalized goals. A global image of peace and prosperity for all should be held firmly in mind so that every step taken contributes in an optimum way to the global vision, giving the maximum importance possible to the needs of each nation and each segment of each society. This vision should be worldwide and multigenerational. The United Nations is an effective forum for harmonizing goals and visions because it encourages participatory global governance. It should not matter where one is

[P]eace and prosperity for all should be held firmly in mind so that every step taken contributes in an optimum way to the global vision.

born or what passport one holds if there is a common image of a worldwide global nation with congruent values and respect for all.

I would not wish to imply that these and similar principles can create a world of peace and plenty in a single step. The primary objective is to create a path, which can become both a means for getting to a New Deal and the end. Building an integrated peaceful world community is a process more than it is a goal. We should recognize that a participatory process is itself a result. It is a very powerful strategy whereby people worldwide can learn and demonstrate what can be done to build power and wealth from the base upward. This empowerment is the proposed New Deal and its transforming effect on people is the result that will bring adequate prosperity to millions.

Before colonialism, this perspective was common in many parts of the world, and it provides an understanding of process that has never been lost.

A related point, which is more economic, is to note that recent thinking in development economics gives renewed importance to improving agricultural production in less developed economies in order to produce real surpluses in the real economy. Such added value is an important basis for growth and for well-being even when it is small. In similar vein, I know a small business owner in upstate New York whose local bank manager has encouraged him to borrow in a way that would increase equity. It is good to know that added value in the real economy is appreciated—especially in an era of predatory management of over-leveraged loans in the paper economy. Thus, building additional value that serves people is an important principle for the proposed New Deal.

The first principle, which should be foremost of all, relates to every ambition and especially to peace and non-violence: it is to do no harm. It is important to not be diverted from a humane, participatory path by impatience. Each part of the future global community must be allowed to be built at its own pace. To do no harm is to honor the vision of others and to support the self-empowerment of each person and each nation, while at the same time demonstrating respect for the essential principles of universal human rights.

A New Deal for all can be negotiated quietly. People and nations will see what is needed for their economy and their environment, which is the common economy and common environment that everybody owns. The UN and the whole world community have many explicit vision and mission statements. What needs to be added is that everyone should play his or her role in a way that does not trample on the humane, pro-people, pro-planet vision of others. All the great world religions teach love and mutual respect, which is also the finding that emerges from the world of science, demonstrating that what works best is what serves the common human interest.

A New Deal For The World

In the 21st Century it is no longer acceptable to exploit nature in a way that does not show a decent respect for future generations. With careful husbandry, the value of renewable resources can be expanded and shared using human creativity and sustainable means of production.

Everyone has power in proportion to the respect that he or she enjoys and anyone can use that power for creative or for destructive action. Terrorists, as well as community leaders, have power. If there is no honor or fear accorded to terrorist acts there will be very few. Communications technologies mean that everyone can know what others do and everyone can show support for or rejection of the policies and actions of nation states and non-state actors. Many civil society leaders are the non-state actors who are building the global-nation vision. They can have major influence on the shape and the tone of the global New Deal by demonstrating the policies and the action projects that contribute most to peace and wellbeing.

In the 21st Century everyone can be held accountable for his acts; thus it no longer should be possible for the strong to override the interests of the weak. War crimes, crimes against humanity and genocide can be punished by the international law of the International Criminal Court. Everyone can be protected by the quiet vigilance of all. And as long as there are no alarmist responses that give power and dignity to criminal actions, it will be possible to minimize the importance of such acts and to apprehend the perpetrators. We are all demonstrators and monitors of human rights norms and law. The technology of modern weapons and the power of rapid communications mean that on the one hand it is not very difficult to generate fear and hyper-reactions to acts of terrorism, while on the other hand there are new capacities to stop anyone who would trample on the lives and peace of people worldwide. The new communications systems offer powerful tools to build solidarity and to prevent over-reaction to terrorism. It is in

the hands of all citizens of all nations to determine how this growing power of worldwide communication will be used.

The proposed New Deal will be the deal the world community negotiates with itself to share a vision of a global nation living in peace, sustainable adequacy, and mutual respect to encourage one another and to protect a mutually supportive vision. The United Nations, which is developing new flexible competencies, can help greatly to create and guide this sort of complex adaptive system. At the same time, the concept can to some extent be self-managed; creating the New Deal will depend on self-management by individuals, civil society groups and states, as will the constant process of its implementation.

Lucy Law Webster is a retired UN Political Affairs Officer who is Executive Director of the Center for War/Peace Studies, a Board member of Economists for Peace and Security, and an officer of the international World Federalist Movement.

ECONOMISTS FOR PEACE AND SECURITY RELEASES A REPORT ON SPACE POLICY

Economists for Peace and Security recently released a report on the Bush Administration's outer space policy. The report, *Space, Security and the Economy*, warns that the present policy of space dominance could transform outer space into a military battleground.

Official US policy asserts the right to deny any nation access to space if its actions are "perceived" to be hostile. This policy, together with other actions such as withdrawal from the ABM treaty and the ongoing development of weapons intended to attack objects in space, could lead to the deployment of weapons in space. If the US stations weapons in space other nations are likely to do the same, and we will be faced with an arms race in space.

