A Brighter Tomorrow

With the country facing enormous challenges and few solutions in sight, we convened a Diablo Think Tank to ask some of the brightest minds in the East Bay a not-so-simple question: How do we fix it? Here’s what they said.

BY JUSTIN GOLDMAN

Key to topics:

Politics      Social Security      Health            Energy          Education      Economy

"Craft a New, Smarter Stimulus to Create Jobs"

Jack Rasmus
Expert on Economics
Professor, Saint Mary’s College

Jack Rasmus is a professor of economics and politics at Saint Mary’s College who has closely studied the current economic crisis and the government’s response to it. His latest book, Obama’s Economy: Recovery for the Few, due out in March, offers a number of alternative responses to what he calls our “epic recession.”

Can you explain the current economic crisis, which many people find to be very complex?

Understanding what needs to be done requires understanding what happened and why it didn’t work up until now. We are in a unique kind of a contraction. It’s not a normal recession. Therefore, normal policies—tax and spending, interest rates and so forth—have not gotten us out of it.

We didn’t get a broad-based recovery. Why is that? In the $787 billion [stimulus package], about 38 percent was tax cuts and another 38 percent was subsidy spending—meaning money given to the states, to the unemployed, subsidizing
health care costs, and so on. And maybe about 10 to 15 percent was in long-run infrastructure projects.

My argument is that that was ineffective on three accounts. First of all, in this kind of a financially induced contraction, you have a problem with confidence. And tax cuts do not get translated into investment, which is what you need to create jobs. They get hoarded. And business needs to be able to see people who are going to buy their products.

[Second,] Obama's fundamental strategy was: We're going to give subsidies to the states; we're going to give subsidies to the unemployed; and that will buy us a year, after which the tax cuts will take effect, and the spending will occur. But the spending did not occur. ... Subsidies don't create jobs. You need to invest and create jobs to have a true sustained recovery.

And then we had another 10 percent, 15 percent in long-term infrastructure, alternative energy, electrical grid, and all this stuff. It did not have a short-term impact. So, we're stuck three years later with the number of unemployed we had three years ago: 25 million people [according to the U-6 unemployment rate].

There are three areas that Obama has not addressed. One, jobs: With 25 million people unemployed, you're not going to get consumption. There's been no real jobs program except tax cuts. Second, housing: There's been no housing program. [Third,] Obama never fundamentally addressed the problem of the state and local government financial crisis. He gave them temporary subsidies. So, we have those three crises that have not been addressed policy-wise that are causing us to be stagnant and bouncing along the bottom.

“You need to invest and create jobs to have a true sustained recovery.”

So what do we do now?

One of the hallmarks of the last three years is that large corporations are sitting on $2 trillion in cash, not investing it. At the same time, the Federal Reserve spent $9 trillion to bail out the banks. We gave them a lot of liquidity, but we didn't get rid of their bad debts. So, the banks are reluctant to lend, mostly to small and medium business—construction firms and retail and so forth. In other words, the money that went to the bailout got bottled up.

Somehow, you've got to restructure the banking system so the banks will lend.

We need to create a utility banking system in this country. What that means is that the government becomes a bank for consumer loans and consumers only. There's no reason why the government should not issue money—not through the banks, but directly—to stimulate housing. We could be loaning people money to buy homes at 3 percent—the 30-year bond rate. That would stimulate the housing industry.

The government owns most of these [bad] mortgages. They've been sold to Fannie Mae, Freddie Mac. The government could go in there and say, OK, we're going to adjust the principal and interest so you can stay in your home, or so your home isn't negative equity. That would free up an awful lot of money for consumption.

Now, on jobs: If business won't invest in jobs, the government has to directly invest in jobs. To do that, you need to reform the tax system and tax structure in order to spend on direct job creation—short-term, immediate job creation—without increasing the deficit.

So, raise taxes.

Now, where would you raise taxes? You've got $1.4 trillion—multinational corporations holding their cash offshore. Not bringing it back because they want to avoid the 35 percent corporate tax rate. There's also about $4 to $6 trillion that's been put in 27 offshore tax shelters in the last 30 years. That's where all the wealthy in the world are stashing their cash so they don't pay their taxes. Repatriate that.
And the dividends and capital gains tax rate at 15 percent is ridiculous. We've never had a situation where it was so low and so far below the actual top income tax bracket. The top income tax bracket is 35 percent, but the wealthiest 1 percent of households pay on average about 16.6 percent. There’s no reason why they shouldn’t be paying the historical long-run average that they had been paying until George [W.] Bush came into office.

You’ve got to attack debt, and you’ve got to attack income distribution, if you want a long-term, sustained recovery.

