#### Lawmakers just passed a new bipartisan transportation spending bill, two implications 1) link not unique – bill should’ve triggered the impact and 2) bipart guarantees future cooperation on such spending measures proves link is inevitable

**Laing, 7/16**

[Keith Laing, 7/16/2012, national political journalist, congressional reporter at the Hill, The Hill <http://thehill.com/blogs/transportation-report/highways-bridges-and-roads/238161-obama-touts-highway-bill-as-modest-sign-of-cooperation-from-congress>]

President Obama said Monday that lawmakers' recent approval of a $105 billion transportation spending bill was a sign of possible cooperation in the future between him and Republicans in Congress. ¶ The transportation bill, which was the first new road and transit spending deal approved since 2005, was signed by Obama earlier this month after months of contentious debate between Democrats and Republicans in Congress. ¶ Asked at a town-hall meeting in Cincinnati Monday by a 15-year-old girl if he would create a job for her unemployed father who works in construction, Obama said the transportation bill would keep people in the industry on the job.¶ "So far I have not gotten a positive response from members of Congress on the other side of the aisle," Obama said after ticking off a list of pieces of his jobs agenda he said was being blocked by Congress before turning to the transportation bill. ¶ "This was a sign of some modest cooperation, so it makes me feel a little bit encouraged — they did just pass a transportation bill that at least wouldn't lay off more construction workers," Obama said. ¶ ¶ The passage of the transportation has been used by members of both parties to tout bipartisanship in Congress after a prolonged period of gridlock. ¶ "I think the Senate the last couple of months is beginning to operate like it used to," Senate Minority Leader Mitch McConnell (R-Ky.) said during a news conference as negotiations on the transportation bill picked up steam. ¶ "There's been some bipartisan stuff going on here," his counterpart, Senate Majority Leader Harry Reid (D-Nev.), said separately at the time.¶

#### Fiscal irresponsibility is not cause of downgrades – the dysfunctional political system is

**The Lowell Sun, 8/6**

[8/6/2012, <http://www.lowellsun.com/business/ci\_21245632/year-later-u-s-economy-still-chugging>]

WASHINGTON (AP) -- The rating agency Standard & Poor's stunned the world a year ago by stripping the U.S. government of its prized AAA bond rating.

The downgrade of long-term U.S. Treasurys threatened to sow chaos in financial markets, driving up U.S. interest rates, pushing the dollar down, scaring investors away from stocks and into that traditional refuge for the fearful: gold. The Dow Jones industrials dropped 635 points in panicked selling the first day of trading after the S&P announcement.¶ A year later, S&P's historic move looks like a nonevent. Long-term interest rates are sharply lower, the Dow industrials reversed course and is now up more than 1,600 points. The dollar has rallied, and gold prices are down from where they were when S&P lowered the boom.¶ Rival rating agencies Moody's and Fitch have said they might downgrade the U.S. government's blue-chip rating, too, though neither has followed S&P's lead.¶ It is difficult to imagine a more decisive repudiation of S&P's warning that the U.S. government might not be able to pay its bills.¶ But things aren't so simple. After all, the rating agency downgraded federal debt largely because it feared that America's dysfunctional political system couldn't deliver credible plans to reduce the federal government's debt. S&P decried American "political brinksmanship" and concluded that "the differences between political parties have proven to be extraordinarily¶ Advertisement¶ difficult to bridge."

#### US is the best place to invest – everywhere else is financial disaster

**The Lowell Sun, 8/6**

[8/6/2012, <http://www.lowellsun.com/business/ci\_21245632/year-later-u-s-economy-still-chugging>]

WASHINGTON (AP) -- The rating agency Standard & Poor's stunned the world a year ago by stripping the U.S. government of its prized AAA bond rating.

