GOOD AFTERNOON AND THANK YOU FOR JOINING US. I'M MARGARET HALLOCK, DIRECTOR OF THE WAYNE MORSE CENTER AND THIS IS OUR FIRST EVENT OF THE YEAR. WE THANK YOU FOR COMING AND MAKING IT A LIVELY AUDIENCE. WE'RE VERY PLEASED TO WELCOME OUR WAYNE MORSE VISITOR, ROBERT KUTTNER, FOR THE FIRST OF THREE ADDRESSES HE WILL GIVE. HE'LL BE INTRODUCED SHORTLY. I WANTED TO CALL YOUR ATTENTION TO OTHER UPCOMING EVENTS AT THE WAYNE MORSE CENTER FOR THIS FALL. THIS IS THE SECOND YEAR OF THE THEME OF INQUIRIES ENTITLED "FROM WALL STREET TO MAIN STREET: CAPITALISM IN THE COMMON GOOD." IN THE MEMORY OF WAYNE WORSE. I FEEL VERY STRONG THAT HE WOULD BE AGITATED ABOUT CURRENT ECONOMIC EVENTS IN POLITICS AND SIMILAR TRENDS IN OUR COUNTRY. SO THIS YEAR AND LAST YEAR WE SPOKE WITH PEOPLE WITH REAL LIVE POLICY RECOMMENDATION FOR HOW OUR ECONOMIC SYSTEM COULD BE SUSTAINABLE.

ROBERT KUTTNER IS HERE AND WILL GIVE THREE PUBLIC ADDRESSES, TONIGHT, AND ON "GLOBALIZATION: THE GOOD SOCIETY" ON WEDNESDAY, OCTOBER 17 IN THIS ROOM AT 5:30, AND "THE ECONOMY IN THE 2012 ELECTION," ON THE EVENING OF OCTOBER 23. IF YOU CAN PICK UP THE FLIERS OR GET ON OUR MAILING LIST WE WILL SEND NOTIFICATION. THE PROGRAM I WANTED TO DRAW YOUR ATTENTION TO, AND HOPE YOU CAN ATTEND, IS TUESDAY AFTERNOON, NEXT TUESDAY, OUR U.S. SENATOR JEFF MERKLEY IS GIVING POLICY ADDRESS ON THE HOUSING CRISIS FOR CURRENT ECONOMIC RECOVERY. HE IS ONE OF THE VERY FEW PEOPLE TALKING ABOUT POLICY ISSUES FOR THE HOUSING CRISIS. WE INVITE YOU TO JOIN US IN THE HERB MEMORIAL BALLROOM AT 4:30 NEXT TUESDAY. I HOPE WE CAN GET YOU THE
LIKES OF THE UNIVERSITY OF OREGON FOR THIS POLICY ADDRESS SO I HOPE WE CAN THANK HIM WITH A GOOD TURN OUT.

IT'S MY PLEASURE TO GIVE THE PODIUM TO THE DEAN WHO WILL INTRODUCE ROBERT KUTTNER.


I AM PRINCIPALLY CHARGED WITH INTRODUCING ROBERT KUTTNER, A MAN WHO I EXPECT I DO NOT NEED TO INTRODUCE TO YOU BUT I AM CONTRACTUALLY OBLIGATED TO. THE COFOUNDER OF AMERICAN PROSPECT, HE HAS WRITTEN AT LEAST 9 BOOKS AND MORE ARTICLES THAN MOST OF US ARE LIKELY TO HAVE READ IN PUBLICATIONS, MOST OF US TO SUBSCRIBE TO AND WISH WE HAD TIME TO READ, THE NEW YORK TIMES, BOSTON GLOBE, HUFFINGTON, FOREIGN AFFAIRS, POLITICAL FINANCIALLY QUARTERLY AND SO ON. HE IS AN AWARD WINNING JOURNALIST AND MODEL OF AN ACTIVE CITIZEN. IT DOES NOT APPEAR ON HIS OFFICIAL RESUME, MARGARET WHISPERED TO ME BEFORE THE START OF THE PROGRAM, HE HAS BEEN SO ACTIVE IN HIS RESPONSES, SO ENGAGED WITH ALL OF US, HE MIGHT BE THE PERFECT MORSE CHAIR. I WILL EXPECT A REVISION TO YOUR WEBSITE. I HOPE
YOU'LL JOIN ME IN WELCOMING ROBERT KUTTNER TO THE PODIUM THIS EVENING.

Speaker: THANKS SO MUCH FOR COMING OUT. I'M REALLY QUITE HONORED TO BE THE CHAIR. I WANT TO THANK MARGARET WHO RECRUITED ME TWO YEARS AGO, I THINK. LONG ANTICIPATION. IT FEELS LIKE I HAVE BEEN HERE MORE THAN 10 DAYS. I HAVE MET FACULTY AND STUDENTS AND PROFESSOR DAN TICKNER. THIS IS SUCH A WONDERFUL PLACE. I CAN SEE WHY YOU TELL LIES ABOUT THE WEATHER. I WILL REFRAIN FROM TELLING FRIENDS AND COLLEAGUES THAT THE MYTHOLOGY OF IT RAINING ALL THE TIME IN OREGON IS JUST PROPAGANDA.

THERE IS A STORY ABOUT THREE FRIENDS WHO LIKED TO PLAY GOLF EVERY SATURDAY MORNING. THEY WERE A DOCTOR, MINISTER, AND ECONOMIST. ON THIS PARTICULAR SATURDAY MORNING AS THEY TEED OFF THEY NOTICED THAT THINGS WERE MOVING VERY VERY SLOWLY ON THE GOLF COURSE, THAT THE GROUP IN FRONT OF THEM SEEMED NOT TO KNOW HOW TO PLAY AT ALL. THERE WERE SPRAYS BALLS ALL OVER THE COURSE. THEY GAVE UP, COMPLAINED TO THE MANAGER AND THE MANAGER LOOKED AT THEM ODDLY AND SAID, WELL I GUESS NO ONE HAS TOLD YOU THIS IS A SPECIAL EVENT DAY AT THE CLUB AND THAT GROUP IN FRONT OF YOU ARE BLIND. SO THE MINISTER LOOKED AS IF HE HAD BEEN STRUCK. HE SAID OH, LORD, I AM SO ASHAMED. LOVE THY NEIGHBOR, THYSELF, I WILL PUT AWAY THE CLUBS AND GO TO MY STUDY AND WRITE A SERMON ON LOVING THY NEIGHBOR. THE DOCTOR VOWED FOR THE NEXT SEVERAL WEEKS TO SEIZE PLAYING GOLF. THE ECONOMIST THOUGHT, COULDN'T THEY PLAY AT NIGHT? I HAVE TOLD THAT STORY TO LOTS OF AUDIENCES AND THE ONE AUDIENCE WHERE I GOT KIND OF PERPLEXED LOOKS WAS AN ECONOMICS CLASS. I MUST SAY THAT
THOSE SEEM TO BE THE SORTS OF ECONOMISTS WHO ARE ADVISING OUR LEADERS.

ONE OF THE THORNIEST QUESTIONS IS WHAT TO DO TO PULL AN ECONOMY BACK TO PROSPERITY AFTER FINANCIAL COLLAPSE. I ADDRESS THAT QUESTION IN A NEW BOOK I JUST SENT OFF TO THE PUBLISHER CALLED "A DEBTOR'S PRISON: THE POLITICS OF PROSPERITY VERSES POSSIBILITY." A LOT OF SEEMINGLY INTELLIGENT PEOPLE IN THE UNITED STATES, AND EUROPE, THINK THE CURE FOR AN ECONOMIC COLLAPSE IS AUSTERITY. HISTORY HAS PROVEN THAT CURE IS WORSE THAN THE DISEASE. IF THEY PREVAIL WE ARE IN FOR AN EVEN WORSE ECONOMIC DOWNTURN. ONE OF HISTORY'S GREAT LESSONS I ADDRESS IS THE COMPARISON OF WORLD WAR I AND THE AFTERMATH, WITH WORLD WAR II AND ITS AFTERMATH. AFTER WORLD WAR I, THE VICTORIOUS ALLIES EXTRACTED REPARATIONS FROM A DEFEATED GERMANY. THE IDEA WAS THAT BY SQUEEZING GERMANY TILL THEY SQUEAK THEY WOULD RENDER GERMANY UNABLE TO MAKE WAR AGAIN, AND THEY WOULD ALSO BE ABLE TO PAY OFF THEIR OWN WAR DEBTS. THIS DID NOT END WELL. IT ENDED IN HITLER AND WORLD WAR II, AND FOR THE ENTIRE DECADE OF THE 20S, INSTEAD OF DEVISING ECONOMIC RECOVERY, THE ALLY NATION OBSESSED WITH TRYING TO COLLECT DEBTS AND THEY DRAGGED THE WHOLE ECONOMY INTO THE GROUND. AFTER WORLD WAR II DEBTS WERE WRITTEN OFF. AID WAS GIVEN NOT JUST TO THE VICTIMS, BUT TO THE PERPETRATORS, TO THE GERMANS.

