Spring 2013

CE Winter 2013

Coyote Economist

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Stories of fiscal cliffs, debt ceilings, and the presumed need to deal with the nation’s public debt have saturated the mass media in recent months. Much of this discussion has had more to do with political posturing than with any serious effort to deal with the nation’s economic problems. But, even when carried out with the most serious of intentions, these debates are often premised on economic illiteracy.

The first problem confronting this national debate is the idea that fiscal responsibility requires bringing the federal government’s debt under control, rather than stimulating the economy. Given that the economy is still very weak, with the unemployment rate still near 8%, cutting the federal deficit at this time is actually the height of irresponsibility. The economy has yet to achieve rates of growth required to absorb all the workers who have been looking for jobs since the start of the Great

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Pushing Back

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fee imposed on students repeating a course. All three proposed fees were to be assessed on a per-unit basis and no student was to be assessed more than one of the three new fees in any given quarter.

The CSU argues these new fees would provide students an incentive to graduate sooner.

These new fees would be added on top of all the other fee increases that the CSU had imposed on students over the previous ten years. Undergraduate full-time tuition fees per academic year increased at the CSU from $1,428 to $5,472 between 2001-2002 and the Fall Quarter of 2011.

All these fees, the ones already imposed and the new set of fees the CSU is considering, are being pushed by two forces: first, the steady privatization of the CSU (with a growing proportion of the CSU’s funding coming from private donations and grants) and; second, the budget shortfalls occasioned by the Great Recession.

As a response to the new (and larger) fees imposed on students, a group of CSU students formed Students for Quality Education (SQE) during the 2007-08 academic year. The goal of SQE is to educate both fellow students and the surrounding community about CSU budget cuts and fee increases.

The website for SQE (http://csusqe.org) says, “Our movement for educational justice in the CSU is not new. Students in the 1960s fought to open up the University for working families and immigrant students. They demanded high quality and relevant education, and badly needed student services such as the Educational Opportunity Program (EOP). From this movement the CSU grew to become the People’s University, open to all who met the basic requirements for entrance.”

Their website notes they, and others who share their goals, have had success: “However, in 2002-2003, a recent wave of budget cuts from the state government began, which resulted in students organizing to oppose budget cuts and massive student fee hikes. Students around the CSU organized marches, rallies, lobbied their legislators and Governor to stop these attacks on students. Their efforts resulted in helping to save EOP from elimination by Governor Schwarzenegger in 2004-5.”

Currently, SQE is fighting CSU fee increases, program cuts, and class reductions.

To accomplish these goals, SQE has held protests, rallies, sit-ins, teach-ins, and walk-outs. Chapters of this organization are found on most CSU campuses.

Along with the California Faculty Association, the SQE has been actively pushing back against political forces seeking to privatize the CSU. SQE is committed to keeping the CSU system true to its original purpose: a publicly funded “people’s university” system.

...... the CSU Board of Trustees decided to table the proposed fee increases......

Natalie Dorado is active in the SQE and participated in the CSU hunger strike of May 2012 (protesting the budget cuts and fee increases).

Last fall, Natalie, Morgan Lim, and other members of the CSU chapter of SQE, collected student responses to the proposed fee increases and went to Long Beach to voice their strong opposition to these measures at the Board of Trustees meeting.

At that November meeting the CSU Board of Trustees decided to table the proposed fee increases. We like to think this decision was partly prompted by the work of Natalie, Morgan, and other student members of SQE.

If you are interested in joining with SQE in their efforts to protect the “People’s University,” send an e-mail to: csusb.sqe@gmail.com. Alternatively, you can speak with Natalie or Morgan if you see them in or out of class.

We’re on Facebook!!

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Scary Budget?  
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Recessions. These workers include both those who lost their jobs in the recession and new workers who have entered the labor force since then, including college students who have graduated the last couple of years.

Given the level of suffering among the working classes, the responsible thing to do is stimulate the economy even further and move the economy to full employment. As all principles of macroeconomics students know, this requires expansionary monetary and fiscal policy. Since the Fed has been actively engaged in expansionary monetary policy, that leaves the Federal government to pursue expansionary fiscal policy, that is increase—rather than decrease—the federal deficit and the debt.

“Austerity policies” at this point in time (i.e., cutting back on the deficit and the debt) will make things worse, not better. Indeed, if the “austerity hawks” had their way and were able to cut the deficit by a significant amount, the effect would be to reduce the rate of economic growth and increase unemployment.

This, in turn, would reduce even further the tax revenues flowing to the federal government and increase—rather than reduce—the deficit and debt.

In contrast, expanding the federal government’s deficit through expansionary fiscal policy would stimulate the economy, reduce the level of unemployment, increase the flow of tax revenues and, over time, reduce the size of the deficit and debt as a share of GDP.

It is also common to hear ill-informed politicians and pundits suggest that the federal government should live within its means, just like a household. This household analogy is false, however: the federal government is not like a household.

Unlike a household, the federal government can alter its budget (flow of tax revenues) by altering its spending. If the federal government were to increase its spending, it would stimulate the economy, cause unemployment to decrease and tax revenues to rise, improving the federal government budget. Obviously, this is not something individual households can do.

In any case, the facts of the deficit are far less scary than many proclaim. The best way to measure the “size” of the deficit is to calculate the ratio of the deficit to the size of the economy, measured by GDP. Any given dollar size of deficit has a smaller impact on the economy the larger the economy happens to be.

