# Stimulus Bad

### Stimulus Bad 1NC

#### 1. Biz con turn

#### A) Deficit from stimulus undermines business confidence – Taxation also takes out spending solvency

David M. Schizer, Dean and Lucy G. Moses Professor of Law at Columbia Law School, 10-17-11, [“Fiscal Policy in an Era of Austerity,” Working Paper No. 408, The Center for Law and Economic Studies Columbia University School of Law, [http://ssrn.com/abstract=1948692](http://ssrn.com/abstract%3D1948692)] E. Liu

Even if we solve this problem by ensuring that stimulus funds are used only for high value infrastructure projects, we still need a plan to manage the deficit. Although steps to cut the deficit can slow growth in the short term – as occurred in the U.S. in 193755 and in the UK in recent months56 – there is unfortunately a risk that increasing the deficit can also slow growth by undermining consumer and business confidence.57 Specifically, as the deficit increases, the future tax burdens associated with servicing this debt grow as well. If businesses and consumers focus on these future tax burdens, they may spend less today, as David Ricardo observed over a century ago.58 Of course, it is impossible to forecast exactly who will bear tax burdens, especially if the political process has not allocated them yet, and Ricardo himself recognized that people are not always this farsighted.59 But those who run businesses – and are deciding whether to hire another person – constantly have to make predictions about the future. Their “most likely reaction,” according to Richard Fisher, the President of the Federal Reserve Bank of Dallas, “is to cross your arms, plant your feet and say: ‘Show me. I am not going to hire new workers or build a new plant until I have been shown” how the deficit will be addressed.60 The plan needs to be “sufficiently specific and widely supported,” the Director of the Congressional Budget Office has testified, “so that households, businesses, state and local governments, and participants in the financial markets believ[e] that the future fiscal restraint w[ill] truly take effect.”61 In essence, we have to focus on short-term recovery and long-term deficit reduction at the same time, and this is not an easy balance to strike.62 It is like navigating between Scylla and Charybdis, and it is hard to be confident that we will chart exactly the right course. If we allow the deficit to grow unchecked, though, we face the familiar long-term costs of growing deficits.63 Higher long-term interest rates can crowd out private investment (although long-term rates are quite low now). Likewise, the government may be tempted to use inflation to reduce the real value of the debt.64 We are also burdening future generations, and constraining the government’s capacity to pursue other initiatives, going forward.65 The bottom line, then, is that there is a great deal of uncertainty about the effectiveness of a Keynesian stimulus. Much depends on how the money is used and on how we propose to pay for the stimulus over the long-term. One thing we can say with confidence is that a Keynesian stimulus is hard to do well. For all these reasons, it is unlikely to serve as a magic bullet for reviving our economy.

#### That collapses policy certainty necessary for growth – Outweighs infrastructure

Mona Charen, nationally syndicated columnist, 7-20-12, [“The Most Business-Despising President in History,” Real Clear Politics, <http://www.realclearpolitics.com/articles/2012/07/20/the_most_business-despising_president_in_history_114852.html>] E. Liu

