
Budget cuts hindering economic recovery

By [Harry J. Holzer](#) - 06/09/11 05:55 PM ET

Last week, you could hear a collective sigh across Capitol Hill, and across the nation. The May employment numbers from the Department of Labor are disappointing, and confirm the fears of many analysts that the job market is once again weakening. While too much should never be made of any single month's data, all of the recent statistics (on housing, manufacturing, consumer sentiment and unemployment insurance claims) point in the same worrisome direction, and suggest a slowdown is at hand.

While America continues to enjoy at least some economic and employment growth, it might be too slow to substantially lower the unemployment rate. Measured unemployment could even rise, as millions of workers who left the workforce temporarily over the past two years (and therefore were no longer counted among the unemployed) now re-enter the labor market in search of jobs, and drive up the jobless rate.

Can anything be done? Unfortunately, there is no quick fix to this problem. As economists Carmen Reinhart and Ken Rogoff have recently pointed out, economies do not recover quickly from recessions caused by the bursting of financial bubbles; the debt and overhang from excess housing and other assets make it hard to restart economic activity.

But at a minimum, no harm should be done. Whatever opportunities exist in the form of fiscal and monetary policy to spur overall economic activity should be used. Continued assistance to the unemployed and low-income groups should remain available, especially in the form of expanded unemployment insurance. And investments in the skills of the future workforce should be strengthened, since many workers (especially the long-term unemployed) might not have the skills needed to fill good-paying jobs that become available in the coming years.

Unfortunately, economic policy seems to be moving in a very different direction. Cutting federal spending is now an obsession, even though it provides needed economic stimulus and pays for important services that help the poor and unemployed. Ongoing cuts at the state and local levels are already limiting job growth each month, and unwise spending cutbacks at the federal level might soon reinforce this trend.

Of course, the enormous, ongoing federal budget deficits should be reined in. But the deficit is a long-term problem, mostly reflecting unsustainable projected increases in the costs of federal health and retirement programs, and not having enough tax revenue relative to the spending for programs that Americans want.

Not doing harm requires leadership. Yet instead of honest discussions about how to reform our retirement

programs or generate needed increases in tax revenues in the future, Congress repeatedly falls back on the political expedience of cutting nondefense discretionary spending that currently constitutes only about one-eighth of the federal budget (and is at its lowest level in many decades).

Such cutbacks will weaken overall demand and further slow the economic recovery. Services and supports for the poor and unemployed will tighten. And, perhaps worst of all, such cuts inevitably fall heavily on areas such as employment and workforce development services, which are needed to help make sure the unemployed can find appropriate jobs as the economy recovers. America already invests less in such services than virtually any other industrial country in the world.

If anything, recent research suggests that such investment in workforce development is cost-effective. Job training targeted towards key growing sectors of the economy, with employers who are actively engaged and providing jobs to trainees, has been particularly successful at raising the skills and earnings of the disadvantaged. Newly popular "career pathway" models are very promising ways of combining education and paid work experience in generating skilled employees. Some states have made progress building broader systems that combine higher education, workforce and economic development, to generate the skills among workers that might be short supply as economic recovery takes hold.

But all such efforts will be undercut by ongoing budget reductions in the workforce area. Instead, Congress and the president should honestly consider sensible long-term reforms in entitlement and defense spending and needed revenue increases, while continuing to provide supports for the unemployed and investments in the future skills of our workers. The already severe costs of the Great Recession should not be made worse by unwise policy choices.

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