



Fiscal Policy and Alternative Futures for the US

December 10, 2010

Meeting Minutes

The Project on Forward Engagement

The George Washington University
Elliott School of International Affairs
1957 E Street NW
Washington DC 20052



Fiscal Policy and Alternative Futures for the US

December 10, 2010

Meeting Participants

Name	Affiliation
Leon Fuerth	Project on Forward Engagement, GWU Distinguished Research Fellow, NDU
Evan Faber	Project on Forward Engagement
Charlie Stevenson	SAIS
John Bordeaux	IBM Global Business Services
Claudia Pharis	George Mason University
Sheila Ronis	Walsh College
Peter Sharfman	Mitre
Jerome Glenn	The Millennium Project
Bill Halal	TechCast LLC
Jonathan Peck	Institute for Alternative Futures
John Meagher	Tasc. Inc. Futures Group
Dana Marshall	Dewey & LeBoeuf LLP
Daniel Lucich	International Trade and Investment Consultant
Rahul Gupta	PRTM Management
Stuart Umpleby	George Washington University
Neil Sroka	New Media Professional
Zach Hindin	Fellow, Princeton in Asia



Fiscal Policy and Alternative Futures for the US

December 10, 2010

Agenda

Morning: Basic Fiscal Options

Block 1: 9am - 10:30 Commission's findings

The debt commission's mixed bag of fiscal choices fails to convey a sense of goal or outcome. We will review them using the NYT methodology¹.

Break: 10:30-10:45

Block 2: 10:45-12 Alternative options

There is a difference between meaningful action, which occurs on a scale that produces significantly different alternative futures, and marginal actions that produce marginal change.

Alternative options include:

- Stay on the present course, and accept creeping insolvency;
- Hold the debt level to a sustainable level of growth, substantially slower than at present, and to hold it there for a serious period of time;
- Balance the budget, and keep it that way for a serious period of time; and
- Achieve surplus, and maintain that for a serious period of time.

Working Lunch: 12-1pm Foresight analysis of fiscal options

The process of debate and choice should be the subject of foresight processes. We will spend lunch analyzing the implications of these fiscal options using standard foresight methodology based on STEEP. (This is a trial run, not a definitive exercise)

Afternoon Block: 1-2pm Alternative futures

Discussion of scenarios. For example, the following:

- USA, Number One! (populism drives domestic agenda; redirects foreign policy)
- America First Among Equals (fiscal discipline, multilateral leadership by example)
- House Divided; paralysis continues (no systemic shift in politics or policy)

¹ <http://www.nytimes.com/interactive/2010/11/13/weekinreview/deficits-graphic.html>



Fiscal Policy and Alternative Futures for the US

December 10, 2010

Discussion Summary

Summary of Conclusions:

- Agreement that our present fiscal trends are leading towards disaster, sooner than later.
- Agreement that the tax-extension deal of December 2010 solves no basic problem, and allows debt to continue to accumulate at an unsustainable rate.
- At current rates, the growth of interest on the US debt we will soon reach a point beyond which it will squeeze out discretionary spending in government at ALL levels, including not only Federal but State and Local.
- America's creditors, looking at the same debt projections, will at some point draw conclusions and act upon them.
- In the next, NEAR period of time, our creditors will either see that we have acted so as to alter the projections, or they will conclude that we will probably not act to escape them.
- Internationally, America's present significance is discounted in light of an assessment that says we will not act in the near term to safeguard our longer-term interests. We have reached the point at which our tendency to discount the future has become a severe present burden on present options.
- Plans for the rebirth of American manufacturing suggested a retreat from the enthusiasm for globalization that was a hallmark of US economic policy since WWII. No one wants to fall back into protectionism, but no substitute doctrine exists.
- Unless we can turn these trends around, we are heading toward the death of the American Dream. The most dynamic feature of the US economy – a growing middle class – could cease to be a working assumption, and may instead pass into history as an epoch of the 20th century, rather than as a permanent defining feature of our country.
- A healthy middle class will give way to the creation of a “tenured,” well-protected upper class separated from the rest of the population by growing economic inequality.
- Definitive action on the debt crisis implies changes to the structure of American society and to the international system. The President’s Commission on Debt points toward the kinds of changes that will ultimately be needed, however the report is an unstructured collection of cuts – large and small – without thematic unity.
- The NYTimes Deficit Game is a way to examine how different combinations of cuts impact debt accumulation, but it does not present these cuts within the framework of any coherent strategy. On the other hand, this methodology could be used to develop and examine alternative strategies.
- When circumstances eventually force us to take decisive action, it will be important to help the American public visualize the necessary steps in terms of scenarios about the alternative futures that different sets of decisions would represent.
- A major role for applied foresight in government would be to help develop these alternative scenarios.