**Speaking of debt, what about cutting the deficit?**

If you think austerity works, look at Greece. You cannot deficit cut your way out of a recession; it’s just not possible. It’s not that fiscal policy is wrong; it’s that the type of fiscal policy was ineffective. [The stimulus] was a terribly crafted recovery package, and we’re seeing the consequences of that. [But] austerity will work even less. We are on our way—with a recovery that can’t get going—into a double dip. And we’re going to cut even more.
Tell me a little bit about the challenges we face due to our aging population.

If you went back to the 20th century, we had primarily a youth population. We built our world to match that. We were focused on the diseases of young people; we were focused on getting jobs for young people; we were focused on creating an educational system which was primarily for young people. But here we are in the 21st century, and we're still using that 20th-century paradigm, but the world has changed.

Give me some examples of that paradigm shift.

Our health-care system was designed to treat the diseases of young people, which are mostly acute infectious diseases. The diseases of aging are chronic, degenerative—things that you diagnose, treat, and care for far differently. It's not only about pharmaceuticals or surgical techniques [but] nutrition, exercise, stress-management techniques. If you delay the onset of heart disease by five years, it could save our country trillions of dollars.

Another example is education. We think of education as being for kids, and I don't know if that makes sense in a society in which average life expectancy is 78, and we're beginning to see people work well past 65; retraining in a fast-moving, technology-based society is really important. ... We talk about a job crisis, but there are lots of jobs out there that remain unfilled because they can't find people with the right skills. If you could train people, whether it be retirees or young adults, to fill those jobs, it would be a win for everybody.

Another shift that I think is really important is to begin to view older adults as a resource rather than a problem. ... When you think about the Peace Corps, mostly you think about kids, college age or graduate school age. Why not create a kind of Elder Corps, where you reach out to people over the age of 65 and have them serve? Maybe it's here in the United States. You know the schools are in dire need of mentors and teaching assistants: Why not get them in there? ... Try to create a program—voluntary, yes—but make it so appealing that everybody wants to do it. And include a stipend, rather than Social Security, which won't be able to continue as it is.

Speaking of which, how do you view Social Security reform?

It's a program that was designed when the poor segment of society was older adults. For every retiree, there were 40 workers. Today, there are two-and-a-half. And average life expectancy back then was 62-and-a-half. Today, it's catapulted all the way up to 78. The idea was never to have people getting an entitlement for 20 to 25 years. The
program needs to be changed, and if you were able to connect it up with something like an Elder Corps, where people could give back and get a stipend, it would give the money to people who needed it, and it would keep people engaged in their communities.

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"Get Private Money Out of Politics"

Suzi Weissman
Expert on Politics

In addition to being a professor of politics at Saint Mary’s College, Suzi Weissman hosts Beneath the Surface, a radio program on KPFK Pacifica Radio. She’s an expert on labor and community struggles, and is a member of the National Workers’ Rights Board.

What’s the first step in fixing our struggling political and economic systems?

We have paralysis of the political system because we allow money to influence politics. In some way, we must get back to allowing the American people to actually be part of the democratic arrangement, and not just Wall Street and corporations. People are now calling this a “corporatocracy,” and that’s about right.

I think there are 20 financial sector lobbyists for each member of Congress, so that they could gut any regulations that were being restored through Dodd-Frank [Wall Street Reform and Consumer Protection Act]. What they have been doing with their lobbyists is making certain that any new regulation has so many loopholes that it won’t change [anything].

And the other part of it is that Congress can’t legislate anymore because it’s constrained by party polarization and ideological intransigence, and the buckets of money from these lobbyists. There have been calls for members of Congress to be like NASCAR drivers and have to wear sponsorship labels. I’d love to see hats, stripes, shirts, all of it, where each congressperson says who owns them. And then we might get some transparency.

How do you think this step would affect economic policy?

The fact that we’ve had very bad policy has exacerbated the situation, and the deficit-cutting hawks from Europe to America are almost going to guarantee not only a double dip, but a true depression.

We need to get sane policy back into government. They don’t listen to economists that don’t agree with Wall Street. You’ve got [not only] Stiglitz and Krugman and other Nobel Prize–winning economists, but virtually every economist saying that the policy now is exactly the wrong one.

“People are calling this a ‘corporatocracy,’ and that’s about right.”
"Create a More Efficient Health-Care System"

Jerry Fleming
Expert on Health Care
Senior VP, Kaiser Permanente

Jerry Fleming is leading the coordination of health-care reform for Kaiser Permanente, and is the 2011-12 board chair for the California Association of Health Plans.

