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

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HIGH UNEMPLOYMENT POSES GREATER RISK TO FUTURE GENERATIONS THAN GROWING GOVERNMENT DEBT, NEW STUDY FROM LEVY ECONOMICS INSTITUTE SAYS

ANNANDALE-ON-HUDSON, N.Y.—Many policymakers and pundits have decried the rapid growth in government deficits, and President Obama has created a bipartisan commission to look for ways to reduce mounting federal debt. A new study from the Levy Economics Institute of Bard College contends that fiscal stimulus plans are responsible for any increase in aggregate demand in 2009, and that without these plans and the deficit spending that financed them the recession would have been much deeper. He argues, furthermore, that continued growth in government deficits is necessary to reduce unemployment in the short term, and poses less risk to future generations than does unemployment at or above 10 percent.

In the new Strategic Analysis *Getting Out of the Recession?* Research Scholar Gennaro Zezza analyzes recent Congressional Budget Office (CBO) figures showing federal budget deficits decreasing from 9.9 percent of GDP in 2009 to 2.6 percent in 2015. Such a decrease implies that unemployment will continue to hover around 10 percent, says Zezza, while output will recover slowly, reaching a growth rate of 2.5 percent in 2014. He argues that only a growing public debt will bring unemployment down.

"A large and persistent government deficit is and will be needed in the short run in order to reduce the unemployment rate. This implies a growing public debt, which will be sustainable as long as interest rates are kept at the current low level—and a smaller cost to future generations than that implied by an unemployment rate persistently above 10 percent," writes Zezza. "The current recession has not been simply the result of a

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temporary, unexpected shock to the financial sector. Rather, it has been the inevitable consequence of an unbalanced growth path that the United States has followed over the past 20 years. It will therefore be extremely difficult to deal with its consequences—specifically, unemployment."

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Strategic Analysis: *Getting Out of the Recession?*

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