Suggested Action Items:

- Compile your major ideas about the fundamental structural problems we face into short paragraphs.
- Scenarios. Write three short scenarios (e.g., American Dream, Bankruptcy, “Austerity with a Purpose”, etc). Write them in teams, a few paragraphs long. Put them on the website, get people to evaluate them. Use the three defined by LF as a challenge.
- Submit your contribution to the State of the Union address (e.g., investment theme)
- Collective message to the NYT about our experience using the “Solve the Deficit” game, describing its strengths and weaknesses, pointing out assumptions that need to be tested, and recommending a second version of the game that takes these into account
- Leon Fuerth Op-Ed

Major Points by Category

Questioning common assumptions:

- Is continuous growth a reasonable assumption, even possible in a complex system?
- Can we improve our military and health outcomes at a lower cost via technology?
- Our value of “be free and multiply” and growth continues – could it shift to a new value that emphasizes collaboration?
- Can we make structural changes without a crisis? Crisis can be a catalyst for change.

Major themes:

- Impending bankruptcy by staying on course (end of game in N moves)
- Requires societal mobilization
 - Ignorance of the citizenry, intractability of politics
 - Major change can come at the margins (e.g., cities)
- Chinese vs. American capitalism
- Continuity vs. major change
- Investment is key: politically feasible, and good policy to get us on track.

Recommendations:

- Transaction tax, a tax on the use of money
- Investment as the key theme for spending -- “Austerity with a purpose” scenario
- Changes come in cascades, can’t necessarily be engineered

Criticism of the four options:

- Four options presented for discussion could be titled Stupidity (say on course), Pretense (hold debt level to sustainable growth), denial (balance the budget) and fantasy (achieve a surplus).
- They are more like goals, they don’t say much about the actions. They talk about levels of achievable solvency. Final measure of the success of a scenario.



Narrative of contributions:

- No possibility of marshaling a national consensus because there is no sense of where we are supposed to be headed toward. The President needs to establish a vision with specifics.
- Distant proximities are real. Points in “state space” are close, but far. Agencies shift at different scales, and the rules change.
“Winner-take-all “creates tilts in the system which cause instability.
- Is continuous economic growth a reasonable assumption? Is it possible to maintain, like a 1000 year Egyptian dynasty? Is it the only measure of success for our country to be worried about?
- Our axiom is that nothing remains the same -- boom and bust is real. Can we create a system that accepts dynamism and change to be able to grow and reassess, steer that on the benign side of chaos?
- Crisis is not necessarily a bad thing. Growth might be the wrong way to think about it.
Three serious challenges:
 1. Vast ignorance of the citizenry. 75% people thought they could solve the deficit without touching social security and Medicare and without raising taxes.
 2. Powerful political themes, e.g., “no new taxes.”
 3. Deal-making is done by across-the-board percentage cuts, rather than strategic cuts that recognize priorities program by program
- Our problems are structural problems. They took a long time to get into. The rush to solve problems is going to cause more structural problems.
- Raising taxes is taboo, but would it be okay to show planes falling out of the sky because of cuts? Brown water out of the tap? Should we have to drive a rough part of the road because no one paid for it?
- Where we are today, where we want to be in the future: none of it is discoursed in depth, communicated in a simple graphic that shows we all play a role. we can't opt in and opt out.
- Counter the cost assumption: can we have a military defense at a fraction of the cost? Robotics, miniaturization: the cost of defense should go down. Solving our problems using traditional military means is not working.
- Medical care – we all want it as we grow older, but it will be costly. We could have super high quality at fraction of the cost today. Example: costs of heart and kidney transplants when first introduced were astronomical, but once we perfect it, costs go down.
- US political process is not likely to change. We never make decisions as a country on the basis of a detailed prediction of the future. Too big, complex, no human can comprehend all of the various details happening to everyone. We have visions of the futures, not predictions. We have vectors, not descriptions of a destination.
- We are in a batting average game in a very big country. A baseball player hitting .230 is about to lose his job, and a player hitting .300 is a star -- that is a difference of only 1 or



two hits per week. These are changes at the margin. Negative changes at the margin can send us into a depression; positive changes at the margin can make a golden age. We don't need 90 degree turns everywhere.