No one, the report, concludes, can prevail and all stand to lose in an arms race in space. Among other consequences would be negative effects on the economy and the growing scientific and commercial uses of space. In particular, private investors are unlikely to place additional resources at risk in a vulnerable area of potential military conflict.

The report calls for changes in the policy of space dominance, greater transparency in military space spending, and detailed information about government and commercial space activities.

For a hard copy, please email Thea Harvey at theaharvey@epsusa.org. To view a pdf, visit www.epsusa.org/publications/papers/spacesecurity.htm.

Offsets and Economic Development: Having your Cake and Eating it?

Geoff Harris (reprinted from November 2002)

One of the most controversial government policies in South Africa has been the R30 billion arms purchase agreements signed with a number of European arms producers in late 1999, which relied heavily on offsets which are common in international arms contracts.

These offsets, which provide some return benefits to SA, took three forms. The most obvious is direct offsets, where local firms are contracted to produce components for the vessels and aircraft. Indirect offsets occur where European producers agree to purchase other (non-military) goods from SA producers. The third type is new foreign direct investment in SA by the European arms producers or associated companies.

Together, these offsets were estimated by the Department of Trade and Industry to result in R104 billion in net

economic benefits to SA and 65 000 additional jobs, and these figures were crucial in cabinet's decision to approve the arms purchases.

An international conference held in Cape Town in September examined links between offsets and SAs development. Sponsored by the US-based Economists Allied for Arms Reduction (ECAAR), the National Research Foundation (SA), the Centre for Conflict Resolution and the School of Economics, University of Cape Town, the University of Port Elizabeth, Middlesex University and the University of the West of England, it brought together a number of internationally renowned researchers in the field.

Professor Jurgen Brauer, from the US, pointed out that there are many actors and interest groups involved in an

arms deal. He argued that the role of the economist is to represent the interests of society as a whole, rather than any one group. In economic terms, this means estimating the value of the various projected benefits from offset arrangements and then deducting the costs of the arms purchases in order to estimate the net effect on society - the net social benefit.

In terms of costs, the purchase price of the arms is normally well known, although it has increased to around R60 billion as a result of inflation and exchange rate movements. However, long experience with offsets indicates that arms producers raise their prices by 20-30% to compensate for the additional costs they incur as a result of offsets.

So an important question is why didn't the SA government simply buy "off

The deficit

Robert Heilbroner (reprinted from Spring 1992)

The American economy is in serious trouble. Why? Because of the deficit. I write it as one word, like a term from an incomprehensible language, because not one American in a hundred can tell you what the deficit is or does. But they can tell you what it means. It means that nothing can be done to cure the present trouble.

What can be done if we didn't have the deficit?

Right away, we might cut payroll taxes, which would immediately increase the public's spending power. We might start up a quick program to employ the unemployed. We might transfer funds to the states to reopen libraries, rehire teachers, expand social services to the wretched homeless and the drug addicts.

For the longer run, we might begin to rebuild our decaying infrastructure. Infrastructure is to the private sector what a railroad embankment is to a railroad. Our economy is limping because our infrastructure is holding it back.

The fact is, however, that we cannot do any of those things. Why? Because they would run up the deficit.

Only three possible courses of action are possible in the face of this paralyzing problem. First, we can pray for a turnaround. That's the course we have been taking for some time. Unhappily, there is no reason to think our prayers will have any more effect on the economy in the future than they have had in the past.

**[N]ot one American
in a hundred
can tell you what
the deficit is or does.**

Second, we can take whatever fiscal measures will not worsen the deficit. We can cut some taxes and increase others. Democrats would like to cut taxes on lower-income families and raise them for rich families; Republicans would like to do the opposite, by lowering capital gains taxes and putting taxes on gasoline or whatever. Those remedies are

not likely to turn around a \$6 trillion economy dead in the water.

Third, we can rid ourselves of the impossible obstacle itself. By this I do not mean dismissing the deficit or finding a magic way around it. I mean understanding what it means.

Understanding begins with definition. A deficit is the amount of money the government borrows during a year. That's all it means. In the year ending June 30, 1992, the government expects to borrow about \$350 billion.

Is this a disaster? That depends on what the borrowing is for. If we borrow \$350 billion to build a high-speed rail network, to bolster education, to underwrite research and development, to restore ailing Americans to working health, I would call that anything but a disaster. It might, in fact, be the way to get a becalmed economy moving again. Studies have shown that public investment would be even more effective in increasing our productivity than the same amount spent for private investment, because private investment today is robbed of much of its effectiveness by

Continued on page 14

Offsets and Economic Development: Having your Cake and Eating it?

the shelf" and pay a lower price? The answer is that it believed that the estimated benefits of the offsets outweighed the higher costs. New foreign investment and jobs have been mentioned, to which may be added technological transfer. That is, by being involved in the production of components, and through new foreign investment, SA would keep abreast of technological advances elsewhere. In addition, some people would argue that it is important to maintain a SA defense industry for strategic reasons.