Despite S&P's warnings and the political stalemate, investors still want U.S. Treasurys. Given economic turmoil in Europe and uncertainty elsewhere, U.S. government debt and U.S. dollars look like the safest bet around.¶ That is why the interest rate, or yield, on 10-year Treasury notes has fallen from 2.58 Aug. 5, 2011 to 1.57 percent Friday. The Dow Jones industrials, which initially fell after S&P's move, are up 14 percent since the downgrade. The dollar is up 6 percent against the currencies of America's major trading partners. And gold prices have dropped 3 percent to $1,609.30 an ounce over the past year.¶ Eleven countries still carry S&P's AAA rating, including Britain, Germany and Australia.¶ But the United States owns what amounts to the world's currency. Global business is largely done in dollars, which keeps demand for the U.S. currency high and reduces the likelihood of a dramatic drop.¶ And as bad as things are in the United States, they are worse elsewhere, particularly in Europe. For the United States, the day of reckoning over the federal debt is probably years off: America's budget problems will worsen gradually as the baby-boom generation retires and starts collecting Medicare and Social Security benefits.¶ "We have a fiscal challenge that is massive, but it's a little ways away," says Phillip Swagel, a University of Maryland economist who served in President George W. Bush's Treasury Department. "With Europe, the fire is at their doorstep."¶ Bond investors are demanding punishingly high interest rates from Spain and Italy. They fear that Spain can't afford to rescue its troubled banks and its debt-ridden regional governments. And they worry that Italy can't generate the economic growth and the tax revenue necessary to keep up with the cost of caring for its aging population.¶ The larger worry is that financial pressure will eventually force countries like Spain and Italy to abandon the euro currency. The breakup of the 17-country eurozone could cause financial chaos as countries replaced sturdy euros with local currencies of dubious value.¶ So investors have fled Europe for the safety of U.S. Treasurys.¶ The Federal Reserve has also helped blunt the impact of S&P's downgrade. Under its Operation Twist, which began last year and will continue through the end of 2012, the Fed has been selling its holdings of short-term Treasurys and buying $667 billion in long-term Treasurys, pushing long-term yields lower.¶ Investors also shrugged off S&P's warning because the rating agency doesn't know anything they don't.¶ "S&P has no monopoly on wisdom," says Nigel Gault, chief U.S. economist at IHS Global Insight. "The market will make its own judgment on U.S. debt. ... Ultimately, the pressure (to bring the federal debt under control) will come from the markets, not from the rating agencies."

#### US economy improving but weak – jobs are key

**Rugaber and Wiseman, 8/6**

[Christopher S. Rugaber: Economics Writer for AP, Paul Wiseman: Economics Writer for AP, 8/6/2012 Associated Press >> Manufacturing Business Technology Magazine <http://www.mbtmag.com/news/2012/08/economy-generates-163k-jobs-sign-resilience>]

WASHINGTON (AP) — The U.S. economy generated jobs last month at the fastest pace since February, a sign it is resilient enough to pull out of a midyear slump and grow modestly even as the rest of the world slows down.¶ The 163,000 jobs employers added in July ended three months of weak hiring. But the surprising gains weren't enough to drive down the unemployment rate, which ticked up to 8.3 percent last month from 8.2 percent in June — the 42nd straight month the jobless rate has exceeded 8 percent. The United States remains stuck with the weakest economic recovery since World War II.¶ The latest job numbers, released Friday by the Labor Department, provided fodder both for President Barack Obama, who highlighted improved hiring in the private sector, and Republican challenger Mitt Romney, who pointed toward higher unemployment.¶ "It's not especially weak, but it's not especially strong," said Scott Brown, chief economist at the investment firm Raymond James.¶ Investors focused on the positive. The Dow Jones industrials surged 217 points.

#### Economy low – low hiring payback and looming fiscal cliff means it’s try or die for the aff

**Rugaber and Wiseman, 8/6**

[Christopher S. Rugaber: Economics Writer for AP, Paul Wiseman: Economics Writer for AP, 8/6/2012 Associated Press >> Manufacturing Business Technology Magazine <http://www.mbtmag.com/news/2012/08/economy-generates-163k-jobs-sign-resilience>]