- Debt commission report is not a dead letter. It was not intended to be an agenda for drastic action within months of its issuance. It is an idea on the table for when the US political system reaches the point that there is the impetus to do something different. The report and the NYT game -- and this group -- are trying to make sure that when the country does start to make changes, the options on the table are good options. Not raising taxes a stupid idea and it is also on the table. We are about conjuring a vision of the future that is inspiring enough to rally enough political support to take some short term pain for longer term gain.
- We are approaching a collision between what we make and what we owe. It cannot be sustained. What we may have is sharply discontinuous behavior that eliminates the space of safety for marginal changes. The difference between happiness and misery is at the margins. The environment in which we operate as a nation may be seriously disturbed. We might not have space to experiment in the margins. We may be pushed by waves of change.
- Pearl harbor was single event caused enormous change, but not overnight: it was a cascading series of marginal changes (e.g., factories transitioning to tanks from cars).
- What can a smarter city do to reinvent itself? There are examples of municipalities making some of these changes at scale, they can be examples.
- Look to history for a long range perspective. We had a long period of almost no growth. The 20th century success for our species was the death rate decline. Now we have a birth-rate decline. All exponential growth curves have two inflection points. What we may be coming to at the second inflection point is a values shift. Value of first phase was "be fruitful and multiply". Maybe the second phase has values that change from just "growth" for happiness. Dante writing today may have had the traffic jam from hell through bureaucracy. Military scenario called the global mind shift. We could have a better planet but can't get there without a crisis. The right thing might be to look at the scenarios that tell us there are alternative assumptions about what we should be doing.
- We often jump of visualizations of the future without rigorous analysis of where we are. Great political leadership entails a rare ability to communicate a vision of where we can get.
- Government and business institutions are both outmoded. Reinventing government was the right idea: accountability, market forces, etc. Conservatives have a point that government needs to be restructured. In the private sector, the profit-motive corporation is an outmoded institution. Companies that collaborate with their customers and their employees (e.g., Whole Foods) make more money.
- Limitations of the American form of capitalism are illustrated by three major market failures:
 - (1) Near-collapse of Wall Street
 - (2) Failure of trickle-down economics - all went to the top 10 %, top 1% got half it



- (3) Failure of health care. Free enterprise medicine got us to the point where we spend 3 times as much as other countries and get worse outcomes. This is the time for those institutions to change in a knowledge based global economy.
- Four things we need:
 - 1) A list of what we in this group believe are some of the fundamental structural problems. We can do more justice to them by drilling down beyond the headlines.
 - 2) We are always reacting to shocks, and our knee-jerk reaction is to spread the pain around. That helps us temper down those who shout the loudest, we just make do by spreading the pain until the next shock.
 - 3) If we are going to think in terms of the future, where are the people in government that do forecasting / foresight / scenarios? Need to engage them.
 - 4) We have a quarterly plan; China has a 10 year plan. They took the lead on energy, now they are doing it with innovation.
 - The system we have is no longer optimal to produce certain kinds of growth, but it is the only system by which we can be governed. We can't transpose the Chinese system to the US. So the question is in a global competition with us operating inside the limitations of our system, (tweaked as we might) and them as they do, where do we end up?
 - Globalization means that companies are competing with whole countries. German innovation folks are in Shanghai, the Chinese are competing with GE and Google. It's "China inc." vs. our companies. We have always operated on the basis that our companies and citizens should get rich, not our country.
 - Petersen commission identified a number of deficit reduction panels that said a lot of the same things. If there is a will to make changes, they will be found from the ideas that have been created by people like us.
 - Need political bumper sticker resonance.
 - Complexity uses emergence at a higher level to fix stuff that isn't working at a lower level. There's an answer to this in networking. Need to move to a higher level of order. We are dealing with the question of how to transition to a new order in a global context. What happens depends on who talks to who, and that's why networking is an answer
 - The press is changing dramatically. We have think tanks, mass media campaigns. The climate change doubters are a good example of creating a false perception in the general public.
 - Ideologies encourage growth and sacrifice fairness, or encourage fairness and sacrifice growth. That ideological description of the two parties breaks down when the wealth gap means the rich can buy votes. How to reach an awareness among the majority that the system is being systematically manipulated.
 - Who should pay for the government? People who have yachts, or the people who get their homes foreclosed upon. Wealthy say they don't want the tax cut.
 - Expanding the street means more cars, not lowering traffic. New technology often costs more than the thing it is supposed to solve. NYT and the graph are useful - shows if we want to solve the problem, only way to do that is to talk about the colored bars. Useless to talk about cutting aid and salaries because they are small, they miss the point. We need to figure out how to have a conversation in this city about these big issues. That is



not happening. People talk like we don't need to raise taxes, if we just get rid of "waste fraud and abuse" all will turn out right.