The table on the next page presents this ratio for years 2000 until 2011. It also includes estimates of this ratio for 2012 through 2017. This data came from the President’s Budget (see http://www.whitehouse.gov/omb/budget/)

As can be seen, the deficit did rise...
Scary Budget?

Continued from page 3
dramatically in 2009 as tax collections fell and government spending increased (partly due to stimulus spending programs). In 2009 this ratio reached -10.1%; that is, the deficit was a bit more than 10% of the size of the economy. Negative numbers represent deficits while positive numbers represent surpluses.

A deficit equal to 10.1% of the economy is, of course, a huge deficit. Yet, in the last couple of years this size of this deficit has fallen. And estimates of the future size of the deficit have it falling back to “normal” levels by 2017. Even if the size of the deficit is currently a concern, it seems that the normal workings of the federal budget process has it returning to levels that are not a major concern. Drastic remedies to “solve” the problem of the deficit do not seem necessary.

Further, as is implied above, a major cause for the large deficit in recent years is simply the economy, and not some out-of-control Congress spending like crazy.

The deficit typical grows during bad economic times, in part because bad economic times lead to lower tax collections (as people’s income has fallen) and greater federal spending as automatic stabilizers kick in. That the deficit rises in bad economic times is not a surprise.

Indeed, the figure to the right shows the relationship between the unemployment rate (which rises in bad economic times) and the size of the deficit (as a percent of GDP).

As can be seen, higher unemployment tends to make the deficit larger: as the unemployment rate grows this is associated with a more negative (deficit) budget stance.

Of interest is the deficit-unemployment rate combinations circled. The points circled in red represent the Great Recession. The point circled in blue represent the bad recession of the early 1980s. The red circled points seem quite consistent with the relationship seen in the rest of the graph. The points associated with the relationship in the early 1980s, however, seem somewhat different.

The reason the deficit didn’t rise so much in the early 1980s recessions is partly explained by the cause of the recession; this recession was partly caused by policymakers, in particular the Federal Reserve. Indeed, recession of the early 1980s (partly caused by the Fed) was desired by policymakers in order to get the high inflation of that time period under control. The...

...The Great Recession was different...

Congress was not particularly interested in passing stimulus programs to reduce the severity of the recession and, many thought, the Fed had some control to undo the recession by returning to expansionary monetary policy.

The Great Recession was different: policy makers didn’t anticipate or desired the huge recession starting in the late ’00s. In fact, policy makers were very concerned, if not scared, that the Great Recession might come to equal the Great Depression of the early 1930s. As a result, the Congress passed stimulus programs to fight the recession. As a result the federal deficit expanded greatly.

The graph below shouldn’t be misinterpreted. It is certainly true that the level of employment shapes the deficit (and surplus) and, in turn, the existence of a deficit (or surplus) shapes the unemployment rate.

Yet the pattern seen in the graph below mostly reveals the impact that a poor economy (and higher unemployment) has on the deficit. The graph does not indicate that a reduction in the deficit will reduce...

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Surplus or Deficit as Percent of GDP</th>
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<tbody>
<tr>
<td>2000</td>
<td>2.4</td>
</tr>
<tr>
<td>2001</td>
<td>1.3</td>
</tr>
<tr>
<td>2002</td>
<td>-1.5</td>
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<tr>
<td>2003</td>
<td>-3.4</td>
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<tr>
<td>2004</td>
<td>-3.5</td>
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<tr>
<td>2005</td>
<td>-2.6</td>
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<tr>
<td>2006</td>
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<tr>
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<td>-1.2</td>
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<td>2008</td>
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<tr>
<td>2010</td>
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![High Unemployment --> High Deficit](image-url)
unemployment. Indeed, economic
time says the opposite: a reduction in
the deficit, during bad economic times,
will tend to increase unemployment.

A further mistaken idea is that the
current federal budget problems are
related, in some way, to “entitlement
spending.” Entitlement programs
includes Social Security, Medicare, and
Medicaid. These programs have been
created by Congress so that if someone
meets the eligibility requirements for
the benefits these programs provide,
the person gets, is entitled to, the
benefits.

One implication of these entitlement
programs is that the spending on them
(in any given year) is determined
by the number of people who are
eligible for the programs (and not
by a decision by Congress to spend a
certain amount on these programs in
that year).

One can discuss whether it is good
idea, or not, to have program spending
determined by an entitlement progress
or by explicit Congressional decisions.
What is not open for discussion is the
(false) claim that entitlement spending
is a cause of current budget deficits. It
is not.

For instance, the Social Security
program actually helps fund other
federal programs as it earns more (in
OASDI taxes) than it pays in benefits.
Medicare and Medicaid are on less
solid financial footing, but these two
programs are not the cause of any
(real or imagined) federal government
budget problems.

Indeed, the causes of federal deficits
in recent years are: stimulus spending,
reduced revenue due to the Great
Recession, spending for various wars,
and reduced tax collections due to tax
cuts passed by Congress during the
Bush II years. Entitlement spending
has little to do with any recent federal
budget deficits.

But no matter what caused the
current large federal debt, a large
federal debt is a smaller problem than
the near 8% unemployment rate.
The high unemployment rate is
causing suffering now; the deficit and
debt are not causing real problems
now and no sign exists that the
current deficit and debt will cause
significant problems in the future.

And then we told them wealth
would ‘trickle down.’”
Tentative Fall 2013 Classes

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Tentative 2013-2014 Course Offerings

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Staying Informed about Department Events and News

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Chair of the Economics Department – mtoruno@csusb.edu