According to the free trade principles espoused by the World Trade Organization, offsets are a bad idea. They result, Professor Ann Markusen argued, in both microeconomic and macroeconomic distortions. Professor Paul Dunne believes that most offset deals have involved big overestimates of the benefits in fact received by the arms purchasing country. While they remain common in arms purchase agreements, it is worth noting that a number of countries have decided not to be involved with them. That is, they prefer to buy "off

the shelf" and forego the potential benefits of offsets. The reason they give is that the potential benefits have not been forthcoming.

Is SA reaping the hoped-for benefits from its arms purchase agreement? The jury is still out on this but there are some worrying signs that some European arms manufacturers are, in effect, renegeing on their commitments and claiming offset credits for benefits that would have happened in any case. Paul Dunne argues, for example, that the joining of British Aerospace and Thomson-CSF with SAs Denel would almost certainly have occurred without the arms deal, given the clear benefits these firms received from such a linkage.

Research led by Professor Richard Haines of the University of Port Elizabeth has found that the flagship non-arms project - the Coega Industrial Development Zone - will require as much as R5 billion of additional government infrastructure development to make it viable. The initial plan of a US\$1 billion stainless steel plant as an

offset for the purchase of the three German submarines has been cancelled, given excess capacity in the world steel industry. Every time this sort of thing happens, the net social benefit of the arms deal is reduced.

The conference reached three conclusions of relevance for countries such as SA. First, a domestic arms industry will inevitably require heavy government subsidies and this has to be weighed up against its strategic value. Second, arms purchases must be justifiable in defense terms and never in economic terms. Third, if offset arrangements are entered into, it is most important that they closely complement national industrial strategy. Finally, it will be a long time before the final verdict on these offsets will be made known. Foreign arms producers have up to eleven years to fulfill their offset obligations.

Geoff Harris is a development economist at the University of KwaZulu Natal in Durban, South Africa. He also directs the university's Conflict Resolution and Peace Studies Programme. He is a Trustee of EPS.

ECAAR Promotes Land Trust for Vieques

Robert J. Schwartz (reprinted from December 1999)

Economists Allied for Arms Reduction (ECAAR) has worked with the Viequeses for more than four years to close the US naval base on the island, but tragically it wasn't until a man was accidentally killed during live target practice that the national media began to focus attention on the plight of the people living seven miles east of Puerto Rico. There is now strong support in the United States for the struggle of the Puerto Ricans to close the base that occupies most of the island on land appropriated 60 years ago in preparation for World War II.

ECAAR's participation has included sponsoring a major study with Professor Lionel McIntyre of Columbia University that resulted in *Vieques Island, Puerto Rico, Looking Forward: A Development Strategy for the Naval Ammunition Facility*, a report praised for its analysis by many experts and officials. Two later

studies were done with Professors Leticia Rivera Torres and Antonio Torres, *Vieques, Puerto Rico: Economic Conversion and Sustainable Development* and (Tufts University) *Vieques: Land Trust & Community Extension*, which compliment the Columbia report.

In addition to seeking the closing of the US naval base and rehabilitation with Navy and US funding, ECAAR proposed the creation of a land trust so that the benefits there go to the Viequeses. The trust would be utilized with community attention to sustainable development, development that meets the needs of the present without compromising the ability of future generations to meet their own needs. A community economic development program should include eco-tourism, agriculture, fishing, mariculture, arts and crafts, education and housing.

Each sector and the government of

Vieques should have one representative on the board of the land trust. If a land trust is not formally presented now, the people of Vieques will not be likely to receive the full benefits from the Navy's departure and will be further vulnerable to other exploitative interests such as land speculation. I informed the Committee for the Rescue and Development of Vieques of this concern in a letter dated October 13 and stated that failure to present promptly a pro forma land trust would require reevaluation of ECAAR's participation regarding land use.

The struggle to recover the land has never been as intense or as unified as now. All elected Puerto Rican officials are asking the White House to end military testing permanently.

At the same time, the request this year by the Department of Defense for

Continued on page 10

ECAAR Promotes Land Trust for Vieques (continued)

additional base closings was rejected by Congress, which is pushing for more military expenditures.

Military bases and plants in the United States have been a pork barrel issue with Senators and Representatives alike, but ECAAR believes that military firms create fewer jobs than do commercial and sustainable development enterprises. Unfortunately, Puerto Rico has no voting representatives in the US Congress, and hence no one to vote for closing the base. Nowhere else in the 50 states are American citizens subject to the treatment we give the Viequesens. The Navy is anxious to resume using the

base before the end of the year, and President Clinton is apparently still bargaining for a two-year period of target practice, although without live ammunition. However, given the facts, he should promptly close the base and demonstrate worldwide that the Navy's claim that Vieques is essential for target practice is simply not true.

ECAAR's raison d'être arises from grossly excessive military and defense expenditures that are unwarranted while vital civilian and human needs of our citizens remain unmet, payment of our dues to the United Nations are not paid, and the potential of our resources to

improve world development significantly is dissipated elsewhere. Over time, these views have been communicated to the White House, the Secretary of Defense, Puerto Rican officials and the press.