- People are no longer cognitively able to concentrate on a single issue. It is all talking points and 140 characters. How to get a serious conversation in light of that?
- Charts like this say the existing course we are on is not only not sustainable, but you can put your finger on the point where it becomes impossible. Our creditors and competitors may have already put their finger on that date and plan to take advantage of that. One of the problems with foresight is that this was foreseeable 20 years ago.
- Krugman has been arguing something very different. He says the bus is running out of gas and off a cliff. Krugman says get on the road first with more spending, but we are still running out of gas. Need to spend more, not worry about the deficit for another 2 years (get on the road first).
- Krugman would be an advocate of investment, which not the same as spending.
- Smart globalization strategies to get us out of the ditch. Growth and deficit are two sides of same coin. Raise taxes or cut spending enough to get to a new foundation for economic growth in the US - need a distinctly "American" plan
- Common sense seems to be that we don't know where we're going; we don't know what's happening next. The missing piece in discussions with economists is the 'real world' where people get paychecks. Economists don't care what we 'make', their models are globalized. Where people fit doesn't matter to economists. Need a plan that maximizes benefits of Americans in a globalized world.
- Multiple crises over the last 5 years: trade deficit crisis. Product and food safety crisis. Energy crisis. Sovereign wealth funds. Financial crisis. Now we have 9.8 unemployment, but actually almost twice that.
- Multinational businesses interests have diverged from our national interest. Economic advisers believe that "comparative advantage" is bestowed on countries magically. Idea that free trade works, that a potato chip export is the same as a computer chip export. People aren't skilled anymore.
- Our answer must be holistic. Can't do just trade policy. Can't just try to stop outsourcing. Tax, energy, food, education -- must look at interconnected elements.
- State of the union -- needs to say something comprehensive, comprehensible to those who are suffering in the job market. We are 4% of the global population, 21% of the economy. We need high road policies to align US multinationals align with US national interest. New generation trade agreements should address currency, labor, environment, etc., collectively.
- Investment is more important than trade. Trade is a residual of investment. Trade with China is between affiliated companies. Multinational companies. There are legitimate reasons for companies to put facilities abroad. Raw materials, etc. Also there are illegitimate reasons (coercion, bribed by unfair advantages). American companies doing great in China, making products in China for China, not in America for China. On inbound investment, many Americans are employed by affiliates of foreign companies. They use that affiliation to get knowledge (IPR) to bring it back home ("technology



mercantilism”). Eg. Of the Russian jets -- China sold them their own technology at a lower price. Chinese play for keeps.

- We need to understand closer to real-time what is going on. “Situational awareness / intelligence” at the President’s level about what is taking place, the capacity to organize responses simultaneously and interactively. How far are we from having the capacity in governance to deal with reality in that fashion? Any cutting edge economic textbook is based on old data, takes time to publish, and by the time it is published, the data are four years old. We are always working with 4-year old information. Until we fix that, there is no way to have real time information. We assume what our instruments tell us where we are, but they do not
- Proposal: an agency that vets inbound investment proposals’ impact on our national security. We need a similar interagency process on our economic national security. E.g., outbound shipment of arms.
- USG does not tell US companies what to do in the course of carrying out their business. Propose to change that? What is good for the US should be good for Google, Apple, etc. Won’t that proposal constrain the decision space of American companies?
- Regulating actions of independent economic actors isn’t new. What is new is what is we are in a ditch. Obama should get the top US companies to Camp David, show he is not anti-business, say we are tracking our ability to innovate and manufacture what we innovate. No manufacturing, no R&D. How – regulations, legislation? It could be all those things, but that is the approach that is more politically feasible.
- Boeing is largest exporter in the US. China is on its way to rival it. Boeing executive suggested aircraft should be built abroad because it would be cheaper to do it there, and then Boeing would be just a distribution arm, it would make more money.
- Premise of this discussion: the kinds of changes that are needed to deal with this fiscal crisis require discussion of alternative futures.
- The four options can be thought about in the context of GLOBAL GDP, not just US GDP. Answer the questions on the road to the alternative futures. What are the governance mechanisms to get there?
- 5 things we haven’t put on the table yet:
 1. Speed of information and technology. Always will be faster, affects our ability to make decisions
 2. Value added of products manufactured in US and labor into it.
 3. Role of the Euro and what that would have in the
 4. Borrowing capacity crowding out foreign investment
 5. Money on the sidelines, why is none of the money coming back to the US?
- We may be in a period of change where the dynamic is values. Value shift, not economic shift, as the most important factor? Investment is the right message. That is a value shift from consumption. Mindset of directors that their service to the corps is short-term stockholder value, that needs to change. Stockholder value needs to be calculated over the long-term. Don’t pin our nation’s future on the probability of success of that message.



