Coyote Economist

News from the Department of Economics, CSUSB

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Econ Students Push Back on Proposed CSU Fee Increases

Last November Natalie Dorado and Morgan Lim joined other students at the CSU Board of Trustees Meeting to protest a series of proposed fee increases. The CSU had proposed a new set of fee increases (Graduation Incentive Fee, Third-Tier Tuition Fee, and Course Repeat Fee) intended to raise revenues for the CSU while "encouraging" students to graduate at a faster rate.

The proposed Graduation Incentive Fee will be a supplemental fee to be imposed on "super seniors," students who had taken more than 240 quarter units but had yet to graduate. The proposed Third-Tier Tuition fee will be an extra fee imposed on students taking more than 18 units per quarter. And, the proposed Course Repeat fee was supposed to be an extra

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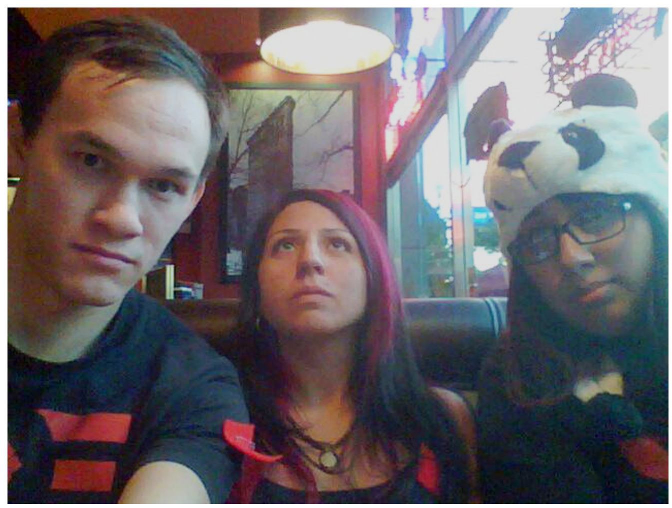

Morgan Lim, Natalie Dorado and Yesenia Ramirez after November 2012 CSU Board of Trustee meeting

Inside this Issue:

Cliffs, Ceilings, and the Federal Budget: Scary...or Not?

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 achieves 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

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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.

... "Austerity Policies" will make things worse, not better...

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

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Economists Participating in CSUSB Model United Nations

Economics majors are part of CSUSB's Model United Nations team, which will be participating in the National Model United Nations Conference in New York City in March of 2013. This will be the 37th year that CSUSB will be participating in the National Model United Nations Conference. At this Conference, one group of CSUSB students will be representing Turkey while another group will be representing Palestine.

In addition, the CSUSB Model Arab League will be participating in both the Southern California and Northern California Model Arab League Conferences to be held in April of 2013. This will be the 21st year of participating for the CSUSB Model Arab League. In both Model Arab League conferences, the CSUSB students will be representing Saudi Arabia.

Listed below are the Economics students who will be participating in the Model United Nations, the Model Arab League, or both:

Permanent Mission of Turkey to the United Nations, Committee Assignments:
- **Kevin Gema** (Political Science & Economics): General Assembly First Committee
- **Catherine Ou** (Economics): General Assembly Second Committee
- **Josh O'Handley** (Political Science & Economics): General Assembly Fourth Committee
- **Matthew Becker** (Economics & Administration - Real Estate Concentration): United Nations Conference on Trade and Development (UNCTAD)

Permanent Observer Mission of the State of Palestine to the United Nations, Committee Assignments:
- **Blanca Ortega** (Social Science - Economics): General Assembly Third Committee
- **Chi Truang** (Economics): Council of Social Affairs Ministers

Scary Budget?

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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.

... a major cause for the large deficit is simply the economy...

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.

Federal Budget Surplus or Deficit

Fiscal Year	Surplus or Deficit as Percent of GDP
2000	2.4
2001	1.3
2002	-1.5
2003	-3.4
2004	-3.5
2005	-2.6
2006	-1.9
2007	-1.2
2008	-3.2
2009	-10.1
2010	-9.0
2011	-8.7
2012 estimate	-8.5
2013 estimate	-5.5
2014 estimate	-3.9
2015 estimate	-3.4
2016 estimate	-3.4
2017 estimate	-3.0

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 policy-makers, in particular the Federal Reserve. Indeed, recession of the early 1980s (partly caused by the Fed) was desired by policy-makers in order to get the high inflation of that time period under control. The 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...