I TITLED THIS LECTURE THE POLITICAL ECONOMY OF AUSTERITY BECAUSE EVERYTHING ABOUT THIS ISSUE IS POLITICAL. WHO BENEFITS? WHO SUFFERS? THIS OR THAT POLICY? DRASTICALLY REFORMED OR BAILED OUT? HOW IS THE CRISIS USED IDEOLOGICALLY? OR TO BRING THE MIXED ECONOMY OF MANIC
CAPITALISM BACK FROM DEMISE. WHETHER IT BECOMES THE REDUCTION OF GOVERNMENT DEFICITS, MOSTLY RESULT OF THE COLLAPSE ITSELF, OR THE RECOVERY OF THE REAL ECONOMY, AUSTERITY IS THE CONVENTIONAL WISDOM IN BOTH THE UNITED STATES AND IN EUROPE DESPITE VERY DIFFERENT TRADITIONS AND VERY DIFFERENT CONSTITUTIONAL SYSTEMS. BUT IT IS AN ENTIRELY PERVERSE REMEDY. THERE IS NO PLAUSIBLE THEORY OF ECONOMICS TO EXPLAIN HOW A DEPRESSED ECONOMY CAN DEFLATE TO RECOVERY. YET, AUSTERITY IS THE DOMINANT, ONE MIGHT SAY HEGEMONIC VIEW, I WILL SAY WHY THIS IS THE CASE, I THINK, IN JUST A MOMENT.

LETS FIRST RECALL WHAT CAUSED THE COLLAPSE. IT WASN'T EXCESS PUBLIC SPENDING. IT WASN'T LARGE PUBLIC DEBTS, IT WASN'T THE MARKET WORRY THAT INTEREST RATES WOULD RISE IN 2023 BECAUSE OF THE SECURITY DEFICIT. ONE FORM OF DEBT WAS IMPLICATED DIRECTLY, AND ANOTHER FORM OF DEBT WAS IMPLICATED INDIRECTLY. THE DEBT THAT CRASHED THE ECONOMY WAS SHORT-TERM DEBT, SOMETIMES OVERNIGHT DEBT, INCURRED BY BANKS TO FINANCE SPECULATIVE DEBTS, SOMETIMES IN RATIO OF 30-1 OR EVEN 50-1. THAT MEANS THEY BORROWED $50 FOR EVERY DOLLAR THEY HAD OF THEIR OWN CAPITAL. WHEN THE DEBTS WENT BACK THE HOUSE OF CARDS COLLAPSED. SO THAT WAS A DEBT THAT WE SHOULD HAVE WORRIED ABOUT. WE SHOULD HAVE HEADED OFF WITH A TEST. THE PEOPLE WHO CAPTURED THE AGENCIES AND THE CONGRESS DID, AND THAT WAS THE PRIME CAUSE OF THE COLLAPSE. THESE GENIUSES ALSO USED CREATIVE ACCOUNTING TO DISGUISE A LOT OF THE DEBT BY PUTTING IT IN SO-CALLED SPECIAL PURPOSE VEHICLES SO THEY WOULDN'T HAVE TO RESERVE CAPITAL AGAINST THE DEBT THEY WERE INCURRED.
IF YOU OR I GO TO BANK AND BORROW $100,000 AND COME BACK SIX MONTHS LATER AND SAY I CAN’T PAY THE DEBT BACK, MY BUSINESS WENT BAD, WHEN I FILLED OUT MY APPLICATION FOR CREDIT I DIDN’T TELL YOU ABOUT A LOT OF THE DEBT THAT I ALREADY HAD BECAUSE I WAS OFF MY BALANCE SHEET. THAT’S CALLED FRAUD. AND IF AN ORDINARY PERSON DOES IT, YOU GET PROSECUTED, GO TO JAIL. IF CITIGROUP DOES IT, FIRST YOU GET CONGRATULATED FOR THE CREATIVE ACCOUNTING, AND THEN BAILED OFF. ONE OF THE THINGS I REPORT IN MY BOOK IS THE WHOLE HISTORY OF DOUBLE STANDARDS AND WHO GETS DEBT RELIEF AND WHO DOESN’T. IF YOU RECALL, WHEN THE WHOLE HOUSE OF CARDS COLLAPSED, THE GOVERNMENT CAME UP WITH A $700 BILLION AID FOR THE CAR PROGRAM, IT BAILED OUT RATHER THAN CLEARED OUT THE BANKS. DESPITE THE FACT THAT, ACCORDING TO SOMEONE IN THE FEDERAL RESERVE, 12/13 LARGEST BANKS WERE INVOLVED IN MASSIVE AID FOR THE TREASURY AND FEDERAL RESERVE IN 2008. THE COLLAPSE CREATED A DOWNWARD SPIRAL OF LOST JOBS AND DWINDLING GOVERNMENT REVENUE. IT WORSENG TO A 30-YEAR TREND WHICH THE MAJORITY OF WORKERS LAG BEHIND PRODUCTIVITY GROWTH. LAST YEAR, 2011, ACCORDING TO THE CENSUS BUREAU, MEDIUM HOUSEHOLDS WERE BACK TO THEIR LEVEL OF 1990 WHILE THE TOP 1 PERCENT IS DOING BETTER THAN EVER. THE 1 PERCENT IS NOT JUST A SLOGAN. YOU CAN DEMONSTRATE IT STATISTICALLY. THIS BRINGS ME TO THE SECOND KIND OF DEBT THAT IS VERY TROUBLING. THAT WAS THE DEBT THAT WAS OCCURRED BY HOUSEHOLDS TO MAKE UP FOR THEIR SHORTFALL IN INCOME.

SINCE THE LATE 1970S, MEDIAN INCOMES HAVE LAGGED BEHIND INFLATION, BUT
During the same period, asset prices have risen, mainly housing. Why did that go up faster than incomes? During that whole period the interest rate is coming down and down and down and down, and you are trying to buy a $300,000 house and you pay 8 percent for the mortgage and suddenly the interest rate is 4 percent, you can afford $600,000. It was just the frosting on the cake. During this period the strategy of the American middle class and the American working class came to be to substitute debt for income. This wasn’t because they were profited. This wasn’t because people were going off on vacations they didn’t need to take. It was purchasing power that their jobs were insufficient to provide, even though their productivity during that period doubled. Productivity doubled in the last generation but wages went up about 11 percent except for the very top where incomes more than doubled. Banks made it every easier to borrow, came up with all devices to take out second mortgages and third mortgages and that habit of the first post-war generation, which was to pay off your mortgage and then have a little something to help with your retirement years, that kind of dissipated. For broad middle class, the ratio of debt to income increased from 67 percent just before the collapse.

So these were the two kinds of debt that were very serious. The problem is, of course, that if borrowing by households is cropping the economy and the housing bubble collapses, households can’t keep doing that. The ratio of debt to income declined 134 percent of 2007 to about 114 percent in early 2012 and it’s still falling. So, borrowing to sustain
CONSUMPTION. IT IS NO LONGER VAILABLE. THE VILLAIN OF THE PIECE IS NOT HOUSEHOLDS, IT IS CRAPPY WAGES. WE REALLY NEED TO KEEP THAT IN MIND.

MEANWHILE, WITHOUT QUITE REALIZING WHAT THEY WERE DOING, POLICY MAKERS, RATHER THAN USING PUBLIC FUNDS TO SUPPORT PUBLIC UNIVERSITIES LIKE THIS ONE, DECIDED TO LOAD UP THE NEXT GENERATION OF GRADUATES WITH COLLEGE DEBT. SO IF YOU ARE GRADUATING FROM THIS UNIVERSITY NEXT JUNE, NOT ONLY WILL YOU BE GRADUATING INTO A TERRIBLE JOB MARKET, BUT YOU WILL BE GRADUATING WITH A LOT OF STUDENT DEBT OF THE SORT OF MY GENERATION DID NOT EXPERIENCE. LAST YEAR THE TOTAL AMOUNT OF STUDENT DEBT TOPPED A TRILLION DOLLARS. CONGRATULATIONS, GRADUATES. IF WE WANTED TO DO SOMETHING, STIMULATE THE ECONOMY, THE BEST THING WE COULD DO WOULD BE WRITE OFF A LOT OF THAT STUDENT DEBT, THEN THE NEXT GENERATION MIGHT HAVE MORE OF A CHANCE AND THE ECONOMY MIGHT LEVITATE.