Robert J. Schwartz was founding trustee of ECAAR and the director of the ECAAR Vieques Project.

The naval base was closed and Vieques was handed over to the people of Puerto Rico in May 2003. For more information on the development of the land trust, visit: <http://www.vieques-island.com/navy/freevqs.html>.

Green, Baby, Green

Kate Cell

Since the election of Ronald Reagan in 1980, the phrase "government spending" has been used to imply at worst, waste, fraud and abuse, and at best unnecessary expenditure for things Americans could best supply for themselves, either individually or at the state level. The rare exception has been military expenditure (mileyx), where both political parties, fearing the appearance of weakness post-9/11, have favored increases. Mileyx, even without including the costs of the Iraq and Afghanistan wars, has therefore risen sharply (see Figure 1).

In the current financial crisis, however, even the strongest supporters of smaller government, such as Alaska's

Governor Sarah Palin, are calling for "massive oversight" of the nation's banking system, and both presidential candidates supported the \$700 billion bailout package. The pendulum is swinging towards an increased appreciation for the role of the federal government in solving national and international problems. Given the uncertain return on investments in the US and other stock markets, it seems reasonable to ask what kind of return we can expect on government investment in various sectors.

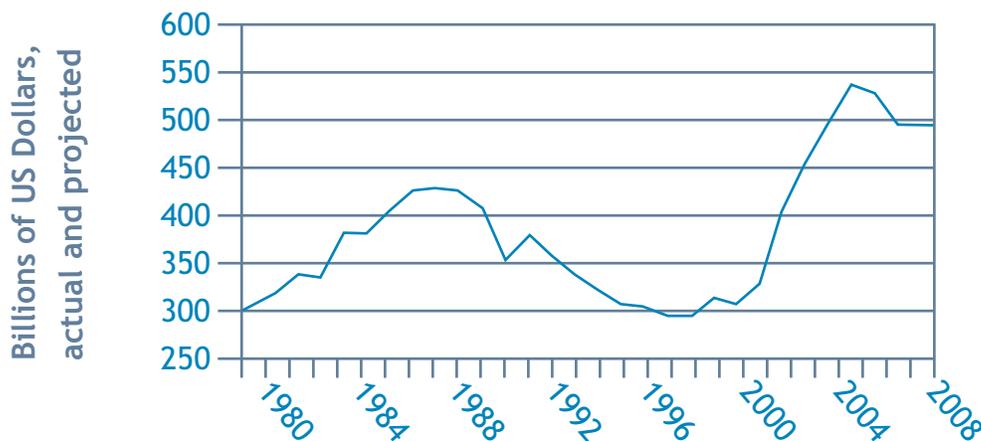
How Many Jobs?

The argument that cutting military spending will result in job losses, partic-

ularly in the districts of powerful Senatorial and House committee members, has been a reliable contributor to the upward trend in US milex. Indeed, this assertion has strangled debate, choking off discussions of the costs and benefits of other kinds of government spending. But how many jobs does milex provide per dollar spent, and how do these jobs compare to others provided by government investment in health care, education, infrastructure, mitigating climate change, and other goods desirable in a civilized society?

Over the past year, two studies from the Political Economy Research Institute (PERI) at the University of Massachusetts in Amherst have

Figure 1. US Military Expenditure, 1980–2008



Source: Center for Defense Information

1. Figures for 2003-2008 do not include expenses for the Iraq and Afghanistan wars.

2. Figures for 2006-2008 are based on requested defense budget or projections, not actual spending.

Green Baby Green

addressed this question. In the first, using basic input-output modeling, the authors compared the employment effects of military spending versus alternative government spending priorities (see Figure 2).¹

The authors are quick to admit that defense jobs pay higher wages than those in most other sectors. But in an economy with sharply rising unemployment, overall welfare will surely be improved by having more people working at decent jobs, even if they aren't the most highly paid.

What about Green Jobs?

The US, and indeed the world economy, has been seriously affected by oil prices rising towards, though by no means up to, the level of their real costs. Certainly some portion of the US military budget is used to protect the oil supply; millex, health and environmental effects, subsidies, and other externalities mean that the real cost of gas was reliably estimated to exceed \$15.00/gallon in 1998². The presidential conventions and debates have been marked by discussions of the merits of offshore drilling,

building "clean coal" or nuclear plants, and providing incentives for ethanol and other renewable energy sources. What kind of return can we expect on government investments in renewable energy?

The PERI team, in a report issued in September 2008, addressed this question too.³ Again using input-output modeling, they examined the effects of a green economic recovery program that would spend \$100 billion dollars over two years in six green infrastructure investment areas. The authors found that such a program would result in "...lower unemployment, renewed construction and manufacturing work, [and] more stable oil prices," among other benefits. They further estimated that such a program could create nearly 2 million new jobs.

Conclusion

The challenges and opportunities for the next president are clear. Reductions in military spending, and increases in investment particularly in education and the green sector, are the best prescriptions for recovering the US's economic wellbeing.