- As a nation we need to invest our excess cash, not spend it; instead of taking that cruise, go back to school. Re-tool our skill sets.
- Politically and policy-wise it is a good message. We are coasting on what we have, it serves us, but our foreign friends say we are no longer what we were. We aren't investing enough (infrastructure, and ourselves). It is a potent political message. Good defining theme.
- At some point, not of our choosing, events are going to cause a sufficient level of disruption to demand that we face up to reality as a nation. We are throwing our destiny up for grabs. If not now, then what will be on the table are changes of societal import, rather than a collection of marginal changes. They can't be understood if we think just domestically, the changes are of a global order. What then will our choices look like? At that time, when everyone wakes up, what will the choices look like? What are their ramifications globally and domestically?
- Underlying assumption that our competitive capabilities are more important than our cooperative abilities. Maybe we have a scenario that says when we wake up, the collaborative capabilities of the US become more useful than the competitive capabilities.
- We agreed earlier that multinational corporations are taking new roles that aren't controlled by (American) historical structures or supportive of national priorities.
- Complexity / systems change will be more helpful for thinking more about policy and market changes than linear thinking. Idea: play out those two different approaches in the scenarios. Contrast the effects of thinking about these problems deterministically, in smaller boxes, using cause and effect, vs. taking a complex systems approach to them. What would that look like? (using scenarios)
- No human can operate in our complex reality and make decisions on a daily basis. The more abstract you become in characterizing the system, harder to translate that to a guide for action in the short term. How can you do that?
- Multinational corporate interests no longer correspond to national interest, and the same is true at universities. Yet academics collaborate around the world. Our control systems for government regulation are vague, so independent actors rise. An important shift.
- Rules of a system are different depending on scale (Elenour Olstrom's work). Need appropriate allocation of function at different levels: constituencies, sources of power, and sanctions for disobeying the rules – these are necessary to avoid tragedy of the commons. Messy at the edges, basic design for governance is well guided by these principles. Systems of self governance are thousands of years old, they tend to be resource management systems. The social security system, the atmosphere - they are a commons. We can extend the notions to those commons.
- How to translate that theory to making decisions?
- Look forward, and reason backwards. Empower decision making at the appropriate level of intervention. Need to be aware of what level we are going into the system. Making our decisions means allocating authority at different levels.
- CDGB dollars are used as a debt service stream, rather than a major investment in infrastructure.