If you were to design a health-care plan for the 21st century, what steps would you take?
We have these two very difficult trends, one of which is that health-care costs are going up much faster than the rate of inflation. At the same time, the number of people with coverage is dropping. We’re going to have to cover the people that aren’t being covered today, and we have to then have an impact on the trend of health-care costs.

Whether you’re employed or not employed, there has to be a way that you can get coverage. In order for that to happen, there has to be an available level of subsidy for people who are not employed or maybe if they’re self-employed.

There is a mix of actions taken in the Affordable Care Act that, when implemented, does largely accomplish that coverage. It establishes new rules around what health plans can do in terms of their enrollment processes; it then has an individual mandate, which requires people to pick up coverage. And then for those who cannot afford it, it provides subsidies through an exchange, a marketplace where people get to compare plans.

OK, now how do we make coverage more affordable?
The major source of the cost of the health plan premium is the actual cost of health care. You’re going to have to figure out how to lower the cost of care.

Care is a team sport. It’s often complex; it involves lots of different professionals in lots of different kinds of settings. However, if you look at health care, you’ll find that it is often not organized like that. There are lots of individual practitioners out there who don’t have a common information source, so the patient has to glue these things together.

The way, in general, providers are paid for in our country is fee per service. Most of the folks practicing get a fee for each service. And the incentives should really be about getting you healthy: preventative care.

[So,] you change the payment system to be oriented toward episodes of care or fixed payments for somebody’s coverage. And then you save money by keeping people healthy.

The other thing that’s driving costs up is, collectively, our health status is deteriorating because we are becoming a much more sedentary population. … This is about healthy lifestyles, about [our] communities: Do they facilitate being able to get exercise?

So, to sum up ...
It's not an easy problem to follow, and remember, it's 18 percent of the economy. But it really does come down to evolving the way that [health-care professionals] work together for our patients, and for the patients themselves to be better informed about their own health and about the providers they go to.

"Enable Teachers Instead of Attacking Them"

Phyllis Metcalf-turner
Expert on Education
Professor, saint mary's college

Phyllis Metcalf-Turner is the dean of the Kalmanovitz School of Education at Saint Mary's College. She knows the education system inside and out, from teaching special education in Detroit Public Schools to overseeing nationally accredited teacher education programs.

Our economy is struggling, and public education seems to be the place cuts always come from. Can this continue?

If we do want our country to advance and move up from the 26th place that we're currently rated on the world scale in terms of our students’ achievement in school, then we're going to have to invest in education as we once did. And it starts with paying teachers what they're worth.

I think they cannot be as expendable as we’ve treated them in the past—meaning that the minute we have budget woes, we want to slice and dice K-12 education, and nowadays, it's going all the way up to 13–16. We're making it almost impossible for people to seek advanced education beyond high school.

The issue of how we evaluate our teachers has been a contentious one. Where do you stand?

We know that America probably has the most diverse educational system in the world, in that we allow all kids to go to school, and our job is to accommodate them. And that means, when you start talking about evaluating a teacher’s effectiveness, taking into account the variables those kids brings to the classroom. I don’t know that there’s a magical pill or a magical test, but I will tell you, it’s more complex than previously imagined.

I think our job ought to be more focused on helping all teachers be effective, rather than trying to identify their limitations or weaknesses, and then excising them. … We already knew that we were hard-pressed to produce the number of teachers needed to meet today’s public school and private school classroom needs. So given that, how can we only look at an approach that talks about getting rid of teachers?

So, who should be in charge of teacher evaluation?
We have to have teachers, administrators, teacher educators—meaning higher ed types—as well as policy people. Definitely parents as well. You’ve got four or five demographics that need to be represented to come up with an instrument or approach to evaluate teachers.

I think ultimately we would want something agreed upon at the national level, as long as you understand that in America, we allow our states to operationalize that according to their unique characteristics.

“How can we only look at an approach that talks about getting rid of teachers?”
"Reward Energy and Technology Innovators"

Dan Kammen
Expert on Renewable Energy
Professor, UC Berkeley

If you want an authority on the future of energy policy, Dan Kammen is your man. He is the director of the Renewable and Appropriate Energy Lab at UC Berkeley, and he served as the first director of Renewable Energy and Energy Efficiency for the World Bank Group.

**Given your expertise in energy, what do you believe our priorities should be moving forward?**

As a physicist, my answer reflects what I see as the key long-term issues we must face and also my experience [at] the World Bank Group. … Too much of our economic system is based on taking away from what we do want—innovation and economic growth—and rewarding what we do not or should not want—profits without actually producing anything of value.

Today, we reward companies for wasting energy and other resources, and we inhibit them from investing in worker training and new capacity building. This equation retards not only economic growth, but also keeps our workforce from innovating and improving itself.