Endnotes

1. Pollin, Robert and Heidi Garrett-Peltier. *The US Employment Effects of Military and Domestic Spending Priorities*. Amherst, MA: Political Economy Research Institute, 2007. Online at http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_151-200/WP151.pdf.
2. <http://www.icta.org/doc/Real%20Price%20of%20Gasoline.pdf>.
3. Pollin, Robert, Heidi Peltier-Garrett, James Heinz, and Helen Scharber. *Green Recovery: A Program to Create Good Jobs and Start Building a Low-Carbon Economy*. Amherst, MA: Political Economy Research Institute, 2008. Online at http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/peri_report.pdf.

Kate Cell is a former Executive Director of EPS and a former Communications Director at the Political Economy Research Institute (PERI). She now serves as a consultant to nonprofits working on peace, social justice, and climate issues.

Figure 2. Overall Employment Effects of Spending \$1 Billion for Alternative Spending Targets in the US Economy, 2005

Source: http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_151-200/WP151.pdf.

SPENDING TARGETS	Number of Jobs Created	Number of Jobs Relative to Defense Spending	Average Wages and Benefits per Worker	Average Wages and Benefits Relative to Defense	Total Wages and Benefits from Employment	Total Wages and Benefits Relative to Defense
Defense	8,555		\$65,986		\$564.5 million	
Tax Cuts for Personal Consumption	10,779	26.20%	\$46,819	-29.10%	\$504.6 million	-10.70%
Health Care	12,883	50.20%	\$56,668	-14.20%	\$730.1 million	29.30%
Education	17,687	106.70%	\$74,024	12.20%	\$1,309.3 million	131.90%
Mass Transit	19,795	131.40%	\$44,462	-32.60%	\$880.1 million	55.90%
Construction for Home Weatherization/ Infrastructure	12,804	49.70%	\$51,812	-21.50%	\$693.7 million	22.90%

New Openings for Nuclear Abolition

Alice Slater

Recent calls by former cold war leaders, Henry Kissinger, George Schultz, Sam Nunn and William Perry, for new US commitments for the elimination of nuclear weapons, as well as promising statements from the Presidential candidates to address this issue if elected, have created a new opening for civil society to urge new action for nuclear abolition. We've been pushing our luck for more than 60 years since the first and only two atomic bombs to be used in war were dropped on Hiroshima and Nagasaki, killing more than 214,000 people in the initial days, and causing numerous cases of cancers, mutations and birth defects in their radioactive aftermath, new incidences of which are still being documented today. During these sixty years of the nuclear age, every site worldwide involved in the mining, milling, production and fabrication of uranium, for either war or for "peace," has left a lethal legacy of radioactive waste, illness, and damage to our very genetic heritage. Bomb and reactor-created plutonium stays toxic for more than 250,000 years and we still haven't figured out how to safely contain it.

To genuinely address nuclear proliferation and avoid a tragic repetition of Hiroshima, it's clear that we must eliminate not only the bombs but the nuclear power reactors that too often serve as bomb factories for metastasizing nuclear weapons states, as we've seen with India, Pakistan, Israel, North Korea and possibly Iran, which, if it isn't yet committed to manufacturing nuclear weapons, is certainly doing all it can to ensure its bomb-making capacity with enrichment capability. The US deal with India, driven by mindless commercial interests, to sell it civilian nuclear technology (despite India's failure to join the Non-Proliferation Treaty which forbids such sales to non-NPT parties) has shattered the NPT bargain and opened the floodgates to a host of new proliferators. Indeed, futile calls to "control" the fuel cycle have stimulated a rush of new countries to seek "peaceful" nuclear technology including Saudi Arabia, UAE, Qatar, Libya, Egypt, Algeria, Tunisia and Morocco. On the twentieth anniversary

of the Chernobyl disaster, Gorbachev called for the phasing out of nuclear power and the establishment of a \$50 billion solar fund. Germany has completed preliminary meetings to launch an initiative in 2009 for an International Renewable Energy Agency. This is eminently worthy of support as it will enable us to phase out nuclear power, thereby denying its lethal radioactive by-products to would-be weapons proliferators, by relying on safe, carbon-free and healthful solar, wind, geothermal and marine energy. (www.irena.org.)

**To effectively seize
the opportunities
to move towards
nuclear disarmament,
the US must forego its
hegemonic efforts to
dominate the military
use of space.**

There are 27,000 nuclear bombs on the planet today, 26,000 of which are in the US and Russia; the remaining 1,000 located in the seven other nuclear weapons states: UK, France, China, Israel, India, Pakistan, and North Korea. To make progress on nuclear abolition, the US and Russia will have to cut their enormous stockpiles as part of a call to all nations to begin negotiations on a treaty for nuclear disarmament. Putin called on Clinton for the US to join Russia in cutting their nuclear arsenals to 1,500 or even 1,000 provided the US would forego its National Missile Defense (NMD) program and maintain the strategic stability of the Anti-Ballistic Missile Treaty. Astonishingly, US diplomatic "talking points" leaked by Russia to the Bulletin of the Atomic Scientists revealed that the Clinton Administration was urging the Russians that they had nothing to fear from its proposed NMD

as long as Russia kept 2,500 weapons in their arsenal at launch-on-warning, hair-trigger alert. Rather than seriously entertain Putin's offer for deep cuts, the US assured Russia that if they kept 2,500 warheads Russia would be able to overcome its NMD shield and deliver an "annihilating" counterattack! Gorbachev tried to convince Reagan to abolish all nuclear weapons but rescinded his offer because Reagan wouldn't agree to give up Star Wars and keep weapons out of space. China repeatedly calls in the UN for negotiations to begin on a treaty to eliminate nuclear weapons. In June 2006, Putin called again for negotiations on new reductions.

