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MARKETS NOT GOING TO FIX WEAK ECONOMY, NEW LEVY STUDY SAYS

Continued Momentary and Fiscal Stimulus Needed to Address Serious and Widespread Weakness in Aggregate Demand, Scholars Find

ANNANDALE-ON-HUDSON, N.Y.— While the Federal Reserve forecasts a continued recovery in output growth for the U.S. economy, it has become almost a cliché to point out that improvement in jobs growth continues to lag behind. A new report from the Levy Economics Institute of Bard College looks at the risks and possibilities for the U.S. economy. It argues that the weakness in the labor market is serious and widespread, and there are few signs of recovery, given the recent inclination among policymakers toward drastic cuts in much-needed federal, state, and local programs.

In their new Public Policy Brief, *Will the Recovery Continue? Four Fragile Markets, Four Years Later*, Levy Institute President Dimitri B. Papadimitriou and Research Scholar Greg Hannsgen use a Keynesian approach and draw from the commentary of other observers to assess the strength and durability of the expansion that probably began in 2009. They focus on four broad groups of markets that have shown signs of stress for the last several years: financial markets, markets for household goods and services, commodity markets, and labor markets. The scholars find that, in particular, dangers and stresses in the financial and banking systems are presently very serious, and labor market data show every sign of a widespread and severe weakness in aggregate demand. Financial fragility, say the authors, is a far greater threat than inflation.

"To wit, critics of Keynesian policies argue that recent deficits and monetary policy actions will inevitably lead to an increase in inflation that not only angers consumers, but also ultimately raises nominal interest rates for mortgages and business loans," write

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Papadimitriou and Hannsgen, who find little evidence for inflation, other than in the price of oil and other commodities, despite aggressive monetary and fiscal policies. “Inflation at the level of the consumer remains very much in check, with no upward trend after the passage of three fiscal stimulus packages and more than two years of near-zero short-term interest rates.”

Papadimitriou and Hannsgen conclude by asserting that unless there is new resolve for effective government action on the jobs front, “drastic cuts in much-needed federal, state, and local programs will become the order of the day in the United States, as in much of Europe.” They add, “Unfortunately, such austerity measures are likely to cause problems out of proportion to the amount of money saved. There is no reason to pay such a large price in lost productivity and human well-being at a time when large deficits are still needed anyway.”

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Public Policy Brief No. 118: *Will the Recovery Continue? Four Fragile Markets, Four Years Later*

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