President Obama's "you didn't build it" gaffe just defined the 2012 campaign. It succinctly encapsulates the president's prejudices about the public versus the private sector. Though the president has frequently mouthed platitudes in praise of enterprise, his suspicion and contempt for business has always percolated just beneath the surface. Of course, the president is partially correct, in a banal sort of way. Yes, roads, bridges, firefighters and teachers are essential prerequisites to establishing an environment in which business can operate. So are peace and freedom -- for which we must thank the military. But the president doesn't understand that a critical aspect of good government -- and an essential ingredient for stimulating economic growth -- is not just roads but rules of the road. As economist John Taylor reminds us, steady, predictable and permanent rules permit business owners -- and individuals -- to plan for the future. That is the opposite of what the Obama administration has provided. Obama touts his small business tax credits, but in his stimulus bill, the proposed 2011 jobs act and other legislation, the tax incentives are temporary, while the tax increases are permanent. The Heritage Foundation estimates that the burden of regulation under Obama is five times what it was under George W. Bush. The yearly cost of regulatory compliance was $8.1 billion under Bush. It's $46 billion under Obama. The regulatory drag goes beyond those compliance costs. The uncertainty about what government will require in the future is inhibiting expansion and risk-taking. The two marquee laws passed under this administration -- the ironically titled Affordable Care Act and Dodd/Frank -- are vast pools of dark matter. They vest enormous discretion in federal bureaucrats so that no one knows what to expect. Most of the rules regarding insurance costs, penalties (i.e., taxes) and minimum standards for insurance, remain to be issued by the Department of Health and Human Services. Adding to the sense of arbitrariness are the hundreds of waivers HHS has issued to politically favored businesses and unions. Testifying before the Financial Services Committee, a small banker from Illinois noted about Dodd/Frank that "Each new regulation ... adds another layer of complexity and cost of doing business. ... (It) has stimulated an environment of uncertainty, and has added new risks that will inevitably translate into fewer loans to small businesses." The coming fiscal cliff is a like a huge safe waiting to fall on America's head at the end of this year. Yet the president invites it in the name of raising taxes on those who earn above $200,000. The results are obvious everywhere -- the economy scutters along at the bottom of the growth graph. Millions cannot find jobs. The ranks of food stamp, welfare and disability recipients swell. Trillion dollar deficits degrade our bond rating.

#### 2. Delay Turn

#### A) Consensus is that stimulus takes over a year to begin spending

Antonio Estache, Senior Economic Advisor to both the Vice President for Sustainable Development and to the Vice President for the Poverty Reduction and Economic Management of the World Bank. He received his Ph.D. in Economics from the Université Libre de Bruxelles. Mr. Estache has advised governments in Asia, Latin America and West Africa on infrastructure regulation, public economics and macroeconomic policy, 8-10, [“Infrastructure policy for shared growth post-2008: More and better, or simply more complex?,” <http://164.15.27.46/ecaresdocuments/cbvo/2010-02.pdf>] E. Liu

The most complex aspect of the analysis of the supply effects of the crisis may be the evaluation of the speed at which the decisions can lead to short term results on the ground. Indeed, the implementation of the decisions to expand or modernize the strategic infrastructures is likely to take longer than casual observers may anticipate. Lots of decisions have been taken to spend more and faster, very few governments, if any, have considered the need to deal with the processes which allow infrastructure supply to grow. How do processes put the supply effects at risk? The first reason why the short term effects may be slow to show to meet political and popular expectations, relates to common procurement processes. These processes need to be factored in when assessing the impact of a fiscal stimulus largely anchored in infrastructure investments. Even under accelerated procedures, procuring public works generally takes over a year, often twice as much, to implement from the time the decision to go ahead has been taken. Specifying the terms of reference, organizing the auctions, assessing the bids, preparing the contracts, and negotiating these contracts are all essential steps typically needed before the works can start. In the German debates on the composition of the public expenditures to be financed by their stimulus package, the infrastructure sector was in fact penalized in the short run because of these procurement issues. The German stimulus plan favored investment in education to some extent because the German technocrats were quite aware of the slow procurement speed of large infrastructure projects and the risk it represented for the effectiveness of the recovery efforts. The German concerns with the slow processes of the public sector infrastructure activities have recently been validated by a survey covering many more countries. 17 In that survey, 23% of the 455 senior public officials consulted in 69 countries around the world felt that governments were not able to meet commitments at the development or contract stage and 30% at the implementation stage.