The US response to these initiatives has been appalling. It has rejected the Comprehensive Test Ban Treaty and continues to develop new nuclear weapons in its Stockpile Stewardship program, currently funded at \$9 billion for 2009. The US pulled out of the Anti-Ballistic Missile Treaty while pressing to plant its missile and radar bases right under Russia's nose in Poland and the Czech Republic, despite promises given to Gorbachev when the wall came down that, if he didn't object to a reunified Germany joining NATO, NATO would not be expanded.

Each year, the UN General Assembly adopts a resolution on a space weapons ban by an overwhelming majority in which every country in the world votes in favor of negotiating a treaty preventing an arms race in outer space – except for the US, which has voted "NO" for the past three years, and Israel, which has abstained. In 2008, Russia and China, which have always been strong supporters of such a treaty, submitted a draft space weapons ban treaty at the UN Conference on Disarmament, which was dismissed out of hand by the US, characterizing the offer to make peace in space as "a diplomatic ploy by the two nations to gain a military advantage." It should thus come as no surprise to learn that only this October Russia test fired a new intercontinental Topol missile and vowed to commission a new generation of weapons for its armed forces, while China experimented earlier this year

New Openings for Nuclear Abolition

with anti-satellite weaponry in space. To effectively seize the opportunities to move towards nuclear disarmament, the US must forego its hegemonic efforts to dominate the military use of space or it will fail to find willing negotiating partners. When threatened by US space domination, nations that cannot compete in space are more likely to rely on the possession of nuclear weapons as a way to level the playing field.

Civil Society has produced a Model Nuclear Weapons Convention, drafted by lawyers, scientists and policy makers in the Abolition 2000 Global Network for the Elimination of Nuclear Weapons, which is now an official UN document. Repeated resolutions at the UN have supported the Model Nuclear Weapons Convention and, last year at the UN First Committee, 127 nations passed a resolution calling for "multilateral negotiations leading to an early conclusion of a nuclear weapons convention prohibiting the development, production, testing, deployment, stockpiling, transfer, threat or use of nuclear weapons and providing for their elimination." The Model Nuclear Weapons Convention lays out all the steps for disarmament, including how to proceed with dismantlement, verification, guarding and monitoring the disassembled arsenals and missiles to ensure that we will all be secure from nuclear break-out. Civil Society networks including Abolition 2000 and the Mayors for Peace, led by the mayors of Hiroshima and Nagasaki, are calling for a new commitment at the 2010 Non-Proliferation Treaty Review Conference

for negotiations to begin in 2010 on the Nuclear Weapons Convention, laying out a timetable for abolition by 2020. It's not as if we don't know how to do it! The world has already negotiated comprehensive global treaties to ban biological and chemical weapons as well as landmines.

So here's the plan:

- Take the Russians up on their offer to cut our arsenals to 1000 warheads and then take China up on its offer calling for all the other nuclear weapons states (UK, France, Israel, India, Pakistan, North Korea) to negotiate a treaty for the elimination of all nuclear weapons.
- De-alert all nuclear weapons, reducing their readiness to be fired.
- Commit to never be the first to use a nuclear weapon.
- Cut all funding for new nuclear weapons research and substitute a passive custodial program for maintenance of the arsenal during dismantlement.
- Stop all research, design and development of nuclear weapons by any means.
- Close the Nevada test site just as France and China have closed theirs in the South Pacific and Gobi Desert.
- Bring all US nuclear warheads back from Europe and abandon NATO policy to rely on nuclear weapons for its security.
- Stop the expansion of NATO.
- Accept Russia's and China's offers for negotiations to maintain the peaceful use of space for all time.

- Stop any further nuclearization and militarization of space.
- Support negotiations for a missile ban treaty.
- Institute a moratorium on uranium mining.
- Call for a global phase-out of nuclear power and join Germany's initiative to fund and establish the International Renewable Energy Agency (IRENA) to promote the use of clean, safe energy.
- Support global efforts for the reallocation of world-wide subsidies of \$250 billion now going to nuclear, fossil and industrial biomass fuels to be used for clean, safe, sustainable solar, wind, geothermal and marine energy; and work for the reallocation of \$40 billion of US subsidies and tax breaks now supporting unsustainable energy resources to be applied to clean, safe energy.
- Reallocate the resources saved to redress the environmental devastation and human suffering caused by nuclear mining, milling, production and testing, which have been disproportionately borne by the world's indigenous peoples.
- Provide adequate resources to address the toxic legacy of the nuclear age.