THE NEW YORK TIMES HAS BRANDED THIS CRISIS THE GREAT RECESSION. IT IS NOT A VERY APT TERM. WHY? BECAUSE THE CURRENT MESS THAT STARTED WITH THE TYPICAL MOST WAR, IS WHAT THEY CALL BUSINESS CYCLE RECESSION. THAT CURES ITSELF, OR IT IS CURED WITH A LITTLE BIT OF MONETARY POLICY AND FISCAL POLICY. A BETTER TERM FOR WHAT WE ARE EXPERIENCING WOULD BE THE LESSER DEPRESSION, BECAUSE THE DYNAMICS ARE VERY SIMILAR TO THOSE OF GREAT DEPRESSION, ALTHOUGH NOT AS CATASTROPHIC. WHAT THE TWO HAVE IN COMMON IS A DYNAMIC THAT THE ECONOMIST DRIVEN FISHER IN CLASSIC 1933 CALLED DEBT DEFLATION. HERE IS HOW DEBT DEFLATION WORKS. IF CRASH IN
ASSET PRICES, IN THIS CASE HOUSES, CAUSES PRIVATE DEBTS TO EXCEED THE MARKET VALUE OF THEIR COLLATERAL, THEN PEOPLE LOSE HOMES, BANKS SUFFER LOSSES ON MORTGAGES AS HOUSES ARE UNLOADED AT FIRE SALE PRICES AND THE ENTIRE ECONOMY GOES INTO A DOWNWARD SPIRAL. WAGES ADD TO THE DOWN GRAFT AND THE COLLAPSE CREATING PROLONGED SELF REINFORCING DEFlation IN ECONOMIC ACTIVITY. DEPRESSIONS, AS OPPOSED TO RECESSIONS, ARE INvariably THE RESULT OF FINANCIAL COLLAPSES.

CONSUMERS AND BUSINESS IS OVERWHELM WITH DEBT FACE A CHOICE. THEY CAN TIGHTEN THEIR BELTS AND REDUCE OTHER PURCHASES IN ORDER TO KEEP CURRENT DEBT, OR DEFAULT ON THE DEBT AND LOSE THE COLLATERAL CAUSING IT TO BE SOLVED IN A FIRE SALE ATMOSPHERE REDUCING PREVAILING PRICES UNTIL FURTHER. EITHER WAY, THEIR ACTIONS CAN STRAIN DEMAND AND WORSEN THE GENERAL DEFLATION. THE GREAT DEPRESSION WAS A MASSIVE DEBT DEFLATION. THIS ONE IS SOMEWHAT CONTAINED, CONFINED TO THE COUNTER SECTOR, BUT HAD IT NOT BEEN FOR MASSIVE INTERVENTION BY FEDERAL RESERVE, THIS COULD HAVE GONE THE WAY OF THE 1930S. HOUSING IS THE LARGEST SINGLE ASSET OF AMERICAN HOUSEHOLDS. THE CRASH WIPED OUT 9 TRILLION WORTH OF HOME EQUITY. THAT MAKES YOU FEEL POORER.

THE AUSTERITY LOBBY IGNORES ALL OF THIS AND BLAMES THE CRISIS ON DEFICITS AND DEBT, THE GDP RATIO BUSINESSES ARE SUPPOSED TO BE WORRYING ABOUT BEFORE THEY DECIDE TO INVEST. YOU CAN JUST IMAGINE A GROUP OF BUSINESS LEADERS HAVING DINNER AND SAYING I'M THINKING OF EXPANDING MY FACILITIES, BUT I'M NOT SURE WHAT THE DEBT, GDP RATIO WILL BE IN 2023. ANYBODY WHO
THINKS THIS IS ENTIRELY DELUSIONAL, AND YET, A FINANCIAL MOGUL BY THE NAME OF PETER G. PETERSON SET UP A FOUNDATION WITH A BILLION DOLLARS OF HIS OWN MONEY TO LOBBY FOR AUSTERITY. HE HAS UNDERWRITTEN OR CREATED DOZENS OF DIFFERENT GROUPS, ALL WITH THE SAME MESSAGE, INCLUDING THE NATIONAL COALITION FOR RESPONSIBLE BUDGET, THE CONCRETE COALITION, MOST RECENTLY A CAMPAIGN HEADED BY 70 CORPORATE CEO’S, 2 CHAIRED BY TWO FELLOWS. THE PETERSON PROJECT CAME UP WITH THE IDEA THAT BECAME THE BOWLES SIMPSON COMMISSION. THE FOUNDATION EVEN SPONSORED A NATIONAL POETRY CONTEST ON THE DEBT. HERE IS A SAMPLE OF ONE OF THE AWARD WINNING HAIKUS: SPEND, BORROW, REPEAT. LEAVE THE BILLS FOR OUR CHILDREN. TOO YOUNG TO OBJECT.

IT IS A MARK OF THE INFLUENCE OF THIS ELITE LOBBYING THAT PRESIDENT OBAMA, AT THE VERY MOMENT THAT HIS STIMULUS PROGRAM WAS MAKING A LITTLE BIT OF A DIFFERENCE FOR THE BETTER BUT WAS CLEARLY INADEQUATE TO PRODUCE RECOVERY, BECAME A CONVERT TO THE AUSTERITY IN HIS STATE OF THE UNION ADDRESS IN 2010, WHEN HE APPOINTED BOWLES AND SIMPSON TO RECOMMEND A GRAND BARGAIN THAT WOULD LEAD TO A PREMATURE FISCAL CONTRACTION OF A STILL RATHER FRAGILE ECONOMY. WITH THIS DECISION HE PAINTED HIMSELF INTO A CORNER WHERE HE HAD TO TAKE SERIOUSLY THE RECOMMENDATIONS OF AUSTERITY COMMISSION THAT WAS HIS OWN CREATION. LETS REFLECT FOR A MINUTE ON THE STIMULUS. $775 BILLION OVER THREE YEARS. GDP OF THE ECONOMY IS STUCK AROUND $15 TRILLION. SO THE STIMULUS OVER THREE YEARS WAS LESS THAN 1 PERCENT OF GDP PER YEAR, AND IF YOU NET OUT THE CONTRACTION AND LOCAL SPENDING OF $460 BILLION DURING THE SAME
THREE FISCAL YEARS, IT'S ABOUT $100 BILLION A YEAR. IN ECONOMICS THAT'S KNOWN AS ROUNDING. EVEN THOUGH IT DID A LOT OF GREAT THINGS, AND I'M GLAD IT WAS THERE, IT WAS NOT A SERIOUS STIMULUS PROGRAM. ONLY THE REFUSAL OF THE REPUBLICANS PAYING TAX INCREASES ON ANYBODY AS PART OF THE GRAND PARDON PREVENTED OBAMA FROM SUCCUMING TO A DEAL WITH SOCIAL SECURITY AND MEDICARE. THAT DANGER IS STILL OUT THERE.

AN IMPROBABLE HERO IS STAN BERNACKI. IT TELLS YOU A LOT WHEN HE IS THE PROGRESSIVE GUY. AS HE HIMSELF SAYS, VERY LOW INTEREST RATES ARE INSUFFICIENT TO FIX THE ECONOMY, BANKS ARE RELUCTANT TO LEND, BUSINESSES RELUCTANT TO FILE. HOMEOWNERS WHO NEED REFINANCING, THEY CAN'T GET THEM BECAUSE THE VALUE OF THEIR HOME IS LESS THAN THE VALUE OF THE EXISTING DEBT AGAINST IT. IN THE DEPRESSION, WHEN IT TOOK A LITTLE WHILE FOR THE FEDS TO GET WITH THE PROGRAM, IT TOOK A FEW YEARS, AND LOW INTEREST RATE, ECONOMISTS CALLED IT PUSHING ON A STRING. MONETARY POLICY IS NOT THE RIGHT POLICY. WHAT IS THE RIGHT POLICY? THE RIGHT POLICY IS FISCAL POLICY. HISTORY'S GREAT EXAMPLE IS WORLD WAR II, THE GREATEST UNINTENDED PROGRAM EVER KNOWN. IN THE YEARS BETWEEN 1933 AND 1939 FRANKLIN ROOSEVELT'S DEFICIT WAS BETWEEN 4 PERCENT AND 6 PERCENT OF GDP. THAT WAS SUFFICIENT TO GET GROWTH IN A POSITIVE DIRECTION. THE GROWTH RATES BETWEEN 33 AND 36 WAS TERRIFIC, 14 PERCENT ON THE EVE OF WORLD WAR II. THEN CAME PEARL HARBOR, AND THE GOVERNMENT ENTERED ABOUT $100 BILLION OF WAR PRODUCTION ORDER IN 6 MONTHS. UNEMPLOYMENT MELTED AWAY TO TWO PERCENT. THE GENERATION OF INDUSTRY WAS RECAPITALIZED. The GENERATION OF WORKERS was RETRAINED AND
REEMPLOYED. GOVERNMENT INVESTED MASSIVELY IN NEW SCIENCE AND TECHNOLOGY. IN THE COURSE OF A FEW MONTHS, AN AUTO PLANT WAS RUNNING AT HALF CAPACITY BECAUSE PEOPLE DIDN'T HAVE THE PURCHASE POWER TO BUY CARS, THIS WAS BY THE WAY AN IDEA OF A FELLOW OF WALTER REUTHER, AND THE WEAKNESS OF THE REMOVAL IS A BIG PART OF THE STORY OF WAGES TODAY, BUT NOT RISING PRODUCTIVITY.