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

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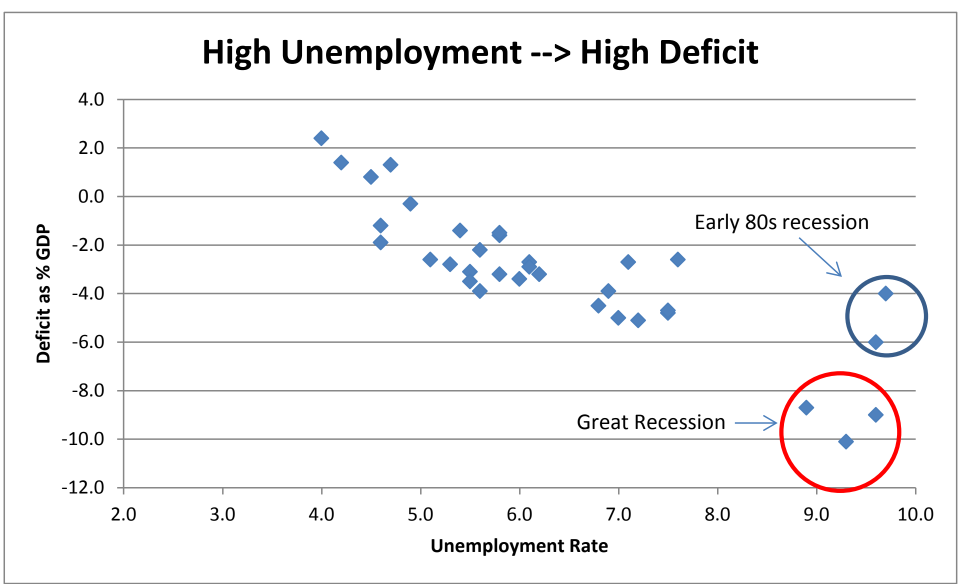

Scary Budget?

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unemployment. Indeed, economic theory says the opposite: a reduction in the deficit, during bad economic times, will tend to increase unemployment.

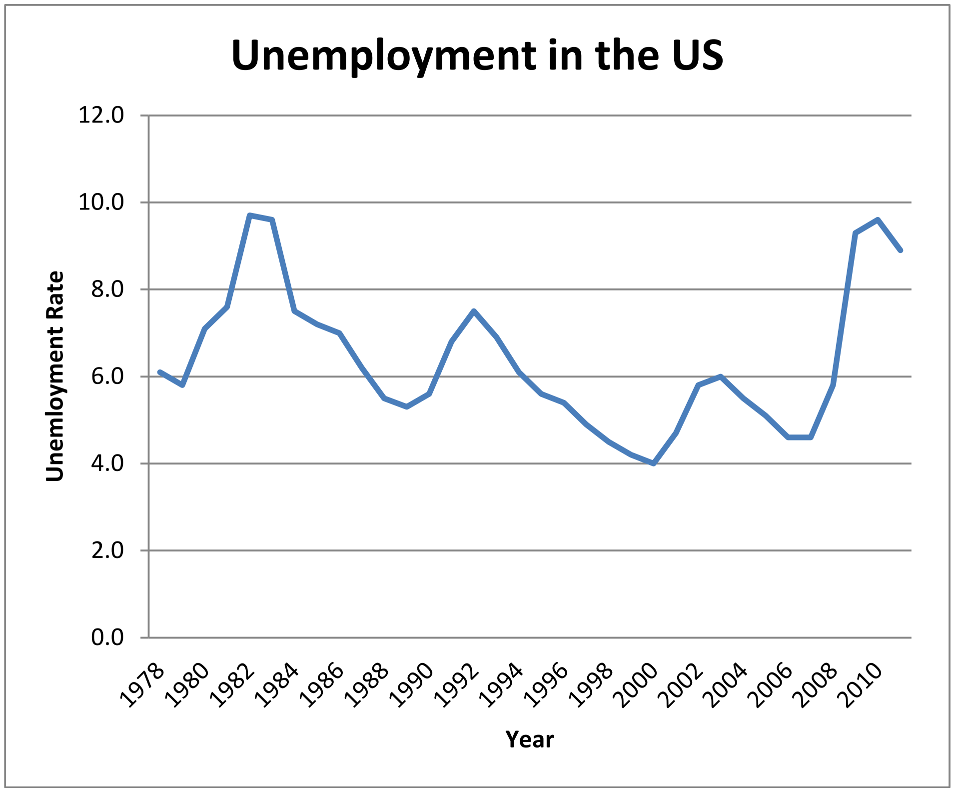
A further mistaken idea is that the current federal budget problems are related, in some way, to "entitlement spending." Entitlement programs includes Social Security, Medicare, and Medicaid. These programs have been created by Congress so that if someone meets the eligibility requirements for the benefits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