Alice Slater is New York Director of the Nuclear Age Peace Foundation and served as the first Executive Director of ECAAR, now EPS.

Bush vs. Gore on Defense Issues (continued from page 1)

Bush would earmark at least 20 percent of the procurement budget for acquisition programs that "propel America generations ahead in military technology." He would also order a review of the entire aircraft program, encompassing not only ongoing shorter-range fighters, but also bombers and support aircraft needs.

The differences between Governor Bush and Vice President Gore on defense issues affect the US economy

and the security of the entire world. These are clearly much more significant issues than most of those now debated by the candidates and covered by the media.

Michael D. Intriligator is Professor of Economics at the University of California, Los Angeles (UCLA), where he is also Professor of Political Science, Professor of Policy Studies in the School of Public Affairs, and Co-Director of the Jacob

Marschak Interdisciplinary Colloquium on Mathematics in the Behavioral Sciences. He is also a Vice Chair of EPS.

Lawrence R. Klein is engaged in macro econometric model building. Mainly, he is involved in building high frequency models that projects the economy in a monthly, quarterly frame. A publication on high frequency model containing countries such as US, China, Russia, India, and others is expected by the end of 2008. He also serves as a Trustee of EPS.

Upcoming Events

January 3–5, 2009. Allied Social Sciences Associations/American Economics Association meetings in San Francisco, California. See inside back cover for more details.

January 4, 2009. Dinner honoring founding co-chairs, Lawrence Klein and Kenneth Arrow. See back cover for more details.

March 20–21, 2009. Entrepreneurship and Conflict a UNU-WIDER Project Workshop in Londonderry, Northern Ireland. http://www.wider.unu.edu/events/project-meetings/2009-project-meetings/en_GB/20-03-2009/.

March 20–22, 2009. Midwest Economics Association annual meeting in Cleveland, Ohio. <http://web.grinnell.edu/MEA/>.

July 10–12, 2009. New Directions for International Relations, a conference at the Lauder School of Government, Diplomacy and Strategy at IDC-Herzliya, Israel. Topics include: Behavioral Approaches to International Relations; Rational Choice and International Relations; Quantitative and Formal Analysis of Conflict and Conflict Resolution; Negotiations and Mediation in International Conflicts; Methodological Innovations in IR; and a special panel on Conflict Resolution in the Middle East: Bridging the Gap between Academia and Practice. Proposals on any one of the above topics are invited. Send 100-word summary to Lesley Terris at ltorris@idc.ac.il or Alex Mintz at mintz.alex@idc.ac.il. The deadline for proposal submission is November 30.

The deficit (continued from page 8)

the very lack of a supportive infrastructure.

Good Borrowing Finances New Wealth

On the other hand, it would be a disaster if we borrowed the \$350 billion to build more Stealth bombers, to pay interest on the national debt or to cover the costs of normal everyday government. In exactly the same way, it would be a disaster if corporations borrowed large sums in order to expand production of a line they knew was obsolete, or to pay interest to their bondholders or to meet the payroll. In the private sector as in the public sector, there is good borrowing and bad borrowing. Good borrowing finances new wealth, which will bring more income to corporations and more tax revenues to government. Bad borrowing adds nothing but additional obligations and nothing to meet them with.

Now for the key question. How much of the \$350 billion of borrowing for fiscal 1992 will be good borrowing, and how much bad? The answer is that we do not know. There is no separation of our government deficit into borrowing for growth-promoting purposes and borrowing for “household” purposes. All spending is lumped together into one meaningless and frightening figure called the

deficit. Is there any wonder that the word strikes terror in the hearts of all?

Why doesn't the government break down its spending into investment and regular expenses, the way businesses do? Why doesn't Congress establish a capital budget with an explicit borrowing authorization, the way boards of directors do? Why doesn't the administration urge a budget that would enable voters to understand clearly what we are borrowing for?

No doubt there are “answers” to these questions. A capital budget would tempt many in Congress to put their favorite project into the capital hopper. Great battles would be fought to classify all manner of projects as “capital,” so that we could cover their costs by borrowing and not by taxes. But there are also ways around those problems. A nonpartisan, nonpolitical committee of oversight could have the power to reject poorly chosen projects from the capital budget. Total capital spending could be limited to some fixed proportion of public expenditure. A proportion of one-quarter for the coming fiscal year would authorize us to borrow roughly \$350 billion to spend on infrastructure, including education. The deficit would be the same, but we would know that all of it was used to promote growth.

Not a Proposal for Indiscriminate Spending

So this is not a proposal to open the floodgates of indiscriminate government spending. On the contrary, it is an attempt to allow citizens, for the first time, to see what their government is borrowing for. It is not a proposal that will give us economic recovery overnight. It will take time before a strengthened infrastructure exerts its effects on private productivity and even more time before an education program can pay off in a better-trained labor force.

What getting rid of the deficit will do overnight is to remove an obstacle that today makes any kind of sensible policy impossible. A capital budget is neither a liberal nor a conservative proposal, merely a common-sensical one. Looking at the climate in Washington today, I am inclined to think that may be its most unacceptable feature.