Three more monthly jobs reports will come out before Election Day, including the one for October on Friday, Nov. 2, just four days before Americans vote.¶ No modern president has faced re-election when unemployment was so high. President Jimmy Carter was bounced from office in November 1980 when unemployment was 7.5 percent.¶ In remarks at the White House, Obama said the private sector has added 4.5 million jobs in the past 29 months. But he acknowledged there still are too many people out of work. "We've got more work to do on their behalf," he said.¶ Romney focused on the increase in the unemployment rate, as did other Republicans. "Middle-class Americans deserve better, and I believe America can do better," he said in a statement.¶ The economy is still struggling more than three years after the Great Recession officially ended in June 2009. The collapse of the housing market and the financial crisis that followed froze credit, destroyed trillions of dollars in household wealth and brought home construction to a halt. Consumer spending, which accounts for 70 percent of economic output, remains weak as Americans pay down debts and save more.¶ From April through June this year, the economy expanded at a listless 1.5 percent annual pace, a slowdown from the January-March pace of 2 percent.¶ The job market got off to a strong start in 2012. Employers added an average 226,000 a month from January through March.¶ But the hiring spree was caused partly by an unseasonably warm winter that allowed construction companies and other firms to hire earlier in the year than usual, effectively stealing jobs from the spring. The payback showed up as weak hiring — an average 73,000 a month — from April through June.¶ Then came the 163,000 new jobs in July, beating the 100,000 economists had expected.¶ Now that the warm weather effects have worn off, economists expect job growth to settle into range of 100,000 to 150,000 a month.¶ That would be consistent: The economy has added an average of 151,000 jobs a month this year. But that hasn't been enough to bring unemployment down. At 8.3 percent, unemployment was as high in July as it had been in January.¶ The unemployment rate can rise even when hiring picks up because the government derives the figures from two different surveys.¶ One is called the payroll survey. It asks mostly large companies and government agencies how many people they employed during the month. This survey produces the number of jobs gained or lost.¶ The other is the household survey. Government workers ask whether the adults in a household have a job and use the findings to produce the unemployment rate. Last month's uptick in joblessness was practically a rounding error: The unemployment rate blipped up from 8.22 percent in June to 8.25 in July.¶ Worries have intensified that the U.S. economy will fall off a "fiscal cliff" at the end of the year. That's when more than $600 billion in tax increases and spending cuts will kick in unless Congress reaches a budget deal.¶ The draconian dose of austerity is meant to force Republicans and Democrats to compromise. If they can't and taxes go up and spending gets slashed, the economy will plunge into recession, contracting at an annual rate of 1.3 percent in the first six months of 2013, according to the Congressional Budget Office.

#### Stimulus fails – debt explosion and high unemployment

**Bandow, 8/6**

[Doug Bandow, Forbes contributor on domestic and international policy, former Copley News Service Columnist, Senior fellow at Cato Institute, Special Assistant to Ronald Reagan, Senior Policy Analyst for Reagan, 8/6/12 <http://www.forbes.com/sites/dougbandow/2012/08/06/federal-spending-killing-the-economy-with-government-stimulus/>]

President Barack Obama’s presidency hangs in the balance after another disappointing employment report. He continues to advocate new government “stimulus” programs to boost his reelection campaign. However, Washington is awash in government “stimulus,” without effect. Only productive private investment will spark economic revival.

When both financial and economic crises hit, President George W. Bush backed a $170 billion “stimulus” bill and then massive industry bail-outs—of banks, Wall Street, automakers, and the housing industry. President Obama accelerated the latter efforts while adding his own $825 billion American Recovery and Reinvestment Act in early 2009. Several smaller “stimulus” efforts costing well over $100 billion followed.¶ As a result, federal outlays and debts exploded. In 2008 federal red ink was “only” $479 billion. Since then Uncle Sam’s annual deficit has exceeded a trillion dollars. In addition, the Federal Reserve launched a massive “stimulus” campaign—costly bail-outs and mortgage purchases, near zero interest rates, and two rounds of “quantitative easing.” Economist Joseph Stiglitz noted earlier this year that “Beginning in 2008, the balance sheet of the Fed doubled and then rose to three times its earlier level.”¶ None of these efforts have spurred economic growth. In fact, unemployment soared, hitting ten percent. The jobless rate is still over eight percent despite administration promises that it would fall below six percent by last April.¶ Some “stimulus” advocates blame state and local spending which, they claimed, fell. However, Edward Lazear, former chairman of the President’s Council of Economic Advisers, pointed out that while real government spending was down a little in 2010 over 2009, GDP growth rates were higher. Outlays were up in 2011 while GDP growth dropped. Lazear added: “The White House forecasts that government spending in 2012 will exceed 2011 levels by 5 percent and will be 27 percent higher than it was in 2008.”¶ If government could spend America to prosperity, good times would have arrived long ago.