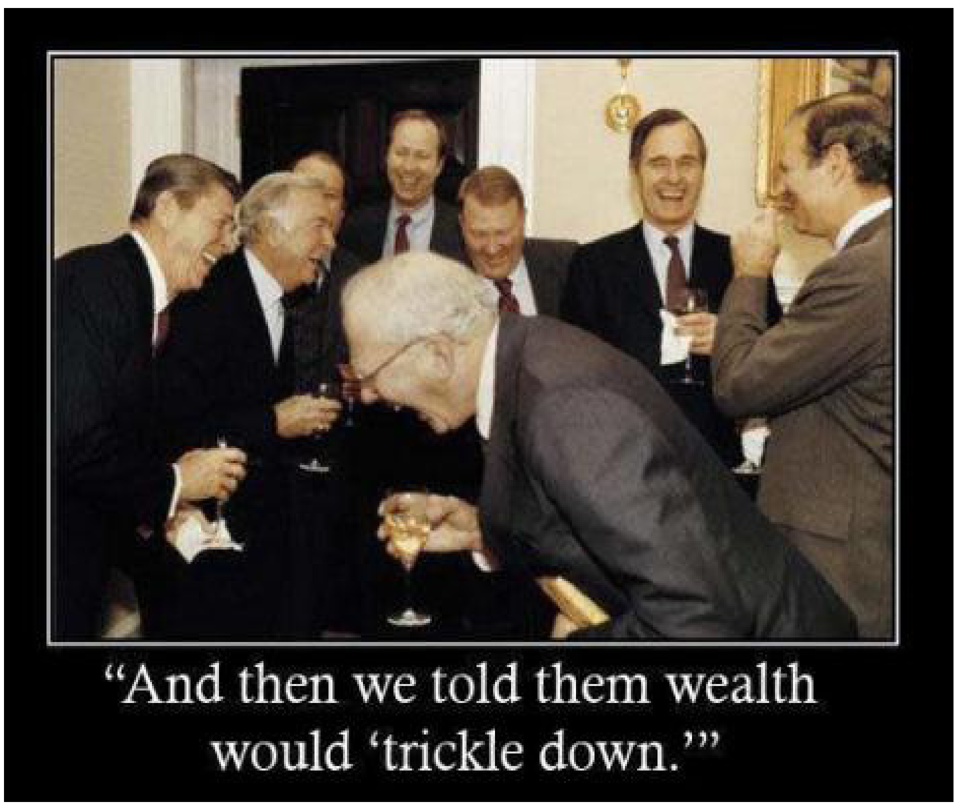
Indeed, the causes of federal deficits in recent years are: stimulus spending, reduced revenue due to the Great Recession, spending for various wars, and reduced tax collections due to tax cuts passed by Congress during the Bush II years. Entitlement spending has little to do with any recent federal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

Found on the Internet:



TENTATIVE **Fall 2013** Classes

#	SEC	TITLE	DAYS	HOURS	AM/PM	INSTRUCTOR
200	01	PRIN MICROECON	MWF	1040-1150	AM	STAFF
200	02	PRIN MICROECON	MWF	0120-0230	PM	STAFF
200	03	PRIN MICROECON	MW	0600-0750	PM	STAFF
200	04	PRIN MICROECON	TR	1000-1150	AM	ALDANA
200	05	PRIN MICROECON	TR	0200-0350	PM	STAFF
202	01	PRIN MACROECON	MWF	0920-1030	AM	STAFF
202	02	PRIN MACROECON	MWF	0120-0230	PM	STAFF
202	03	PRIN MACROECON	TR	1000-1150	AM	STAFF
202	04	PRIN MACROECON	TR	0200-0350	PM	NILSSON
202	05	PRIN MACROECON	TR	0600-0750	PM	KONYAR
302	01	INTER MICROECONOMICS	MW	0400-0550	PM	TORUNO
335	01	TOOLS OF ECON ANALYSIS	MW	0400-0550	PM	STAFF
410	01	MONEY & BANKING	TR	1200-0150	PM	PIERCE
480	01	QUANTITATIVE METHODS	TR	0200-0350	PM	KONYAR
530	01	THE GOOD ECONOMY	TR	1000-1150	AM	NILSSON
600	01	PROSEMINAR IN ECON	M	0600-0950	PM	TORUNO
SSCI320		UNDERSTANDING CAP'ISM	TR	0800-0950	AM	PIERCE

TENTATIVE 2013-2014 Course Offerings

Fall	**Winter**	**Spring**
Econ 200	Econ 200	Econ 104
Econ 202	Econ 202	Econ 200
Econ 302	Econ 300	Econ 202
Econ 311	Econ 311	Econ 333
Econ 335	Econ 322	Econ 335
Econ 410	Econ 360	Econ 357
Econ 480	Econ 430	Econ 372
Econ 530	Econ 443	Econ 410
SSCI 320	Econ 460	Econ 445
	Econ 475	Econ 450
	Econ 540	Econ 490
		Econ 630

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Chair of the Economics Department – mtoruno@csusb.edu