DURING THE WAR, EVEN THOUGH HALF OF THE STUFF WE MADE WAS PRODUCED ONLY TO BE BLOWN UP, GDP INCREASED BY 50 PERCENT IN THE FOUR YEARS OF THE WAR. CIVILIAN LIVING STANDARDS INCREASED DURING THE WAR BECAUSE PEOPLE HAD DECENT JOBS AGAIN, EVEN THOUGH MOST OF THE PRODUCTION WENT FOR THE WAR EFFORT. MOST OF THE COST OF THE WAR WAS borrowed. TAXES WERE INCREASED AND HIGHER TAXES WERE NOT ENOUGH TO PAY THE COST OF WORLD WAR II. THE AVERAGE DEFICIT DURING THE WAR YEARS WAS 26 PERCENT OF GDP; TRIPLED. BY THE END OF THE WAR THE DEBT TO GDP RATIO WAS 124 PERCENT. THAT'S MORE THAN DOUBLE TODAY'S RATIO.

WHAT DID THE STATESMAN AND WOMEN OF 1945 DO? DID THEY SIT AROUND AND APPOINT AN EXPERT COMMISSION TO TARGET A REDUCED DEBT RATIO IN 1955? I DON'T THINK SO. THEY WORRIED THAT WITHOUT THE STIMULUS OF WAR WE WOULD SINK RIGHT BACK INTO THE GREAT DEPRESSION. THEY WORRIED ABOUT HOW WE WOULD REEMPLOY 12 MILLION RETURNING GI'S. THEY WORRIED ABOUT WHAT WOULD HAPPEN TO THE PEOPLE THAT LEFT THEIR JOBS WHEN THE WAR PRODUCTION EFFORT ENDED. SO INSTEAD OF, SAY, MY GOD WE HAVE TO CUT THE DEFICIT, THEY DOUBLED DOWN. THE POST WAR GENERATION ENJOYED WITH
PROSPERITY. WAR BONDS GOT SPENT ON DOWN PAYMENTS ON HOMES, AND THERE WAS A ROCKY YEAR, BUT THERE WAS AN ALMOST SEAMLESS TRANSITION FROM THE STIMULUS TO THE WAR TO THE STIMULUS OF POST WAR BOOM.

HOW DID AMERICA WORK OFF THAT DEBT? BY HAVING A HIGH GROWTH RATE. THE ECONOMY AFTER THE WAR GREW AT A HIGHER RATE. BY LATE 1970S THE DEBT RATIO WAS DOWN FROM 124 PERCENT TO ABOUT 27 PERCENT BEFORE THE REAGAN ERA AND TAX CUTS SENT THE DEBT RATIO RISING AGAIN.

YOU CAN'T TALK ABOUT THIS IN MAINSTREAM POLITICS, AND THIS IS THE REAL TRAGEDY FOR OUR ERA. ONE OF MY HEROES, WALTER DEAN, TALKS ABOUT POLITICS THAT EXCLUDED ALTERNATIVES. SCALE PUBLIC INVESTMENT IS SIMPLY OFF THE TABLE. WE DON'T WANT THE STIMULUS OF ANOTHER WAR, BUT WE COULD USE A MASSIVE PROGRAM OF GREEN PUBLIC INVESTMENT. WE DON'T NEED TO CHOOSE BETWEEN RECOVERY AND SUSTAINABILITY. IT COULD BE FINANCED BY BORROWING. INTEREST RATES ARE CHEAPER THAN EVER. TAKE ADVANTAGE OF THEM, SLOW THE GENERATION OF RECOVERY BONDS AND PARTY FINANCED BY TAXES ON THE WEALTHY AND SHORT-TERM FINANCIAL TRADING. AMERICAN SOCIETY OF CIVIL ENGINEERS ESTIMATES BEFORE WE GET TO THE 21ST CENTURY INFRASTRUCTURE WE HAVE $2.4 TRILLION SHORTAGE, SHORTFALL IN ROADS, BRIDGES, BUILDING, WATER AND SEWER SYSTEMS. ON TOP OF THAT WE NEED A MODERN INFRASTRUCTURE FROM SMART ELECTRIC GRID, TO GLOBAL ENERGY, TO GREEN BUILDINGS, AND UNIVERSAL BROADBAND.

THERE IS SOMETHING WAITING TO BE MADE TO HAVE A RECOVERY THAT NEITHER
CONSUMERS NOR BUSINESSES IN THE PRIVATE SECTOR HAVE TODAY INSUFFICIENT QUANTITY. WE EASILY SPEND HALF A TRILLION DOLLAR AS YEAR ON THIS AND PERHAPS A GOOD DEAL MORE.

THE PROBLEM IS INSTEAD OF DEBATING THIS, THE TWO PARTIES ARE DEBATING WHETHER THE CUT IN THE DEBT SHOULD BE $4 TRILLION OR $5 TRILLION? SHOULD WE CUT IT BY THIS MIX OF TAX INCREASES? OR THAT MIX OF PROGRAM CUTS? IF YOU LOOK AT THE ECONOMICS OF THIS, THE REASON TO FEAR DEFICITS IS THEY'RE PUSHING UP INTEREST RATES, BUT INTEREST RATES ARE AT HISTORIC LOWS. THE REASON IS IN A FLATTENED ECONOMY THERE IS INSUFFICIENT DEMANDS SO THAT THERE IS NO EXCESS CAPACITY. I MEAN, IF THE GOVERNMENT CAN BORROW MONEY FOR TEN YEARS AT LESS THAN TWO PERCENT, AND FOR 30 YEARS AT LESS THAN THREE PERCENT, NO INVESTOR IS WORRIED ABOUT INFLATION. IF YOU WORRY, YOU WOULD NOT LEND THE MONEY AND TIE YOUR MONEY UP FOR TEN OR 30 YEARS, IF YOU THOUGHT INFLATION WAS AROUND THE CORNER. THE CONVENTIONAL VIEW IS THAT BY REDUCING THE DEBT RATIO, TEN YEARS, THIS WILL SOMEHOW RESTORE CONFIDENCE. SOMEONE FAMOUSLY CALLED IT A CONFIDENCE THEORY. THE CONFIDENCE THEORY NEVER COMES. LET ME RETURN TO THE QUESTION I STARTED WITH. WHY IS THERE SUCH A VOTE FOR AUSTERITY? I THINK IT'S SIGNIFICANT THAT MUCH OF IT ORIGINATES ON WALL STREET WITH PEOPLE LIKE PETE PETERSON, AND IT PERCOLATES OUTWARD TO THE POINT WHERE THE MEDIA VIEWS THE DEFICIT PROBLEM AS AN EMBLEM OF THE FAILURE OF THE TWO PARTIES TO AGREE AND DEFICIT REDUCTION IN THE NAME OF BIPARTISAN REDUCTION.
WHY IS WALL STREET SO CONCERNED? I THINK SEVERAL REASONS. PEOPLE LIKE PETE PETERSON DON'T LIKE SOCIAL SECURITY. HE HAS WRITTEN NO FEWER THAN 4 BOOKS WARNING SOCIAL SECURITY WILL DRIVE THE ECONOMY OFF THE CLIFF. OFF COURSE IT WENT OFF THE CLIFF FOR REASONS MORE BECAUSE OF PEOPLE LIKE PETE PETERSON AND NOTHING TO DO WITH SOCIAL SECURITY. SOCIAL SECURITY COLLECTS TAXES AND NONE OF THAT GOES IN WALL STREET. IT GOES IN TO TRUST FUNDS AND PAID OUT IN THE GOVERNMENT TO RETIREES. WALL STREET LOOKS AT THAT MONEY AND SAYS WOW, IF THAT WENT THROUGH US, THINK OF THE FEES. WE NEED TO PRIVATIZE THIS. THEY THINK IT'S AN EMBLEM OF THE CONFIDENCE OF GOVERNMENT. PEOPLE LIKE SOCIAL SECURITY, AND WE REALIZE SOCIAL SECURITY IS RUN BY THE GOVERNMENT AND MAY HAVE TOO MUCH FAITH IN GOVERNMENT, THEY MIGHT TRUST GOVERNMENTS TO REGULATE BANKS. ALSO, AUSTERITY IS GOOD FOR BUSINESS BECAUSE IT DISCIPLINES LABOR. IF YOU HAVE 8 PERCENT UNEMPLOYMENT PEOPLE WILL WORK FOR WHATEVER JOB IS AVAILABLE. IF YOU HAVE FULL EMPLOYMENT, IT'S UPPITY. NOW, THE MORAL CLAIM OF THE AUSTERITY LOBBY THAT WAS EPITOMIZED IN THE HAIKU IS WE ARE BORROWING AT THE EXPENSE OF THE GENERATION, LEAVING CHILDREN AND GRAND CHILDREN WITH DEBTS AND LOWER LIVING STANDARDS THAN WE HAVE ENJOYED.

