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Petition 2000 For the Record
Special Report 2000/01

Mathew Forstater
Director, CFEPS

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Petition 2000

Special Report No. 00/01

For the Record

Mathew Forstater ([info](#))

SPECIAL REPORT 00/01

PETITION 2000: FOR THE RECORD

April 11, 2000



Dear Colleague,

The Center for Full Employment and Price Stability has drafted the enclosed petition which we are distributing to a variety of economists. We intend to have the signed document published in the media, as well as read into the Congressional Record. Please read it, sign it if you are so inclined, and return it to us either by e-mail, fax, or regular mail. You may also forward it to anyone who you think may be interested in contributing their

signature. We feel that the time is short to respond to a potentially severe crisis. Let us know if you have any questions or comments.

Thank you for your thoughtful consideration.

Sincerely,

Mathew Forstater
Director

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Petition Statement:

We, the undersigned, hereby go on record stating that:

* the current U.S. policy of allowing a federal budget surplus is an extremely high risk strategy that will likely end in a severe and prolonged recession, and furthermore that,

* lowering interest rates (the most likely initial policy response to an economic slowdown) by itself cannot be relied upon to restore prosperity (as the Japanese economy has demonstrated).

Therefore, it is recommended that the federal government relax its fiscal stance by cutting taxes and/or increasing spending at the earliest sign of economic weakness.

Background to Petition Statement:

Budget surpluses occur as tax revenues exceed government spending, reducing non-government nominal wealth by an amount equal to the size of the surplus. (A reduction of nominal wealth due to a budget surplus primarily takes the form of a reduction in outstanding treasury debt.) Therefore, the Congressional Budget Office's projection of a \$3 trillion surplus over the next 15 years is simultaneously projecting that net private nominal wealth will be reduced by the same \$3 trillion.

Can our economy withstand such bloodletting? Our own history suggests this is highly improbable. The U.S. has experienced six depressions in its history and every one followed close on the heels of federal government surpluses. The last two Treasury buy backs of its debt were in 1928 and 1930. For a recent example, we can again look to the experience of Japan, whose economic deterioration followed government budget surpluses at the end of the 1980s. Furthermore, after more than four years of near 0% interest rates, monetary policy has not succeeded in restoring economic growth.

Many point to the long and robust expansion as evidence of the wisdom of deficit-cutting and budget surpluses. However, our expansion is fully explained by unprecedented private sector deficits (private sector spending in excess of income). Currently, the domestic private sector is deficit spending an amount equal to 5% of GDP. This is already the largest private sector deficit the U.S. has ever experienced. For continued economic growth in the presence of government surpluses, the non-government sector must continue to spend beyond its income.

Logic does not permit that this excess consumer spending can increase indefinitely. As federal government surpluses reduce non-government wealth, aggregate demand will stall and the U.S. will lapse into a full-blown recession. CBO projections will not materialize. Instead, tax revenues will slow and transfer payments will increase due to the increasing number of unemployed, sending the budget into deficit.

Signator signature: _____

Signator name (printed): _____

Signator affiliation: _____

SIGNED BY:

1. **William Brown**—University of Alaska - Southeast at Juneau
2. **Warren Mosler**—AVM & III Finance
3. **Mathew Forstater**—Center for Full Employment and Price Stability
4. **L. Randall Wray**—Center for Full Employment and Price Stability
5. **Pavlina R. Tcherneva**—Center for Full Employment and Price Stability
6. **Paul Davidson**—holly Chair of Excellence in Political Economy, University of Tennessee
7. **Dr. Geoffrey E. Schneider**—Bucknell University
8. **Marc R. Tool**—Professor Emeritus of Economics, saclink.csus.edu, Sacramento
9. **Andrew Larkin**—Professor of Economics, St Cloud State University
10. **Sumner M. Rosen**—Professor emeritus, Columbia University; Vice-Chair, National Jobs For All Coalition

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