#### B) Delays collapse growth in the short term – Expectations of spending decrease productivity now

Eric M. Leeper, professor of Economics at Indiana University and is also affiliated with Monash University and the National Bureau of Economic Research, et al., Todd B. Walker, and Shu-Chun S. Yang, 3-31-10, [“Government Investment and Fiscal Stimulus in the Short and Long Runs,” <http://mypage.iu.edu/~walkertb/LWYGovInvest_June.pdf>] E. Liu

Compared to a scenario with little delay, implementation delays for government invest- ment can lead private investment to fall more and labor and output to rise less (or even decline slightly) in the short run. So long as public capital is productive, the expectation of higher government investment spending generates a positive wealth effect, which discour- ages current work effort. Depending on the implementation speed, this positive wealth effect could dominate the usual negative wealth effects from increasing government purchases, re- sulting in small or even negative effects on labor and output in the short run. In addition, because private investment projects typically do not entail the substantial delays associated with public projects, private investment falls initially and does not rebound until later, when the public capital is on line and raises the productivity of private inputs. Implementation delays can postpone the intended economic stimulus and may even worsen the downturn in the short run. Delays in government investment are analogous to the phased-in tax cuts enacted in 2001 and 2003, where expectations of future tax cuts may have induced workers and firms to postpone work and production, actions that House and Shapiro (2006) argue retarded the recovery from the 2001 recession.3Current weakness in employment growth, which falls short of the administration’s predictions of the effects of the ARRA, may be partly attributable to implementation delays in government investment.4By the end of fiscal year 2009, outlays for infrastructure spending from the ARRA were less than 10 percent of the budget authority granted for infrastructure in that year [Congressional Budget Office (2010b)], despite the claim that many projects were “shovel ready.”

#### 3. Crowd-Out turn

#### A) Infrastructure crowds-out private companies and doesn’t create jobs or infrastructure

Veronique de Rugy, senior research fellow at the Mercatus Center at George Mason University, 11-16-11, [“FEDERAL INFRASTRUCTURE SPENDING: NEITHER A GOOD STIMULUS NOR A GOOD INVESTMENT,” Joint Economic Committee, <http://mercatus.org/publication/federal-infrastructure-spending-neither-good-stimulus-nor-good-investment>] E. Liu

Second, the only thing harder than getting the money out the door promptly is properly targeting spending for stimulative effect. Data from Recovery.gov shows that stimulus money in general—and infrastructure funds in particular—were not targeted to those areas with the highest rate in unemployment, something correct application of the Keynesian theory demands as the idea is that stimulus spending gives the economy a jolt by employing idle people, firms, and equipment. 12 However, even properly aimed infrastructure spending might have failed to stimulate the economy. Many of the areas hardest hit by the recession are in decline because they have been producing goods and services that are not, and may never be, in great demand. Th25erefore, the overall value added by improving the roads and other infrastructure in these areas is likely to be lower than if the new infrastructure were located in growing areas that might have relatively low unemployment but greater demand for more roads, schools, and other types of long-term infrastructure.13 Perhaps more importantly, unemployment rates among specialists, such as those with the skills to build roads or schools, are often relatively low. And it is unlikely that an employee specialized in residential-area construction can easily update his or her skills to include building highways. As a result, we can expect that firms receiving stimulus funds will hire their workers away from other construction sites where they were employed, rather than plucking the jobless from the unemployment rolls. This is what economists call “crowding out.” Except that in this case, labor, not capital, is being crowded out. New data from Mercatus Center professor Garret Jones and AEI staffer Dan Rothschild confirm that companies and governments used stimulus money to poach a plurality of workers from other organizations rather than hiring them from the unemployment lines. 14 Based on extensive field research—over 1,300 anonymous, voluntary responses from managers and employees—Jones and Rothschild bring to light the fact that less than half of the workers hired with stimulus funds were unemployed at the time they were hired. A majority were hired directly from other organizations, with just a handful coming from school or outside the labor force. In email correspondence, Garrett Jones further explains that during recessions most employers who lose workers to poaching decline to fill the vacant positions—leaving unemployment essentially unchanged.