IF YOU THINK HARD YOU WILL APPRECIATE THAT THE ECONOMICS ARE ABOUT 180 DEGREES BACKWARDS. FOR STARTERS, YOUNGER AMERICANS HAVE DOWNWARD ABILITY FROM THEIR PARENTS, NOT TO DO WITH NATIONAL DEBT OR SOCIAL SECURITY. AS RECENTLY AS 2001, THE BUDGET PROJECTED INDEFINITE SURPLUS AND THE ONLY THING TO CHANGE THAT WAS THE BUSH TAX AND THE REVENUE LOSSES OF THE FINANCIAL COLLAPSE ITSELF. YOUNGER AMERICANS, WHAT I CALL
THE FAMILY WELFARE STATE, HAVE LOST OUT BECAUSE WAGES ARE FALLING.
 THAT'S NOT BECAUSE THE ECONOMY IS LESS PRODUCTIVE OR BECAUSE OF A DEBT.
 IT'S BECAUSE OF BAD POLICIES. AFTER ALL, IT'S NOT AS IF THE FISCAL
 CONSERVATIVES PROMOTING SOCIAL SECURITY HAVE AN AGENDA ON WHAT TO
 SPEND ON THE YOUNG IF WE CUT THE PENSIONS FOR THE OLD, AND BY THE WAY,
 THE ELDERLY ARE SUFFERING RIGHT ALONG WITH THE YOUNG. ONE OF THE THINGS
 THAT HAS HAPPENED IN THE AFTERMATH OF THIS COLLAPSE IS THESE VERY LOW
 INTEREST RATES THE FEDERAL RESERVE IS USING TO KEEP THE RECESSION FROM
 TURNING TO DEPRESSION. THE FLIP SIDE OF THOSE LOW INTEREST RATES IS YOU
 GET JUST ABOUT NOTHING ON YOUR SAVINGS. THIS IS ALSO A PERIOD WHEN
 TRADITIONAL PENSION PLANS HAVE BEEN MOSTLY PHASED OUT IN FAVOR OF
 401K'S. THE MEDIUM 401K HELD BY PEOPLE IN THE 50'S AND 60'S HAVE ABOUT
 $50,000, NOT ENOUGH TO FINANCE SECURE RETIREMENT. IT'S A TAX DEFERRED
 PLAN. NO SUBSTITUTE FOR THE SECURITY OF A PENSION WHICH PAYS YOU A FIXED
 SUM, SOMETIMES ADJUSTED FROM INFLATION, AS LONG AS YOU LIVE. IN THIS
 ECONOMY, VERY HIGH UNEMPLOYMENT, THE LABOR FORCED PARTICIPATION RATE
 HAS BEEN DECLINING FOR EVERY AGE GROUP EXCEPT THE ELDERLY, BECAUSE THE
 ELDERLY PEOPLE CAN NO LONGER AFFORD TO RETIRE.

IF YOU WANT TO PICTURE THE FUTURE, LOOK AT EUROPE. AUSTERITY PROGRAMS
HAVE BEEN MORE SEVERE AND EVERY COUNTRY THAT HAS SUFFERED THE AFFECTS
HAS GONE DEEPER AND DEEPER INTO DEPRESSION. NOW I PAINTED A FAIRLY
BLEAK PICTURE HERE. ECONOMICS IS NOT CALLED BISMOL SCIENCE FOR NOTHING.
IN THIS CASE THE POLITICS ARE DISMAL. THERE ARE ECONOMISTS WHO KNOW
WHAT TO DO, PROPOSING A MUCH BETTER SET OF POLICY. IT'S THE POLITICS THAT
ARE PREVENTING US. IF YOU THINK ABOUT IT, WE HAVE FACED FAR WORSE TIMES.

THINK BACK TO 1938, ONE HAD MORE REASON TO BE PESSIMISTIC. THE
TOTALITARIAN COUNTRIES LOOKED LIKE THEY WOULD WIN AGAINST DEMOCRACY,
IF IT LOOKED LIKE THE ECONOMY WOULD BE STUCK IN DEPRESSION FOREVER.

ECONOMISTS OF THAT AREA WRONGLY CLAIM IT HAD BECOME SO PRODUCTIVE
THERE WAS NOT ENOUGH WORK TO GO AROUND. THE REALITY WAS THAT A
SHORTFALL OF DEMAND AS WORLD WAR II APPROVED. SO THE ECONOMICS ARE
REALLY NOT ALL THAT HARD. THE HARD PART IS THE POLITICS. KEEP AN EYE ON
THE FISCAL CLIFF. THE FISCAL CLIFF IS BEN BERNANKE’S TERM ON JANUARY 1 ALL
OF THE BUSH TAX CUTS EXPIRE AND THE TEMPORARY TWO PERCENT payroll
EXPIRES. IF CONGRESS DOESN'T DO THIS, THERE IS A DAY OF RECKONING FROM AN
AWFUL DEAL TO GET THE REPUBLICANS TO INCREASE THE DEBT CEILING IN 2011
WHERE HITS EARLY IN 2013 AND THE COMBINED WOULD BE A FISCAL
CONTRACTION OF ABOUT $800 BILLION. THERE IS NO ECONOMIST LEFT, RIGHT, OR
CENTER WHO WILL TELL YOU THIS IS SENSIBLE. THEY'RE ALL WARNING ABOUT THE
FISCAL CLIFF. WHAT IS PERVERSE IS THE PAUL SIMPSON GANG ARE USING THE
FISCAL CLIFF AS LEVERAGE TO PUSH THE ECONOMY OFF A SHALLOWER CLIFF AND
TRY TO GET OBAMA AND THE REPUBLICANS TO AGREE TO A BUDGET DEAL THAT
WOULD BE NOT QUITE AS CONTRACTIONARY, BUT ALSO BE INAPPROPRIATELY
CONTRACTIONARY.

THIS IS ONE OF THOSE PIVOTAL MOMENTS IN NATIONAL HISTORY. I THINK THE
ECONOMICS OF WHAT TO DO ARE CLEAR AND THE POLITICS ARE MUDDLED. THERE
IS OPEN QUESTION ABOUT IF POLITICS WILL ALLOW US TO GET TO WHERE WE NEED
TO OR WE WILL SPEND THE NEXT SEVERAL YEARS MIRED IN FIRST YEAR. I DON’T
LIKE SOUNDING PESSIMISTIC, I'M AN OPTIMIST BY TEMPERAMENT. I WOULD PUT THE ODDS AT 55 to 45 IF PRESIDENT OBAMA IS REELECTED OFF THE AUSTERITY KICK. THERE IS A QUOTE, I'M NOT ORDINARILY QUOTING ITALIAN, BUT ANTONIO WHO WAS IMPRISONED BY MUSSOLINI IN THE 20S SPOKE ABOUT PESSIMISM OF THE MIND AND OPTIMISM OF THE WILL. I SAY PESSIMISM OF THE MIND, OPTIMISM OF the HEART. I THINK WE HAVE NO CHOICE BUT TO KEEP STRUGGLING FOR SENSIBLE POLICIES TO SAVE OUR ECONOMY AND SAVE OUR REPUBLIC. ON THAT HAPPY NOTE, LET ME CONCLUDE, AND THANK YOU FOR HAVING ME AS YOUR CHAIR AND I'M HAPPY TO TAKE QUESTIONS AND COMMENTS.

SO HERE IS THE ROUTINE. WE HAVE ABOUT A HALF HOUR. AND I'M SURE I'M NOT THE ONLY SPEAKER FROM THIS PODIUM WHO HAS BEGGED YOU TO ASK QUESTIONS AND NOT GIVE SPEECHES, AND IF ANYONE GIVE AS SPEECH I WILL CALL ON MARGARET FOR REINFORCEMENTS. IF YOU HAVE A QUESTION RAISE YOUR HAND. IN THE BACK?