#### Keynesian theory false – historical data

**Bandow, 8/6**

[Doug Bandow, Forbes contributor on domestic and international policy, former Copley News Service Columnist, Senior fellow at Cato Institute, Special Assistant to Ronald Reagan, Senior Policy Analyst for Reagan, 8/6/12 <http://www.forbes.com/sites/dougbandow/2012/08/06/federal-spending-killing-the-economy-with-government-stimulus/>]

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A similar debate is occurring in Europe, with the contest presented as “austerity” versus “growth.” Yet many of the nations which practiced austerity have grown the fastest. Germany remains the continent’s powerhouse even though its post-2008 stimulus was far less relative to its GDP than in the U.S. and other European states. Both Germany and Sweden enjoyed strong growth as they brought their budgets into closer balance.¶ My Cato Institute colleague Michael Tanner also pointed to the Baltic states of Estonia, Latvia, and Lithuania. All cut government outlays; all are growing. Canada and Switzerland similarly rejected profligacy as policy. He wrote: “All these countries are following the successful examples set by other nations such as Chile, Ireland, and New Zealand in the 1980s and ‘90s, and Slovakia from 2000 to 2003.”¶ In contrast, Portugal’s Finance Minister, Vitor Gaspar, warned the New York Times: “My country definitely provides a cautionary tale that shows that, in some instances, short-run expansionary policies can be counterproductive.” He added: “There are some limitations to the intuitions from Keynes.” In fact, Portugal may be headed for a second European Union bail-out.¶ Economic growth requires good spending, not more spending. After all, Washington could pay every American $10,000 to dig a hole in his or her neighbor’s yard and then another $10,000 to fill it in. It would be a ludicrous policy, yet Keynes argued that the unemployed would be better off if paid by the government to “dig holes in the ground.”¶ Most jobs bills are little different than paying people to dig holes. Politics, not economics, dominates. University of Chicago economist Raghuram Rajan admitted “When people say austerity is not the answer, fine, if you have great things to spend on, let us know what they are.” The ARRA ignited a lobbying frenzy, turning the measure into a Christmas tree for legislators to hang long desired projects and favored social spending. By one estimate the bill “created” jobs at an average cost of $278,000. The cost of some individual jobs exceeded a million dollars each.¶ Tom Evslin, who coordinated Vermont’s federal “stimulus” money, concluded that “much of the money ended up continuing bloated programs rather than providing a transition to a sustainable future.” He pointed to broadband and energy programs, where private investment “dried up as companies waited to see if they could build with taxpayer money. Entrepreneurial effort turned from innovation to grant-grabbing.” Last September the New York Times reported that critics “say the money has gone to areas where it is not needed, to promote broadband where it already exists and for industrial parks designed to attract business and jobs that may never materialize.”¶ The heart of the case for government spending as stimulus is the fabled Keynesian “multiplier.” John Maynard Keynes claimed that after government spent a dollar others would spend it again and again, “multiplying” the economic effect. Pay me $20,000 to dig and fill two holes, and I will buy things. In turn, my sellers will buy things. And on it will go.¶ It is a dubious theory. First, it costs government money to tax and spend. Observed Harvard economist Robert Barro, “it is wrong now to think that added government spending is free.”¶ Second, the theory presumes that government will use the resources productively. Explained Barro: The argument “implicitly assumes that the government is better than the private market at marshaling idle resources to produce useful stuff. Unemployed labor and capital can be utilized at essentially zero social cost, but the private market is somehow unable to figure any of this out.” Economist Dwight Lee made a similar point: “increased real aggregate demand is the result, not the cause, of an increasingly productive and prosperous economy.”¶ Nor is there compelling evidence of a large positive multiplier. Economists John Cogan and John Taylor reviewed the ARRA and concluded: “despite the large size of the program, the dollar volume of additional government purchases that it has generated has been negligible.” Their earlier research debunked federal attempts to stimulate the economy during the 1970s: government stimulus programs “did not work then and they are not working now.” Also criticizing the ARRA was a recent study from the Phoenix Center, which noted: “We are now several years on, and many economists and policymakers are beginning to doubt the ability of government spending and monetary policy to effectively correct our current employment problems.”¶ Robert Barro reviewed the experience of World War I, World War II, the