**Can you explain further how this dynamic works in energy and economic policy?**

We are taxing companies that add staff and that work to train them, and crazily we reward companies, through subsidies for fossil fuel and in some cases water use, that use precious resources wastefully. Innovation and investment in a cleaner energy mix need to be rewarded.

We also need to send price signals that make explicit the social and environmental damages from the use of energy products that negatively impact our health, well-being, and the environment.

**What sort of policy counters do you recommend?**

I would start with a price on greenhouse gas emissions, as California will launch in January 2012, and which the U.S. Northeast, British Columbia, and Europe have to some degree, and which Australia and parts of China are now launching.

Second, we need to reward economic activity that produces more jobs and often better jobs, which is what we have shown, in my laboratory, that investments in renewable energy and energy efficiency do.

Overall, we are mortgaging our future by not investing in research into the technologies, social mechanisms, and the broader cultural understanding that we will need in the future.
"We are mortgaging our future by not investing in research."

"Invest in Energy, Education, and Infrastructure"

George Miller
Expert on Job Creation
Congressional Representative

George Miller is the U.S. representative for California’s seventh congressional district. He is the ranking Democrat on the House Committee on Education and the Workforce; we asked him about both subjects.

As a longtime Congressman, what do you think the government needs to do to get America going in the right direction?

We’ve got to develop a plan that helps start-up businesses, that helps small businesses. These are the people that over and over again re-create the American dream.

It can be a mom-and-pop business, or it can be a high-tech start-up or a biotech start-up, but that’s the entrepreneurial spirit, and that’s got to be reignited.

But we’ve also got to then make sure that that spirit is renewed because we have a first-class education system. We really need a policy of reinvesting. I would pick education as one of the cornerstones of that reinvestment. I would pick a modern energy policy as another cornerstone. And clearly, infrastructure.

Given the state of the economy, given the state of world competition, America has to do all of these at the same time.

Where does the investment money come from?

The money’s going to come from public and private partnerships. People now believe there should be an infrastructure bank with public money and private money picking those big projects that this country needs.

But that will have to include money from increased taxes.

You’re going to have to raise revenues. The revenue level in the United States is the lowest since 1950. You’re going to have to raise revenues; you’re going to have to make reductions in government spending. In the meantime, you have to put people to work.

Over the next 10 years, you’re going to have to take $2 or $3 trillion out of the deficit, but if you do that today, you’re going to put people out of work.

The number one complaint of small businesses is they don’t have enough customers because the economy is so bad.
That's why the government’s going to have to spend some money, along with the private sector, to make these investments to put people to work.

“We’ve got to develop a plan that helps start-up businesses, that helps small businesses.”

Carol Chetkovich is the director of the Public Policy Program at Mills College. She is an expert on social movements—we talked shortly after she visited Occupy Oakland’s general strike—and has been involved in experiments in deliberative government.

You've seen firsthand how disenchanted people are with the system. How do we get it to reflect what people want?

We can't fix the economic problems until we fix the political system. What I would do is bring people together in face-to-face dialogues about what we want our society to look like and how we're going to get there.

In those dialogues, it would be very important that we talk with people who don’t look like us—people who come from different backgrounds and have different viewpoints. We would get good information on the critical issues that we’re facing and the policy options that are available, and the dialogue would be structured in such a way that we would confront different choices, and not act as if it's possible to have it all.

Then, we would publicize the outcomes of those dialogues so that politicians could know the will of the people and be held accountable for representing it.

How would this look?

Quite a lot of cities have engaged in participatory budgeting. And it tends to happen in exactly these circumstances, when you’ve got far too little money to be able to do the things that you want to do.

Locally, an example where this was done was Menlo Park. They didn’t have enough money to cover all the services that they were committed to offering. And they decided that it didn’t make sense for the city council, in the absence of really thoughtful input by the citizens, to keep trying to make these decisions. So, they engaged in a very carefully structured process that included providing structured choices about the budget.
They were given options like, this is how much we would save if we closed the libraries for this period of time, and if we cut down the number of cops on the street by this amount. Or you could raise taxes: This is what that would look like. They had people brought together in discussions, and then they did some kind of survey to get people’s thoughts on what should happen with the budget.

And what they found was, people actually wanted a mix of higher taxes and lower services in some areas.

**This idea seems more likely to work on a local level than a national one.**

At the local level, when it comes to a lot of spending, people are more willing to say, “Yes, I’m willing to pay for this,” if they can actually see the results. And if you arrange some of these services so that people could actually track where the money was going, then you’d be more inclined to get people out of this mode of thinking they’re going to get something for nothing.

I think that trying to make this happen at the local level would start to get people more engaged.