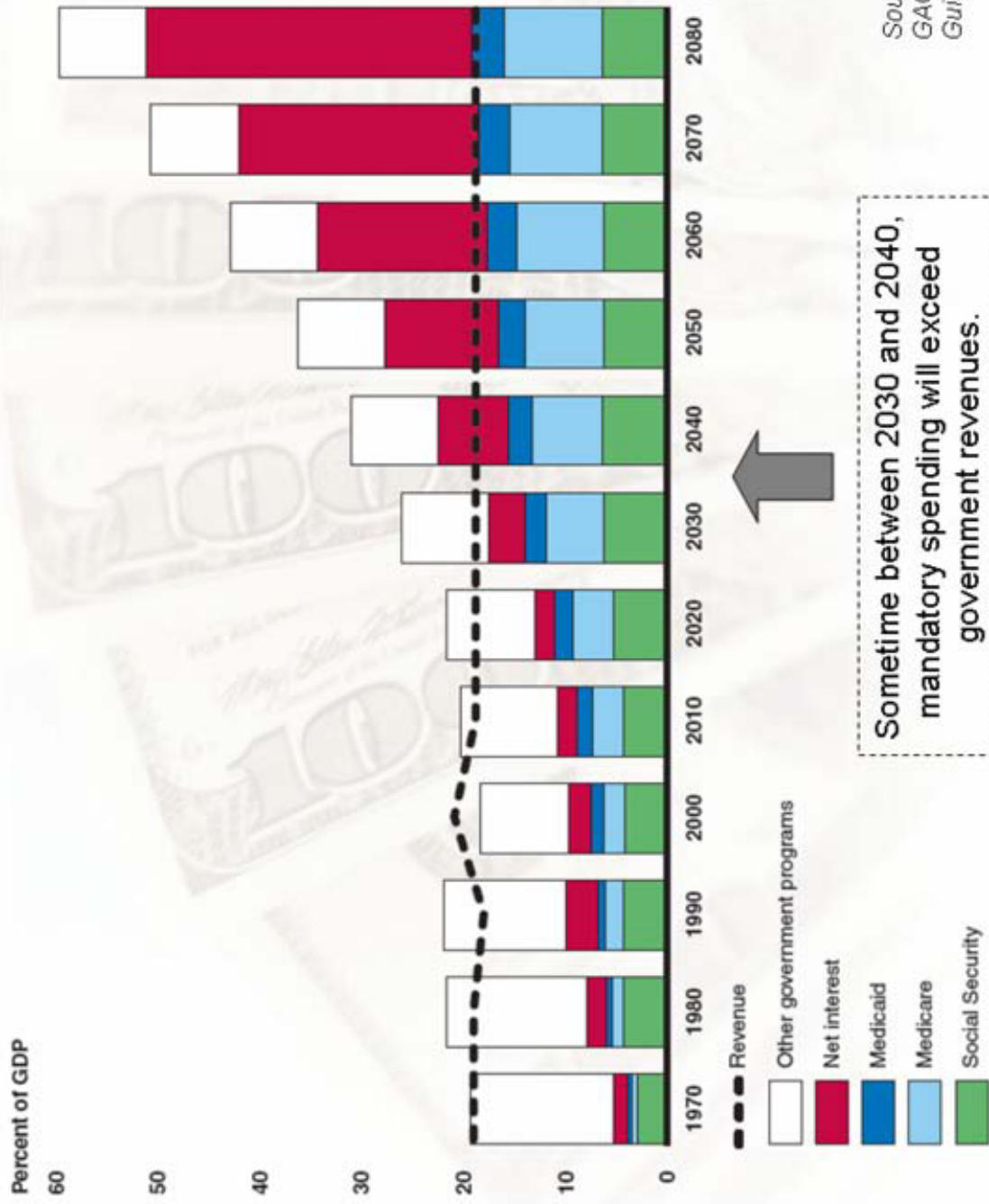


- Having a plan is going to open a debate. How do we maximize one scenario over another. Collaboration is key.
- Something is going to break. We need to start visualizing alternative whole futures to get a grip on the mass of individual changes that might make sense. When events wipe pretense away, what will be on the table in terms of societal shifts and options that we are going to be discussing? Now we need aspirational choices for the future that ought to be under discussion now, but will probably be deferred until crisis.
- Freedom from fear, from want, of speech. Invest in these values: health for all, water for all, biodiversity, diminishment of militarism, growing cooperation, technology to support an older and larger society. 50% of world's military budget is our military.
- What kinds of things do we need for the future? If we invest in the right things now, smart investments in technology to provide our security and health, that might resonate.
- Looking at the chart: we are never going to get to the right (far) end of this chart, something is going to happen. And if you are across the ocean looking at this chart, what are you going to do? What does the US need to do to minimize the changes that our future is as it is depicted? We have a short period of time in which to take action to set expectations of others upon their decision making will be based.
- Our situation is much worse than what the chart shows. Are we headed for mobs pelting eggs at cars like in England, Greece? Is our political system able to make these decisions? Obama-GOP deal shows we cannot get our fiscal situation in order. Are there ways that we can try to find for our members of congress and president to take the decisions that need to be taken? One model: the base-realignment commission. Here is the plan, vote up or down, to cut through the politics of it.
- Always a next election, Republicans won't give Obama a win no matter how good it is for our country.
- If we are so smart, cant we figure out what the third course is. USG and other governments *responded* to the growth of the internet, didn't lead it. The power of the internet was self-organization. How can we use what we've done with the NYT and do a round 2.
- There will be a crisis, we agree. Fiscal, but more broadly economic. Need a way to solve the fiscal problem. What are the pieces that can be put together?
- We are looking at what would be economic crisis: for just us, or for China also?
- China has established a monopoly on raw materials (without a war!). When we provided rice to Africa, we did it government-to-government, while the Chinese just threw rice out the back of the truck in the towns. More effective.
- Distributed power centers as an alternative structural form of governance. Approach human development as the Chinese did -- lowest levels. Networks as strategy for governance. Internet empowers us to do make things happen. Getting state of the union to focus on investment -- get it to go viral through social networks.