VERY GOOD QUESTION. TWO DIFFERENT SETS OF NUMBERS HERE. ONE IS THE APPROPRIATED MONEY OF THE CAR PROGRAM, AND MOST OF THAT HAS, IN FACT, BEEN PAID BACK. IT SHOULD NOT HAVE BEEN PAID BACK. IT SHOULD HAVE BEEN RECYCLED IN FIXING THE HOUSING MESS. THE LARGER NUMBER IS THE $3 TRILLION THAT THE FED HAS USED TO BUY TOXIC ASSETS FROM THE FINANCIAL INDUSTRY AND EVENTUALLY, AND THIS IS ALL THE SECURITIZE SUB PRIME MORTGAGE TURNED INTO COLLATERALIZED AND CEO SQUARED AND CUBED AND NOBODY UNDERSTOOD. THE FED BUY TREASURY BONDS TO KEEP THE ECONOMY FROM COMPLETELY COLLAPSING. EVENTUALLY THAT STUFF WILL BE SOLD OFF AT

THAT'S A GREAT QUESTION. I DON'T HAVE A PRECISE ANSWER. ECONOMISTS WILL ARGUE ABOUT THE RELATIVE DIFFERENCE BETWEEN DEFENSE SPENDING AND DOMESTIC SPENDING, BUT I THINK THERE IS A GOOD CONSENSUS. YOU CAN HAVE, IF YOU SUGGEST, PROBABLY LIKE THE LINE, "WHAT HAPPENS IN VEGAS STAYS IN VEGAS." IT DOESN'T STIMULATE THE ECONOMY AS EFFICIENTLY, SO THE POINT IS A GOOD ONE. I'M NOT A SPECIALIST ON THIS. I WAS GOING TO OFFER TO FIND OUT THE ANSWER BUT I'M NOT SURE I KNOW WHERE TO LOOK. THE GENERAL POINT IS RIGHT.

WELL, BECAUSE IT WAS MASSIVE. IT WAS EQUAL TO ABOUT 40 PERCENT OF GDP. THE POINT IS, EVEN IF THE SPENDING IS RELATIVELY INEFFECTIVE, IF YOU SPEND MONEY AT THAT RATE AND HAVE 12 MILLION PEOPLE IN UNIFORM AND 10 MILLION WORKING IN WAR PRODUCTION PLANS, YOU CAN'T HELP BUT STIMULATE THE ECONOMY. THAT DOESN'T MEAN WE SHOULD TRY AND REPLICATE WORLD WAR II. IF YOU HAD A GREEN INVESTMENT PROGRAM YOU COULD GET A TON OF STIMULUS AND A BIGGER BANG FOR EACH BUCK WITHOUT HAVING TO GO ALL THE WAY TO 40 PERCENT GDP.
WELL, THAT'S A GOOD QUESTION. THIS IS A QUESTION OTHERS HAVE ASKED. WHY DON'T THE FEDS DO SOMETHING MORE AGGRESSIVE? BANKS ARE SPENDING I THINK 1.8 TRILLION OF RESERVES THEY ARE NOT LENDING OUT BECAUSE THEY DON'T HAVE ENOUGH BORROWERS, SO WHY DOESN'T THE FEDS DO SOMETHING MORE AGGRESSIVE? THEN YOU SAY TO YOURSELF, WHAT COULD THE FED DO? I INTERVIEWED THE FORMER VICE CHAIRMAN OF THE FED ALANN BLINDER THE OTHER DAY AND ASKED HIM WHY NOT SET THE INFLATION TARGET HIGHER? IN ECONOMY LIKE THIS, LITTLE INFLATION IS BETTER, AND HIS ANSWER WAS, I'M NOT SURE BERNANKE COULD DO IT. HOW CAN YOU MAKE INFLATION HAPPEN? I THINK THE QUESTION IS, HOW CAN YOU MAKE THE BANKS LEND THAT 1.8 TRILLION? YOU COULD TAX THEM FOR SITTING ON RESERVES. YOU COULD HAVE REGULATORY CONSTRAINTS TO MAKE IT MORE DIFFICULT. THERE IS ONE ECONOMISTS, WHO I DON'T REMEMBER THE NAME, SAID IT WOULD BE MUCH BETTER, INSTEAD OF THE FED JUST PUMPING MORE AND MORE MONEY INTO THE BANK, IF THE FED LITERALLY GAVE MONEY TO HOMEOWNERS, IT WOULD HAVE MORE STIMULUS ON THE ECONOMY THAN GIVING MONEY TO THE BANKS. THE POINT IS MONETARY POLICY HAS JUST ABOUT REACHED THE END OF ITS TETHER. YOU COULD DO A FEW MORE THINGS TO MAKE IT HARD FOR BANKS TO SIT ON THE MONEY. I THINK THAT'S THE REALITY, THE PROBLEM IS ON THE DEMAND SIDE. PEOPLE DON'T HAVE THE PURCHASING POWER. THEY DON'T HAVE THE HOME EQUITY THEY USED TO HAVE. BUSINESSES DON'T SEE THE CUSTOMERS AND THERE IS ONLY SO MUCH YOU CAN DO.

WELL, IF I WERE REALLY GOOD AT POLITICS, I WOULD RUN FOR OFFICE, AND I'M
FAIRLY DECENT AT ECONOMIC ANALYSIS, SO LET ME TAKE OFF MY HAT AND PUT ON MY CITIZEN HAT. I THINK IT TAKES A MOVEMENT AND IT TAKES COURAGEOUS POLITICAL LEADERSHIP. WE TALKED ABOUT THE DIFFERENCE BETWEEN THE FIRST RECONSTRUCTION, WHICH FAILED BECAUSE LINCOLN WAS ASSASSINATED, AND THE SECOND RECONSTRUCTION SUCCEEDED BECAUSE LYNDON JOHNSON MADE HIS REPUTATION TO CARRY OUT A HUNDRED YEARS LATER THE PROMISE OF LINCOLN. IN THE 60S IT WAS BETWEEN a SURPRISING COURAGEOUS PRESIDENT AND THE GREATEST MOVEMENT WE HAD SEEN IN DECADES. SO YOU NEED A MOVEMENT, AND YOU NEED MORE COURAGEOUS POLITICAL LEADERS. I CAN’T SNAP MY FINGERS AND MAKE THOSE COURAGEOUS LEADERS HERE. YOU HAVE ONE OF YOUR TWO U.S. SENATORS BEING THAT SORT OF LEADER. MERKLEY HAS BEEN JUST GREAT. HE’S ONE SENATOR. MANY OF US IN THIS ROOM INVESTED A LOT OF HOPE IN BARACK OBAMA, AND WE’LL SEE, ASSUMING HE’S REELECTED, WHETHER IN A SECOND TERM WORRYING ABOUT HIS LEGACY, AUSTERITY KICK, AND EVEN IF HIS PROGRAM IS BLOCKED BY A REPUBLICAN HOUSE OR BY A SENATE FILIBUSTER. THE PRESIDENT HAS AN ENORMOUS POWER TO MOVE PUBLIC OPINION AND SHAME AN OPPOSITION THAT IS MAINLY DEALING IN obstruction. THIS IS ONE OF MY LECTURES, BUT THE ODD THING ABOUT president OBAMA IS HE IS SO INSPIRATIONAL WITH POLITICS SOMETIMES ON THE CAMPAIGN TRAIL, AND SO DREADFUL AT USING POLITICS AS CHIEF EXECUTIVE. THE GREAT PRESIDENTS HAVE BEEN GREAT POLITICIANS WHO USED THE POWER OF PRESIDENCY TO EACH EVENTS AND THAT’S WHEN YOU’RE TALKING PROGRESSIVE LIKE ROOSEVELT OR CONSERVATIVE LIKE REAGAN, BUT THEY KNOW HOW TO USE THE POWER OF PRESIDENCY. OBAMA DOESN’T SEEM TO. I THINK, I HOPE, THAT WHEN IT BECOMES CLEAR THAT THERE IS A RISK OF AN INDEFINITE STAGNATION, MAYBE HE’LL SEE THINGS DIFFERENTLY AND MAYBE
WE’LL GET A MOVEMENT ON THE GROUND.

OCCUPY WALL STREET WAS A VERY INTERESTING FIRST ROUGH DRAFT OF A MOVEMENT. HOW THAT TURNS INTO A BIGGER MOVEMENT that REMAINS TO BE SEEN. I WAS ON PANEL WITH PAUL KRUGMAN, AND I SAID HOW LONG DO YOU THINK THIS CAN GO ON GIVEN THE DYNAMICS KEEPING THE ECONOMY FROM RECOVER? HE SAID LITERALLY, INDEFINITELY. AUSTERITY PROGRAM WOULD JUST DEEPEN THE HOLE.