Reprinted with permission of The Nation Magazine, Inc. ©1992

*Robert Heilbroner was an economist and historian of economic thought. The author of some twenty books, he was best known for *The Worldly Philosophers*, the second-best-selling economics text of all time. Dr Heilbroner was a Trustee of EPS; he died in January of 2005.*

EPS at the AEA/ASSA Meetings 2009 San Francisco, California

Saturday, January 3 - Monday, January 5, 2009

Inequality: Economic, Fiscal and Financial, and Societal Dimensions
Saturday, January 3 at 10:15am in the Hilton Union Square, Rooms 15 and 16
Presiding: Allen Sinai, Chief Global Economist, Decision Economics, Inc.

Presenters and papers:

James K. Galbraith, Professor of Government, Lyndon B. Johnson School of Public Policy, University of Texas - Austin. *Inequality, Unemployment, and Growth*

Robert J. Gordon, Professor of Economics, Northwestern University and NBER. *Rising Inequality at the Bottom and Top*

Benjamin M. Friedman, William Joseph Maier Professor of Political Economy, Harvard University. *Widening Inequality: Implications for the Economy and Society*

David A. Smith, Chief Economist, House Financial Services Committee, House of Representatives, US Congress. *Inequality and the Making of Monetary Policy*

Discussants: Inequality, Fiscal and Financial Aspects, Policy Possibilities

Allen Sinai, Decision Economics, Inc.

Jeffrey Madrick, Challenge Magazine

Roundtable on Global Security and the Global Financial System: The Challenges Ahead
Sunday, January 4 at 2:30pm in the Hilton Union Square, Rooms 15 and 16

Presiding: Michael Intriligator, University of California at Los Angeles and Economists for Peace and Security

Presenters:

Kenneth Arrow, Stanford University

Lawrence Klein, University of Pennsylvania

William Sharpe, Stanford University

Michael Lind, New America Foundation

Linda Bilmes, Harvard University

BOARD OF DIRECTORS

Chair: James K. Galbraith
Secretary: Lucy Law Webster
Vice chairs:
 Michael D. Intriligator
 Richard F. Kaufman
Treasurer: Alan Harper
Members at large:
 Clark Abt
 Linda Bilmes
 Jeff Madrick
 Richard Parker
 Allen Sinai

BOARD OF TRUSTEES

George Akerlof
 Oscar Arias
 Kenneth J. Arrow
 William J. Baumol
 Barbara Bergmann
 Andrew Brimmer
 Clive W. J. Granger
 Walter Isard
 Richard Jolly
 Lawrence R. Klein
 Eric Maskin
 Daniel McFadden
 Robert S. McNamara
 Douglass C. North
 Robert Reich
 Thomas Schelling
 Amartya Sen
 William F. Sharpe
 Robert M. Solow
 Joseph E. Stiglitz
 Janet Yellen

AFFILIATE CHAIRS

Australia: David Throsby
Canada: Kanta Marwah
Chile: Aedil Suarez
France: Jacques Fontanel
Germany: Wolfram Elsner
Greece: Eftychia Nikolaidou
India: Yoginder Alagh
Israel: Alex Mintz
Netherlands and Belgium:
 Philip Verwimp
Russia: Stanislav Menshikov
Spain: Juan Carlos M. Coll
South Africa:
 Terry Crawford-Browne
United Kingdom:
 J. Paul Dunne

EPS 20th Anniversary Gala Dinner honoring Kenneth Arrow and Lawrence Klein

**Sunday, January 4 at 6:30pm
 Hilton Imperial A Room**

Host Committee, chaired by Michael Intriligator:

Theodore Anderson, Marcel Arsenault, Jurgen Brauer,
 Dagobert Brito, Manas Chatterji, Larry Chimerine, Robert Coen,
 Partha Dasgupta, Phoebus Dhrymes, Avinash Dixit,
 Jacques Fontanel, Vic Fuchs, Sergiu Hart, Bert Hickman,
 Mordecai Kurz, Lawrence Lau, Jeffrey Liebman, Bob Litan,
 Kanta Marwah, Paul Milgrom, Roger Myerson,
 Nathan Rosenberg, Andrei Roudoi, Herbert Scarf, Carl
 Schramm, Thomas Sheetz, Eytan Sheshinski, Allen Sinai, Robert
 Summers,
 E. Roy Weintraub, and Gavin Wright

Thanks to support from the One Earth Future Foundation,
 we are able to offer tickets at a substantial discount.

Tickets are \$75

Tickets are \$50 for EPS members who register before December 19
 Tickets for students are \$20

To register, please email Thea Harvey
 (theaharvey@epsusa.org)

EPS Quarterly

EPS c/o the Levy Institute, Box 5000
 Annandale-on-Hudson, NY 12504 USA
 Tel: +1 845.758.0917
 Fax: +1 845.758.1149
 Email: info@epsusa.org
 www.epsusa.org

Nonprofit Organization
 US Postage
PAID
 Kingston, NY
 Permit No. 917