- Power is an invention as well as a structural system. We ought to know what it is. Send it to a variety of senior bloggers, NYT op-ed writers, etc. put it into different systems to create groundswell of thought. We need an ecology of mind-change in the country.
- Need a powerful idea to do that: investment is that powerful idea.
- 3 big questions for health of the US:
 1. When the next big wave of economic innovation hits (and it will probably be biotech/nanotech), the innovation (companies that grow from garage to billions of dollars) will probably be in the US similarly to the previous wave. Underlying science is strong here. Americans have the knowledge and ingenuity, and the money is there for it. Creation of wealth is based on innovation -- new things, new structures, changing peoples' lives, and deriving a profit from changing people's lives for the better. There probably is not much the federal government can do to make that happen.
 2. Are we going to do a better job of educating the bottom fraction of our population? They are not growing up to be productive members of our future society.
 3. Attitude of the public: they care more about the common good/ general interest. We are in a mode of discourse that it has taken for granted that AARP should lobby for retirement-age people.
- We need data first, reality-based grassroots movement. Get the data, then we can build a movement.
- Innovation literature – government can play a role in seeding generative networks and develop scaffolding structures. Wikileaks' power does not derive from the cables. They set up a scaffolding structure to send the cables. The cables themselves aren't powerful, it's the structures
- Scenario: "The hangover generation". We take on a 20 year plan to accept a lesser place in the world for investment, retooling, etc. Stop looking at large streams of money as current expenses, think of them as debt service: investing in public good.
- This was proposed as "infrastructure bonds" it was rejected by Larry Summers. Idea that the bond accrual would pay, plus promise of tax break later. It would bring costs down, bring revenues up. Can't do it with the current system.
- Future necessity is the mother of invention today. We have a good picture of what is coming at us. That can help with the political problems. We understand the quality of life we want. Here is where we can make investments. We can prioritize choices based on future necessities.
- 70% of R&D investment in private sector comes from manufacturing. That is only 8-11%. 10-15% of manufacturing does basic research. 2.8% of GDP on R&D in the US. Our potential conflict partners (Russia, China) invest more in research than we do.
- We face the burden of massive IPR theft sanctioned by states
- "Mother of invention" statement is an *"ought" statement, not an "is."* People put off non-present threats (e.g., climate change). Important to paint alternative futures where we are on a certain track. Need books and movies about after humans go extinct, about after America cedes hegemony. Maybe too wonky to convince Americans. "Temporal Discounting" - how to think about problems further ahead that are actionable now.

The Risks of Growing Entitlement Spending





Read-ahead Material

Below is my string of messages on this subject from the past couple of months. I am also linking you to three articles from the past couple of days

- Samuelson Washington Post December 6²
- Matt Bai NYT Dec 4³
- Judd Greg "Saving the American Dream"⁴

August 10: Obituary of the American Century

Paul Krugman's most recent NYTimes editorial is the obituary of the American century.⁵ The last line of his article describes our circumstances: "America is now on an unlit, unpaved road to nowhere." Foresight now becomes a search for the way out. I now have resources from the MacArthur Foundation, and would like to discuss with you my plan for applying them, and also look for ways in which we can work in concert. Leon.

November 5: On Foresight and Politics

In the aftermath of the election, I'm inviting your thoughts on the question of the relationship between foresight and politics. Is foresight inherently associated with one or the other political philosophy? We share a Big Idea -- that foresight and policy should be integrated, for the sake of the value that the former can bring to the latter. But at either end of the spectrum, there are people who have such strong views about how the future ought to turn out as to make the notion of the dispassionate study of alternative futures uncongenial. Does foresight offer a space in which there can be real discussion about optimized choices for shaping the future? Perhaps it boils down to a common interest in efficiency. Foresight has certain qualities that support efficiency. In my mind, examples include: timely recognition of major contingencies; early engagement of systems for tracking developments and translating them into inputs for policy; improved coordination across governance; monitoring of policies for medium to longer range consequences. Arguably, these should reduce demands for investment to support any particular path to any particular outcome. You'd think that the facts of our economic situation would create a demand for efficiency that transcends or at least bounds political difference, and helps to sustain a middle ground. Maybe not. I'm very interested to know what you think. Leon.