WELL THIS IS A GREAT QUESTION. HERE IS A KIND OF NOTIONAL CONVERSATION GOING ON BETWEEN THE PEOPLE IN THE ENVIRONMENTAL COMMUNITY WHO SAY WHAT DO YOU MEAN? WE ARE ALREADY LIVING IN MUCH TOO EXPENSIVE MATERIAL STANDARD FOR THE PLANET, AND THE LAST THING WE NEED IS MORE GROWTH. THOSE WHO SAY YEAH, 80 PERCENT OF THE POPULATION STANDARDS HAVE BEEN GOING DOWN FOR 30 YEARS, EVEN THOUGH THE TOLL ON THE PLANET HAS BEEN GOING UP. SO THE QUESTION IS, AND MY EXPERIENCE IS THESE TWO GOOD PEOPLE, NOTIONALLY, ARE TALKING PAST EACH OTHER. THE INTERESTING QUESTION IS HOW DO YOU GET THAT TO BE ONE CONSTRUCTIVE CONVERSATION?

IT SEEMS TO ME THAT THE RIGHT SORT OF PUBLIC INVESTMENT COULD DRAMATICALLY LOWER THE TOLL ON A PLANET RELATIVE TO GDP, WHICH ITSELF IS A WRONG EDIT MEASURE AS PEOPLE HAVE BEEN POINTING OUT, BECAUSE IT INCLUDES BADS AS WELL AS GOODS. IF YOU POISON PEOPLE, YOU HAVE TO SEND THEM TO THE HOSPITAL, THE POISON AND THE COST OF TREATMENT ARE INCLUDED IN GDP. I DO THINK THERE ARE SOME THINGS TO INVEST IN, LIKE ENERGY, OR CARBON HOUSING, THAT WOULD BE A NET PLUS FOR THE
ENVIRONMENT, THAT WOULD NOT DETRACT FROM PEOPLE'S COMFORT, AND I ALSO AGREE WITH YOU THAT SOME PEOPLE ARE LIVING TOO HIGH ON THE HOG, BUT THAT'S NOT MOST PEOPLE. SO BEFORE WE GET TO THE POINT WHERE WE NEED TO SELL THE IDEA THAT EVERYBODY NEEDS TO LOWER HIS OR HER LIVING STANDARDS, WHICH IS AN AWFULLY HARD SELL IN THE UNITED STATES AND EVEN HARDER SELL IN THE TIME OF LIVING STANDARDS HAVE BEEN DECLINING FOR 30 YEARS, I THINK THERE IS A TON OF THINGS WE COULD DO IN THE GREEN INVESTMENT AGENDA TO REALLY IMPROVE THE TERMS OF THAT TRADE OFF, AND I THINK THAT'S WHAT WE SHOULD BE SELLING. THAT'S SOMETHING PEOPLE CAN UNDERSTAND. IT'S THE MESSY JOB, JOBS WON'T MIGRATE TO ASIA. IT'S JOBS THAT CAN MAKE US FEEL BETTER ABOUT OUR COUNTRY AND FEEL LESS GUILTY ABOUT HAVING A DECENT STANDARD OF LIVING. IT'S INVESTMENT THAT CAN MODERATE INEQUALITY. AGAIN, IT TAKES A MOVEMENT. IT TAKES COURAGEOUS GIFTED LEADERSHIP, AND WE NEED MORE OF BOTH.

I HOPE YOU HAVE GOOD HAND WRITING. YOU DO. UM, THOMAS JEFFERSON, THE THIRD PRESIDENT, AUTHOR OF DECLARATION OF INDEPENDENCE SAID THAT EACH GENERATION SHOULD WRITE ITS OWN CONSTITUTION. IF HE WAS RIGHT, WE ARE ABOUT 10 CONSTITUTIONS BEHIND, AND I THINK IT SHOWS. CAN YOU THINK OF CHANGES IN THE CONSTITUTION THAT WOULD SOLVE OUR ECONOMIC PROBLEMS?

I'M VERY WEARY OF MESSING WITH THE CONSTITUTION. IF THE BILL OF RIGHTS WERE PUT TO A VOTE TODAY, IT WOULD FAIL. I THINK HISTORY DOESN'T GO ONLY ONE WAY. THE MOMENT OF CONSTITUTIONAL FOUNDING, SLAVERY ACCEPTED, WAS A GREAT MOMENT WHEN SERIOUS PEOPLE THOUGHT HARD OF GOOD POLITICAL
COMMUNITY, AND I THINK IF YOU HAD A CONSTITUTIONAL CONVENTION TODAY, HEAVEN KNOWS WHAT KIND OF DEMONS WOULD BE LOOSE. SO I'M SYMPATHETIC TO THE NEW CONSTITUTION. IF YOU LOOK AT OREGON AND MANY OTHER STATES, ONE OF THE THINGS IS TOO MUCH PROMISCUITY IN THE AMENDMENT CONSTITUTION.

LET ME RESPOND. IF YOU TALK TO EMPLOYERS, THEY WILL OFTEN SAY WE CAN’T GET AMERICANS TO DO THOSE JOBS. AND MY ANSWER IS TRY PAYING THEM DECENTLY, AND PEOPLE LINE UP FOR JOBS THAT ARE NOT THAT PLEASANT TO DO IF THEY'RE WELL PAID. SO, YES, YOU'RE RIGHT. IF THE PENALTIES WERE ON THE EMPLOYERS, AND YOU KNOW, THE LAST EFFORT OF IMMIGRATION REFORM INCLUDED THAT, PEOPLE DON’T COME HERE TO GO ON WELFARE, THEY COME HERE TO WORK. THAT’S ONE PART OF A TWO-PART SOLUTION. THE OTHER SOLUTION IS TO NORMALIZE THE RIGHTS OF CITIZENSHIP, THAT’S A WHOLE SEPARATE ARGUMENT. THE OTHER REASON EMPLOYERS CAN PAY PEOPLE OVER HERE ILLEGALLY SO LITTLE IS THEY HAVE NO RIGHTS. THERE IS A WHOLE CLASS OF PEOPLE WHO ARE HERE WHO ARE TERRIFIED, WHO CAN’T ORGANIZE UNIONS, WHO CAN’T CONTEST BRUTAL TREATMENT, SO I THINK YOU NEED TO DO BOTH THINGS. YOU NEED TO MAKE THE EMPLOYER TAKE THE FALL FOR OUR PEOPLE WHO DON’T HAVE PROPER DOCUMENTS, BUT YOU NEED TO GIVE THEM RIGHTS AND, IF YOU LOOK AT LA, ONE OF THE VERY FEW TOWNS IN THIS COUNTRY WHERE YOU HAVE A PROGRESSIVE MAYOR, PROGRESSIVE CITY COUNSEL, STRONG CITIZEN ORGANIZING, YOU HAVE A VERY LARGE IMMIGRANT POPULATION. SOME ARE HERE LEGALLY, SOME ILLEGALLY, BUT YOU HAVE PROGRESSIVE POLITICS AND THAT GIVES YOU A SENSE OF WHAT IS POSSIBLE. SO IT’S HARDLY NORMALIZING THE SITUATION OF IMMIGRANTS, AT LEAST WITH REGARD TO THEIR ABILITY TO EXERCISE RIGHTS AND NOT BE ARBITRARILY TREATED AND CALLING THE EMPLOYERS LEGALLY LIABLE.