Korean War, and the Vietnam War, and came up with a multiplier of 0.8, which means that government outlays actually “lowered components of GDP aside from military purchases.” He and Charles Redlick figured that military spending generated a multiplier greater than one only with very high levels of unemployment, well above current levels.¶ In extending his analysis to peacetime, Barro reported as multiplier “a number insignificantly different from zero.” Since the 1960s government spending has been tied to the business cycle; he and Redlick believed “that government spending increased in response to growing GDP, rather than the reverse.” He figured that roughly $900 billion in federal “stimulus” spending from ARRA probably resulted in only $600 billion in increased growth, a bad deal by any measure. He and Redlick concluded: “spending stimulus programs will likely raise GDP by less than the increase in government spending.”¶ A 2009 IMF study of economic research suggested a multiplier in the range of 0.3 to 1.8, with some variation based on country size. In a paper for the National Bureau of Economic Research, Valerie Ramey of theUniversity of California (San Diego) reviewed the economic literature, which suggested that the multiplier probably was between .8 and 1.5, and almost certainly was between .5 and 2.0.¶ However, she personally reached far more negative findings: “For the most part, it appears that a rise in government spending does not stimulate private spending; most estimates suggest that it significantly lowers private spending. These results imply that the government spending multiplier is below unity. Adjusting the implied multiplier for increases in tax rates has only a small effect. The results imply a multiplier on total GDP of around 0.5.”¶ Similar was the result of a 2011 study from the Phoenix Center for Advanced Legal & Economic Public Policy Studies. The four authors found: “government spending has zero effect on private-sector job creation. This result is consistent with the apparent impotence of huge federal government spending increases in recent times aimed at reducing unemployment.”¶ Historical experience argues against government’s ability to “stimulate” the economy. Franklin Delano Roosevelt was elected president during the Great Depression. He spent wildly and the economy recovered a bit, only to sink again. In 1939 Treasury Secretary Henry Morgenthau complained that “After eight years of this administration we have just as much unemployment as when we started … and an enormous debt to boot!”

#### Fiscal stimulus is only a guise to hide real debt and will land us in the same position as Greece

**Farrell and Quiggin, ‘12**

[Henry Farrell: associate professor of political science and international affairs @ GWU, John Quiggin: Austrailian economist, Professor and an Australian Research Council Federation Fellow and a Laureate Fellow at the University of Queensland and a Climate Change Authority of Australian Government Board Member, 3/9/2012, Consensus, Dissensus and Economic Ideas: The Rise and Fall of Keynesianism During the Economic Crisis (George Washington University) <http://www.cedes.uerj.br/documentos/artigos/Consensus%20Dissensus%20and%20Economic%20Ideas%20The%20Rise%20and%20Fall%20of%20Keynesianism%20during%20the%20economic%20crisis.pdf>]