November 17th: first the obituary, next: the settling of the estate

On Aug 10, I sent around an email entitled "Obituary of the American century," which I based on a grim editorial in the NYT, by Paul Krugman. Quite a few of you were strongly affected and wrote back, asking what we as a group could do. I had no idea then, but I do now, based on the conclusions of the Deficit Commission's report. The gist appears to be that we either embrace austerity or face national insolvency. I wouldn't argue with that, but the report is only an installment on a full appreciation of the facts of fiscal life. The document is basically a laundry list of cuts, big and little. A strategy, it is not. The little cuts do not amount to much, even if added end to end. The really big cuts /and-or tax increases could make a dent in the problem, but they are not presented in any strategic context. What does not come across is that if

² <http://www.washingtonpost.com/wp-dyn/content/article/2010/12/05/AR2010120503303.html>

³ http://www.nytimes.com/2010/12/05/weekinreview/05bai.html?_r=1&ref=matt_bai

⁴ <http://www.washingtonpost.com/wp-dyn/content/article/2010/12/02/AR2010120205696.html>

⁵ http://www.nytimes.com/2010/08/09/opinion/09krugman.html?_r=1&src=me&ref=homepage



we were to make enough of these cuts, there would be societal consequences that are profound, rather than marginal. We would become a different country, living in a different world. And, of course, in the event we take no action, we should think in terms of "Settling the Estate and Dividing its Obligations."

This situation cries out for scenarios. In my opinion, the question to be addressed by these scenarios would be this: **over the long-term, what alternative kind(s) of society can be reasonably associated with different tracks for the Federal Deficit?** Answering this question could require three analytic steps:

-- **First, aggregate the Deficit Commission's various recommendations into a limited number of basic fiscal options.** For example:

- stay on the present course, and accept creeping insolvency;
- hold the debt level to a sustainable level of growth, substantially slower than at present, and to hold it there for a serious period of time;
- balance the budget, and keep it that way for a serious period of time; and
- achieve surplus, and maintain that for a serious period of time.

-- **Second, for each fiscal option, analyze STEEP consequences using standard foresight methods.**

Since our perceptions of reality are fundamentally divided by deep and largely irreconcilable divisions, it would be reasonable to create two parallel versions of this study: one from the "liberal" perspective; and one from the "conservative perspective." If, by chance, we were to discover a viable mid-ground so persuasive as to draw Left and Right towards each other, we could name a new national holiday for the event.

-- **Third, present alternative futures to the American people as whole strategies, including the assumptions and pre-requisite actions (back-casting).** A huge political brawl is going to develop around the Commission's recommendations. Instead of a brawl, we need a real debate. The only hope for such a debate is to help the public come to grips with context. And this kind of visualization of consequences is what defines all of us.

This message invites your comment. If enough of you think it would be worthwhile to take half a day to discuss this matter in person, we can look for a place on the calendar -- perhaps in the first or second week of December.

November 22nd: Supplement to "obituary and settling the estate"

Today's Washington Post editorial section, pp A18-19, contains two pieces that I want to bring to your attention. Main editorial⁶ references work done by the Bipartisan Policy Commission, which has developed its own approach to the deficit. Important background . On the oped page, Samuelson has a column called "Politics of Avoidance,"⁷ which is an analysis of the recommendations of the Deficit Commission. Main point of this column is that the recommended cuts fall short of what will be needed, and that this higher level involves profound societal tradeoffs: "How much will we let programs for the elderly displace other government functions and raise taxes to levels that would ...reduce economic growth?" With respect to my earlier message to you, and to our pending discussion, the Samuelson analyzes an interesting question. I said, with respect to the Deficit Commission, that the larger cuts would

⁶ <http://www.washingtonpost.com/wp-dyn/content/article/2010/11/21/AR2010112102262.html>

⁷ <http://www.washingtonpost.com/wp-dyn/content/article/2010/11/21/AR2010112102277.html>



raise issues about our way of life, and about the nature of the world we are going to live in. That is still the case, in my opinion. However, what Samuelson is saying is that we have yet to acknowledge that even these changes are inadequate.

November 30: Last Rites?

To the seriously ill economic dogmas, we might now add the Washington Consensus, which is on life support in Ireland, and may soon be receiving the Last Rites? column analyzes the sequence of events leading to Ireland's debacle, and then asks the question how Iceland is doing so much better than Ireland, even though circumstances are parallel. His answer: Iceland is better off than Ireland, because it let foreign lenders "pay the price of their own poor judgment, rather than putting its own taxpayers on the line to guarantee bad private debts." And, Iceland "helped avoid a financial panic in part by imposing temporary economic controls -- that is, by limiting the ability of residents to pull funds out of the country." Those of us who (during the Clinton Administration) helped apply the steel clamps of IMF austerity and conditionality to the Russian economy, will recognize at once that Iceland is suffering less and recovering faster than Ireland, because the former ignored fundamental elements of the Washington Consensus. Could it be that what we once considered to be the cutting edge of applied economic theory, is in fact a system based on bleeding patients for the sake of bankers' health?