WELL, I WILL THIS IS TO MY NEXT THOUGHT BECAUSE MY NEXT THOUGHT IS CALLED "GLOBALIZATION: A GOOD SOCIETY." I SPECIFICALLY GO INTO GREAT DETAIL ON
HOW GLOBALIZATION MAKES IT HARDER TO ENFORCE ALL OF THE KINDS OF MEASURES THAT LEAD TO A MORE EQUAL DISTRIBUTION OF INCOME, INCLUDING GOOD WAGES. FOR NOW, IF YOU ASK THE QUESTION, WHY DID THE INCOME DISTRIBUTION BECOME SO MUCH MORE UNEQUAL? IT'S PARTLY TAX POLICY, IT'S PARTLY DEREGULATION OF FINANCE, PARTLY THE GOVERNMENT'S FAILURE, PARTLY THE WEAKENING OF MEASURE THAT GOVERNMENT POLICY USES SUCH AS MINIMUM WAGE, DECENT UNEMPLOYMENT COMPENSATION, ALL OF WHICH THE BARGAINING POWER OF WORKERS AND PARTLY OFF SHORING, OUTSOURCING AND THE THREAT OF OFFSHORING OR OUTSOURCING, BUT MORE AND MORE OF THE JOBS ARE SERVICE SECTOR JOBS THAT CAN'T BE MOVED OVERSEAS. MANUFACTURING, EVEN IF WE BROUGHT BACK A LOT OF THE MANUFACTURING, MORE AND MORE OF THAT WILL BE DONE BY MACHINES. IT'S NEVER GOING TO BE A SOURCE OF LARGE AMOUNTS OF HUMAN LABOR, AND IF IT CAN'T MOVE OVER SEAS IN THEORY YOU SHOULD BE ABLE TO ORGANIZE IT. SOME OF THE JOB CREATIONS IN RETAIL, IT'S IN HOTELS AND RESTAURANTS. HOTELS, YOU COULD HAVE A NATIONAL POLICY THAT ANY JOB IN THE HUMAN SERVICES, MOST OF WHICH IS INDIRECTLY OR DIRECTLY PAID BY GOVERNMENT ANYWAY, IS A PROFESSION THAT PAYS PROFESSIONAL INCOME. YOU CAN HAVE THAT POLICY ONLY COSTS YOU ABOUT $100 BILLION A YEAR. YOU CAN GET THAT FROM SURTAXES ON WEALTHY PEOPLE. WHEN OUR TRADING UNION OF BROTHERS AND SISTER TRY TO ORGANIZE RETAIL OR NURSING HOMES, THE ORGANIZERS AND PEOPLE WHO SIGN UNION CARTS DON'T GET FIRED. IT'S NOT AS IF THE THREAT OF OUTSOURCING DESTROYS OUR ABILITY AS AN ECONOMY TO HAVE DECENT DISTRIBUTION OF INCOME AND WAGE. WE JUST DON'T HAVE THE POLITICS, THAT'S ALL.
THIS IS A REAL POLITICAL NIGHTMARE, SPEAKING AMONG FRIENDS HERE, BECAUSE THERE WAS A TIME WHEN PRIVATE PENSIONS, FOR THE NOT QUITE 50 PERCENT PRIVATE SECTOR WORK, AND PUBLIC PENSIONS WERE ROUGHLY AT PARITY. OVER THE LAST 3 DECADES, AS A PRIVATE PENSIONS HAVE GONE DOWN AND DOWN AND DOWN, PUBLIC WORKERS WHO ARE NOT EXACTLY RICH PEOPLE ARE REVEALED AS THE ONE SECTOR OF THE ECONOMY THAT STILL HAS A FAIRLY DECENT PACKAGE OF PAY, AND BENEFITS AND DEGREE OF JOB SECURITY SO THAT PEOPLE WHO HAVE BEEN SUFFERING CAN'T SAY I WANT WHAT SHE HAS, AND RESENT PUBLIC WORKER AS A KIND OF ELITE, WHICH THEY'RE NOT. PUBLIC WORKERS HAVE BEEN TREADING WATERS. THE OTHER THING HAPPENING DURING THIS PERIOD AS YOU HAVE STATE BUDGET CRISIS IS PUBLIC PENSIONS, BECAUSE THAT'S SOMEBODY ELSE'S PROBLEM. YEARS DOWN THE ROAD, THEY HAVE GOTTEN UNDER FUNDED, AND EXAGGERATED ASSUMPTIONS ABOUT RATES OF RETURN ARE USED TO JUSTIFY THE UNDER FUNDING SO THAT 7 OR 8 PERCENT RETURN IS PROJECTED INTO THE INDEFINITE FUTURE, WHICH MEANS I DON'T HAVE TO SET ASIDE MONEY THIS YEAR IF I'M LEGISLATURE OR GOVERNOR. I JUST LOOKED THIS UP. STATE AND LOCAL PENSIONS ARE FUNDED ON AVERAGE ABOUT TO .75 TO $1. THAT'S SERIOUS BUT NOT CATASTROPHIC. YOU HAVE A FEW THAT AREN'T, AND A COUPLE THAT ARE ABUSED. YOU HAVE THE STORY OF A WORKER THAT WORKS OVERTIME AND GETS A PENSION THAT SEEMS LIKE A LOT OF MONEY TO AN ORDINARY PERSON. IT'S BAD BUDGET POLITICS AND A DWINDLING SET OF PENSION GUARANTEES IN THE PRIVATE SECTOR AND SCAPEGOATING OF GOVERNMENT, BUT I DON'T THINK IT'S A DRAIN ON PROSPERITY, AND I DON'T THINK DRAIN ON THE HOUSING DEBT, VERY SERIOUS DRAIN. ONE OF THE THINGS THAT SHOULD HAVE BEEN DONE IN THE STIMULUS PACKAGE THAT WAS BLOCKED BY REPUBLICANS WAS STATE AND LOCAL BUDGET
RELIEF. THIS IS THE ONLY ECONOMIC DOWNTURN SINCE THE GREAT DEPRESSION WHERE THE PUBLIC SECTOR HAS BEEN LAYING OFF WORKERS. USUALLY THE PUBLIC SECTOR ACTS AS A COUNTER BALANCE TO THE PRIVATE SECTOR LAYING OFF WORKERS BUT THERE HAS BEEN A NET CUT OFF OF PUBLIC EMPLOYMENT AND THE PENSION SHORTFALL IS PART OF THE DISINVESTMENT IN THE PUBLIC SECTOR, AND IT CREATES VERY AWKWARD POLITICS, AND A HARD TO EXPLAIN POLITICS.

I CAN AGREE WITH YOU THAT WEALTH AND PROPERTY OWNERSHIP IS FAR TOO CONCENTRATED IN THIS COUNTRY. I'M NOT SURE WE COULD REMEDY THAT BY ALTERING THE CONSTITUTION BECAUSE IT'S VERY DIFFICULT TO AMEND THE CONSTITUTION, BUT I THINK YOU'RE RIGHT ABOUT PROPERTY OWNERSHIP BEING TOO HIGHLY CONCENTRATED. WE HAVE TIME FOR ABOUT TWO MORE.

WELL, THE SAME THING ECONOMISTS HAVE BEEN TALKING ABOUT THIS FOR AT LEAST 25 YEARS. THE QUESTION WAS IS THERE ANY PROGRESS TOWARDS REPLACING GDP WITH GPI, WHICH IS GENUINE PROGRESS INDICATOR? THIS IS BEING TALKED ABOUT. IT'S BEEN TALKED ABOUT FOR DECADES, BUT I REGRET TO TELL YOU THAT GDP IS STILL USED BY THE GOVERNMENT BY THE CONGRESSIONAL BUDGET OFFICE, AND WE NEED TO KEEP FIGHTING.

LAST QUESTION. WELL, I'M NOT SURE PROFESSIONAL SPORTS IS THE BEST EXEMPLAR OF HOW TO BUILD A LABOR MOVEMENT, BUT IT IS INTERESTING TO LOOK AT THE SOLIDARITY THAT GETS EXPRESSED IN STRIKES IN VARIOUS PROFESSIONAL SPORTS. YOU DO HAVE ISLANDS OF VERY LONG MOVEMENTS. YOU WOULD HOPE THAT PEOPLE PUT TWO AND TWO TOGETHER AND REALIZE THAT IF
YOU LOOK AT THE PAST HALF CENTURY, EVERY AREA WHERE THERE HAS BEEN UNIMAGINED PROGRESS, CIVIL RIGHTS, WOMEN'S RIGHTS, GAY/LESBIAN RIGHTS, DISABILITY RIGHTS, HAS BEEN BUILT ON A MOVEMENT. ECONOMIC PROGRESS HAS GONE BACKWARDS DURING THIS. ISN'T THAT INTERESTING? AND WHAT WE HAVE NOT HAD, OTHER THAN LABOR MOVEMENT THAT HAS BEEN WEAKENED, IS A MOVEMENT FOR ECONOMY. YOU CAN TAKE HOPE FROM THAT OR DESPAIR. I WOULD CHOOSE HOPE. IF YOU TOLD ME 50 YEARS AGO THAT PEOPLE COULD MARRY ANYBODY THEY WANTED TO IN MANY STATES, REGARDLESS OF WHETHER YOU'RE A MAN OR A WOMAN AND THAT THE MAJORITY OF CITIZENS WOULD ACCEPT THAT AS NORMAL IN 2012, I WOULD HAVE SAID LET ME HAVE SOME OF WHATEVER YOU'RE SMOKING. SO WHEN YOU DO HAVE A SOCIAL MOVEMENT, QUITE REMARKABLE PROGRESS IS POSSIBLE. IN THE AREA THAT AFFECTS EVERYBODY, THESE WORKING PEOPLE, THE SOCIAL MOVEMENT THAT WE HAVE HAD HAS BEEN RELENTLESSLY BEATEN UP ON, WHICH TELLS YOU THAT HOWEVER MUCH HOMOPHOBIA THERE WAS IN THIS COUNTRY, THAT WAS LESS DIFFICULT THAN WALL STREET.

THANK YOU.