Contact: Mark Primoff
845-758-7412
primoff@bard.edu

FOR IMMEDIATE RELEASE

AUSTERITY BUDGET CUTS THREATEN TO UNDERMINE ECONOMIC RECOVERY AND KEEP UNEMPLOYMENT HIGH, NEW LEVY STUDY SAYS

Scholars Show Urgent Need for Fiscal Spending and Policies to Promote Private Investment and Export Growth

ANNANDALE-ON-HUDSON, N.Y.— Despite modest gains in this month's jobs report, the U.S. economic recovery continues to struggle with weak economic growth and chronically high unemployment, two conditions many economists and policymakers say are unlikely to improve with the sequester cuts. A new study from the Levy Economics Institute of Bard College reports an increasingly weak relationship between output and job creation in the United States and argues that unemployment will remain high without renewed and significant fiscal stimulus or some combination of moderate fiscal stimulus, export growth, and increased private investment.

In their Strategic Analysis, *Is the Link between Output and Jobs Broken?* the Levy Institute's Macro-Modeling Team—President Dimitri B. Papadimitriou and Research Scholars Greg Hannsgen and Michalis Nikiforos—provides medium-term projections of employment and economic growth under four different scenarios. They contend that the Congressional Budget Office's (CBO) baseline projections for the U.S. economy through 2016 rely on an implausible decrease in the private sector surplus to achieve only very weak growth rates that would keep the unemployment rate above 7 percent through 2015. According to their analysis, achieving a lower unemployment rate of 6.5 or 5.5 percent by the end of next year would require large amounts of fiscal stimulus, something they admit is unlikely to take place given the current political climate. "A deadlock in Washington exists that prevents anything from happening for now other than a set of potentially chaos-inducing across-the-board spending cuts and temporary federal furloughs," they write, stressing the threat that the sequester poses to any recovery. "Additional deep government jobs cuts lie ahead, with the congressional sequester threatening to lop off well over one

-continued-

million more federal jobs. This is a substantial loss, compared to, say, the number of new jobs generated in the entire private sector last year—only two million, or twice as many."

The Levy team reports that another significant challenge underlying the current recovery is the weakening link between output growth and jobs growth in economic recoveries over the past 30 years, or what many economists refer to as a trend toward "jobless recoveries." "The economic recoveries during that period have become slower and slower in terms of employment growth," they write. "In other words, the growth of output in the recovery phase of the cycle increases employment and reduces unemployment at a slower pace than it used to."

Given the political deadlock in Washington and the weakening link between output growth and jobs, Papadimitriou, Hannsgen, and Nikiforos offer an alternative scenario for growth that would require a smaller increase in government spending, accompanied by an increase in private investment and external demand in the rest of the world. Supporting this alternative, the authors report, are recent signs of strength in consumer credit and recovery in the U.S. housing market, as well as a dramatic increase, since 2009, in exports to parts of the world that import the most goods and services from the United States. The Levy scholars say that their alternative scenario for growth would be strengthened by a light fiscal stimulus and investment in research and development, as well as corporate tax reform that would push nonfinancial companies to pursue innovation and productivity growth rather than short-term market gains.

The Levy team concludes by citing the need for policies promoting growth, and by rejecting fiscal austerity measures for the threats they post to the current recovery. "There is an urgent need to make policy for the postcrisis economy—the one needed to bring back full employment once the financial crisis has been fully resolved and the temporary stimulus programs completely wound down," they write. "We oppose any form of fiscal austerity on the grounds that employment has gone into a tailspin everywhere it has been implemented." Almost as a rule, they point out, "the US economy operates with excess productive capacity and large amounts of unemployed labor. If only for this reason, higher government spending cannot be expected to have a crowding-out effect on private spending."

# # #

Strategic Analysis: *Is the Link between Output and Jobs Broken?*

(3.13.13)