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FEDERAL SPENDING AND THE RECOVERY

A Statement by Directors, Trustees and Fellows of Economists for Peace and Security

Annandale-on-Hudson, New York - February 28, 2011 - The budget adopted by the House of Representatives on February 19, 2011 does not make economic sense and is likely to do more harm than good. First, the rationale for the measure is based on a false premise. Secondly, the budget cuts being proposed will impede and may end the recovery. If the recovery fails, unemployment will increase and the financial crisis could re-emerge.

The premise that the US government is broke is false. The US government has never defaulted and will not default on any of its financial obligations. Deficit spending is normal for a great industrial nation with a managed currency, and it has been our normal economic condition throughout the past century. History proves, and sensible economic theory confirms, that in recessions, increased federal spending - not balancing the budget - is the tried and true way to return to a path of sustained growth and high employment.

Eliminating waste in government spending is desirable. But that is not what the House proposes; indeed the House budget failed to address the largest waste in federal government, namely in the military, and the House failed to remove our most egregious subsidies, such as to oil companies. To adopt a policy of deep budget cuts at this stage of recovery is to surrender to irrational fears in the service of a political, not an economic, agenda.

As economists, as citizens, and as long-time critics of waste in government, we call on the Senate to reject the House proposal and to craft an alternative that places first priority on sustaining economic recovery and on dealing with the country's true economic and social problems, which include unemployment, home foreclosures, the fiscal crisis of states and cities, our infrastructure needs, energy security and climate change.

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