As suggested in the last issue of the
*Coyote Economist*, the December 1, 2010
report by the National Commission on
Fiscal Responsibility and Reform set
the stage for increased anxiety over the
Federal Government's Budget.

President Obama drew further atten-
tion to this issue in his January 25, 2011
State of the Union address by proposing
to reduce the deficit by more than $400
billion over the next decade by reducing
public spending. In the meantime, the
Republican Party has been pushing for
even more reductions in public spending
while continuing to insist on further tax
reductions.

But the growing clamor to reduce the
federal deficit is misguided at best and
malicious at worst.

The economy is still experiencing
considerable unemployment and poverty
as a result of the most dramatic recession
(from December 2007 to June 2009)
since the Great Depression of the 1930s.
Additionally, almost all of the states are
experiencing a severe budgetary crisis
that will further damage public education
and social infrastructure. At this time, the
continued on page 2
Continued from page 1

Government should be stimulating aggregate demand through more deficit spending, not cutting needed social expenditures.

Since the previous issue of the Coyote Economist explained some of the fallacies behind the current push to reduce the deficit, this article will

...the deficit has grown dramatically since 2007.

focus on the history of the Federal Government’s deficit and explain why the Federal Government’s budget is not analogous to a household’s budget.

The graph below shows the Federal Government’s deficit as a fraction of GDP for the fiscal years 1941 to 2011 (the figures for 2010 and 2011 are estimates).

Clearly, the deficit has grown dramatically since 2007. In fiscal year 2007 the deficit was 1.2% of GDP, while in fiscal year 2010 the deficit was 10.6% of GDP; and while the current deficit is not as dramatic as the World War II deficits of the 1940s, it is nevertheless larger than any deficit in the post-WWII era.

Yet, it’s important to not lose sight of the fact that a large portion of the current deficit is due to the dramatic decline in GDP that occurred during the most recent recession (see Coyote Economist, Spring 2010). That is, public deficits increase during recessions not because bureaucrats are being more wasteful and inefficient in the use of public funds but because tax receipts drop in tandem with a declining economy.

But, if in addition to this, the government increases public spending and reduces taxes as a way of stimulating aggregate demand, then the deficit will grow even further. Indeed, this is what happened: the currently large deficit is a result of both a poorly performing...continued on page 3

Staying Informed about CSUSB Department of Economics Events and News

If you're receiving the Coyote Economist, then you're on our mailing list and everything is as it should be. But, if you know of an Economics Major, or an Econ Fellow Traveler, who is not receiving the Coyote Economist through email, then please have him/her inform our Administrative Support Coordinator, Ms. Jacqueline Carrillo, or the Chair of the Economics Department, Professor Mayo Toruño. Our phone number is 909-537-5511.

You can stay informed by consulting:

Our Website - http://economics.csusb.edu/
Chair of the Economics Department – mtoruno@csusb.edu
Continued from page 2

economy and stimulative deficit spending.

It is tragic that rightist politicians are using the currently large deficit as an excuse to reduce the size of the federal government’s budget.

If they are successful in implementing this demand, then the predictable effect will be a slowing down or reduction in aggregate demand and, consequently, a slowing down of the economy, or another recession, and higher unemployment and poverty. And given that almost all fifty states are already slashing their budgets to deal with their deficits, the impact on the economy from such a policy could be very severe.

The well-intentioned but naive demand that government “live within its means,” so frequently heard in recent days, assumes that the public budget is analogous to a household’s budget. But this is fallacious.

A household, for example, cannot affect its income by altering its expenditures, nor would one expect a household to become wealthier by reducing its income while simultaneously increasing its expenditures. Yet, this can and does occur with the government’s budget.

If the Federal Government increases its spending while holding taxes constant (i.e., it engages in deficit spending), then aggregate demand will grow, causing national income and employment to grow and, as a result, tax receipts to increase. In the short-term the government will be operating with a deficit, but over the longer-term, the deficit will shrink as tax receipts increase brought on by the growth in national income and employment occasioned by the original stimulative public deficit.

Now is not the time to be demanding a reduction in the federal deficit. This can and should be held off until the economy is at full employment. But, by then, and assuming rightist politicians don’t have their way, the deficit will be much smaller anyway.

We’re on Facebook!!

Don’t forget to check us out on Facebook and say that you like us!

You can find the Economics Department at The CSUSB Department of Economics Facebook page.

Joining us on Facebook is an important way of keeping up with Departmental news and Department events as well as getting information on political economy. Look for us on Facebook...we’re easy to find!

Economics on the Internet

The following Internet sites provide excellent economic information, analysis, data and history and should be consulted on a periodic basis:

- National Bureau of Economic Research (NBER) at http://www.nber.org/. In addition to providing excellent analysis of various economic issues, the NBER is the official keeper of U.S. business cycle expansions and contractions in the Data/Business Cycle Dates section of the NBER webpage.

- FRED (Federal Reserve Economic Data) at http://research.stlouisfed.org/fred2/. This site is provided by the Federal Reserve Bank of St. Louis and provides excellent data on money and banking, GDP and its components, prices, employment, exchange rates, and much more. In addition, the data can be obtained on mobile devices such as smart phones and iPads.

- U.S. Census Bureau at http://www.census.gov/. This site provides a wealth of information on population and households, income and poverty measures, business and industry, economic indicators, and much more.


- The World Bank at http://www.worldbank.org/. This site, in the research section, provides national and international economic and social statistics.

Among the popular economics blogs are:

- Economist’s View at http://economistsview.typepad.com/
- Calculated Risk at http://www.calculatedriskblog.com/
- Angry Bear at http://www.angrybearblog.com/
- Econospeak at http://econospeak.blogspot.com/
Omicron Delta Epsilon (ODE)

ODE is an International Honor Society in Economics that encourages devotion to the advancement of economics and to the scholarly effort to make freedom from want and deprivation a reality for all mankind. ODE is one of the world's largest academic honor societies and currently has 652 chapters throughout the world.

ODE was established in 1963 as a result of a merger of two honor societies, Omicron Delta Gamma and Omicron Chi Epsilon. Omicron Delta Gamma was founded in 1915 by John Roger Commons and Frank W. Taussig, while Omicron Chi Epsilon was founded in 1956 by Alan A. Brown.

If you have taken a minimum of 20 units in economics and have an overall GPA of 3.0 and an economics GPA of 3.0, then you can join ODE. Applications to join ODE are available from Professor Mayo Toruño or the Economics Department Office (SB-354A). The initiation fee of $32 covers a membership scroll and a one-year subscription to the American Economist. The deadline to join ODE for this academic year is April 29.

### Tentative FALL 2011 Schedule of Classes

<table>
<thead>
<tr>
<th>#</th>
<th>SEC</th>
<th>TITLE</th>
<th>DAYS</th>
<th>HOURS</th>
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<td>200</td>
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### Tentative Winter and Spring 2012 Classes

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