Contact: Mark Primoff
845-758-7749
primoff@bard.edu

FOR IMMEDIATE RELEASE

WITHOUT INCREASED FISCAL STIMULUS, U.S. ECONOMIC GROWTH WILL REMAIN WEAK AND UNEMPLOYMENT HIGH, NEW LEVY STUDY SAYS

ANNANDALE-ON-HUDSON, N.Y.— With the International Monetary Fund forecasting lower growth rates for the eurozone and much of the developing world, a new study from the Levy Economics Institute of Bard College finds that, even with a dollar devaluation, there is little hope that the United States can look to exports for growth. In their Strategic Analysis *Is the Recovery Sustainable?* the Levy Institute's Macro-Modeling Team—President Dimitri B. Papadimitriou and Research Scholars Greg Hannsgen and Gennaro Zezza—analyze the prospects for the U.S. economy and argue that, without additional fiscal stimulus, the United States faces a prolonged stagnation in output and employment levels. Futhermore, the likelihood of austerity measures, such as the $1.2 trillion in cuts to federal spending set to go into effect in January 2013, make the outlook for growth even worse.

For their baseline scenario, Papadimitriou, Hannsgen, and Zezza assumed no change in the value of the dollar or interest rates and deficit levels consistent with the bipartisan Congressional Budget Office's most recent "no change" scenario. Their results show growth hovering slightly above 2 percent in 2012, then falling to and remaining between 1.5 and 2 percent through 2016. In this scenario, employment would dip a bit in 2012, but then rise again and remain above 9 percent. When expected austerity measures (federal budgets cuts of $1.2 trillion over 10 years) are factored in, they find that growth falls to 0.06 percent in the second quarter of 2014 before leveling off at approximately 1 percent, while unemployment rises to 10.7 percent by the end of 2016. The authors say this latter situation could be as perilous as the one President Roosevelt faced in 1937–38, when untimely deficit cuts led to "a new recession within the Great Depression."

-continued-

To conclude, the authors recommend a Keynesian stimulus package to create jobs and boost demand, specifically in underfunded areas such as infrastructure spending and labor-intensive health- and child-care services. While citing that stimulus in these areas would address long-term needs, they argue that government spending is a more effective means of directly stimulating the economy than monetary policy (for example, lowering interest rates and waiting for the business sector to respond with increased investment). “By definition, when the government hires people to work in the public sector or buys goods from the private sector, it is undertaking economic activity that counts as part of officially measured GDP,” they write. “As long as these activities do not cause the business sector to reduce its total output of goods and services, they will immediately increase GDP at least dollar-for-dollar as government spending increases. Moreover, it is hard to escape the conclusion that government spending has an additional ‘multiplier’ effect. Namely, people who are hired by the government or by government contractors tend to contribute most of their paychecks toward household purchases.”

# # #

Strategic Analysis: *Is the Recovery Sustainable?*

(12.14.11)