The arguments of economists at the European Central Bank and elsewhere provided considerable¶ comfort to Germany. The ECB's emphasis on fiscal rectitude resonated strongly with German preferences (this was unsurprising; the European Central Bank's founding¶ principles closely re¶ ected German priorities). Germany and the European Central Bank¶ both resisted pressure from the US during Spring 2010 to continue with laxer scal policy,¶ arguing instead for a rapid consolidation.¶ These debates were brought to a head by the economic crisis in Greece. During the 1990s,¶ Greek governments had nominally complied with the euro convergence targets, which required¶ them to reduce budget deficits to less than 3 per cent of GDP, and public debt to¶ less than 60 per cent. In reality however, they had engaged in a variety of subterfuges and¶ expedients to hide the true extent of their debt. When a new Greek government began¶ to clean its house, and it became clearer exactly how indebted Greece was, markets began¶ to panic. Initially, the German government and others were hesitant about tackling the¶ Greek problem, for reasons that included unwillingness by Germany to foot the likely bill,¶ given important forthcoming state level elections, the `anti-bailout' clause of the Maastricht¶ Treaty and the complete absence of any mechanism for dealing with these kinds¶ of disorder (the drafters of Maastricht feared that emergency provisions might signal lack¶ of confidence in the durability of economic and monetary union), and EU reluctance to¶ have IMF involvement. Only after the US (which feared a renewed collapse of confidence¶ on world markets) pressed the EU, did member states agree on an emergency mechanism¶ with access to approximately $500 billion euro, together with market interventions by the¶ European Central Bank.¶ The consequences of this continued and self-ramifying crisis for EU politics are impor-¶ tant but complex. Its consequences for debates about fiscal policy in 2010 were rather¶ more straightforward. In addition to providing impetus for a new set of institutional re-¶ forms aimed at preventing fiscal crises in EMU member states, it provided a strong set¶ of rhetorical arguments for Germany, the European Central Bank, and other actors who advocated fiscal retrenchment. The ECB's president Jean-Claude Trichet berated EMU¶ member states in private for their persistent fiscal irresponsibility in the past, and informed¶ them that they had little choice but to adhere rigidly to the rules if they wished to avoid¶ future crises. He also began to take a much stronger position in public debate. In an op-ed¶ for the Financial Times which the newspaper described on its own front page as `strident,'¶ Trichet built on what he described as an existing consensus for retrenchment and sought¶ to push it radically more quickly [Trichet, 2010].¶ [t]here is a strong unity of purpose among the world's policymakers to ad-¶ dress our fiscal fragilities. It is reassuring that the consensus on the need for¶ credible fiscal exit strategies . . . is very broad. But the timing remains disputed.¶ . . .We have to avoid an asymmetry between bold, if justi ed, loosening and un-¶ duly hesitant retrenchment. . . .With hindsight, we see how unfortunate was the¶ oversimplified message of fiscal stimulus given to all industrial economies under¶ the motto: \stimulate", \activate", \spend"! A large number fortunately had¶ room for maneuver; others had little room; and some had no room at all and¶ should have already started to consolidate. Specific strategies should always¶ be tailored to individual economies. But there is little doubt that the need to¶ implement a credible medium-term fiscal consolidation strategy is valid for all¶ countries now.¶ The collapse of market confidence in Greece was interpreted as a parable of the risks of¶ fiscal profligacy. States which got themselves into serious scal di culties risked collapse¶ in market con dence and perhaps indeed utter ruin. Germany's analysis of the 2008-2009¶ crisis as a crisis of scal pro¶ igacy and bad debt was reinforced by the argument that¶ markets would brutally punish states which did not move immediately (and preferably¶ irrevocably) towards fiscal austerity.

#### Ricardian effect means fiscal austerity is the best solution to investor uncertainty

**Farrell and Quiggin, ‘12**

[Henry Farrell: associate professor of political science and international affairs @ GWU, John Quiggin: Austrailian economist, Professor and an Australian Research Council Federation Fellow and a Laureate Fellow at the University of Queensland and a Climate Change Authority of Australian Government Board Member, 3/9/2012, Consensus, Dissensus and Economic Ideas: The Rise and Fall of Keynesianism During the Economic Crisis (George Washington University) <http://www.cedes.uerj.br/documentos/artigos/Consensus%20Dissensus%20and%20Economic%20Ideas%20The%20Rise%20and%20Fall%20of%20Keynesianism%20during%20the%20economic%20crisis.pdf>]

Over late 2009 and early 2010, the European Central Bank had became ever more insistent¶ on the need for European countries to return to normal patterns of spending, and¶ in particular for members of Economic and Monetary Union to make a speedy transition¶ back to compliance with the requirements of the Stability and Growth Pact. Bank officials¶ were increasingly comfortable in arguing against Keynesian scal stimulus, and in favor of¶ an alternative approach based on shoring up market and consumer con dence.¶ we started to change tune and say \well, Keynesian multipliers are not¶ the only thing to look at, there are also so-called confidence effects. . . . the¶ Ricardian effect . . . will restrain consumption rates today which will mean that¶ you negate the whole effect you had in mind. And vice-versa, if you can prove¶ today that you are fiscally responsible, consumers will know that there will be¶ no further tax increases coming, and might refrain from cautionary savings,¶ which will help you further on the real side." . . . There has been a great paper¶ by John Taylor at the time that looks at discretionary fiscal expansion programs¶ in the US over 50-60 years, and found their effects to be at best ambiguous and¶ at worst actually harmful. . . .We've been doing the econometrics of this for¶ decades now - we have come to some sort of consensus which basically went out¶ of the window within weeks. I don't think it ever really went out of the window¶ in the ECB.¶ Such claims were supported by o cials of the European Commission, which began to¶ argue against further scal stimulus, and in favor of initiatives (which would not uncoincidentally¶ expand the Commission's competences) to support scal rectitude in the member¶ states.