#### B) Private actors solve for good investments – Public investments distort and crowd that out

Robert Pollin, professor of economics at the University of Massachusetts-Amherst and founding co-director of its Political Economy Research Institute and Dean Baker, o-director of the Center for Economic and Policy Research in Washington, D.C, 12-09, [“Public Investment, Industrial Policy and U.S. Economic Renewal,” CENTER FOR ECONOMIC AND POLICY RESEARCH, <http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1179&context=peri_workingpapers>] E. Liu

For the past generation, the dominant view among economists was that giving businesses a free hand—that is, little regulation and low taxes—was the most important contribution governments could make to encouraging productive investments. The corollary to this view was that, as much as possible, overall investments in the economy should be undertaken by the private sector, as opposed to by any sort of government entity. After all, according to this view, the private sector is where in- novation occurs. Moreover, private investment decisions have to meet the test of the market. Sound investment decisions are rewarded by high levels of market demand and healthy profits, while bad investment decisions are punished by failure. By contrast, public investments are dominated by slow, ineffective, bureaucratic decision-making, and are not subject to the test of the market. To the con- trary, public investments are financed by tax revenues. This means that tax burdens have to rise to pay for public investments. These considerations undergird the view that public investments “crowd out” private investments, since funds spent on public investments will drain away money, people and equipment that could be better utilized by private business firms. The case for private investment over public investment has a parallel in discussions around industrial policy—whether the U.S. government should be actively engaged in promoting technologies and business competitiveness. The argument against industrial policy is that governments are not capable of “picking winners,” certainly not on a consistent basis. Industrial policy is therefore just another way for governments to distort both the investment decisions of private businesses and the primary role of competition to separate winners from losers in the investment market.

#### 4. Spending Turn

#### A) Infrastructure increases the deficit by undermining shared sacrifice

Michael O’Hanlon, senior fellow at the Brookings Institution, 12/22/10, “THE DEFENSE BUDGET AND AMERICAN POWER,” http://www.brookings.edu/~/media/Files/events/2010/1222\_defense\_budget/20101222\_defense\_budget.pdf

So the minute that someone says, well, defense is the top constitutional obligation of the federal government and therefore it should be protected regardless, and we should make our deficit reduction out of other accounts. If we start a conversation in those terms, then a big constituency is going to come up and say let's protect Social Security, or let's protect college loans for students because that's our future after all. Or let's protect science research or infrastructural development, and you get the idea pretty soon you've lost the spirit of shared sacrifice that I think is essential if we're going to have any hope of reducing the deficit in the coming years. So that's the basic motivation. We're not probably going to reduce the deficit effectively, and therefore strengthen our long-term economy and the foundation for our long-term military power, if we don't establish a spirit of shared sacrifice.

#### B) A large deficit cuts growth – Crowd-out, capital, borrowing, debt crisis – Turns the aff

NCFRR, National Commission on Fiscal Responsibility and Reform, 10, (12/1/10, “The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform,” pg online @ lexisnexis)

Federal debt this high is unsustainable. It will drive up interest rates for all borrowers - businesses and individuals - and curtail economic growth by crowding out private investment.By making it more expensive for entrepreneurs and businesses to raise capital, innovate, and create jobs, rising debt could reduce per-capita GDP, each American's share of the nation's economy, by as much as 15 percent by 2035. Rising debt will also hamstring the government, depriving it of the resources needed to respond to future crises and invest in other priorities. Deficit spending is often used to respond to short-term financial "emergency" needs such as wars or recessions. If our national debt grows higher, the federal government may even have difficulty borrowing funds at an affordable interest rate, preventing it from effectively responding. Large debt will put America at risk by exposing it to foreign creditors. They currently own more than half our public debt, and the interest we pay them reduces our own standard of living. The single largest foreign holder of our debt is China, a nation that may not share our country's aspirations and strategic interests. In a worst- case scenario, investors could lose confidence that our nation is able or willing to repay its loans - possibly triggering a debt crisis that would force the government to implement the most stringent of austerity measures.

#### 5. Gas Tax Turn

#### A) The plan is funded by a gas tax

**National Journal**, 11/15/**2010** (Fuel Tax, Anyone?, p. http://transportation.nationaljournal.com/2010/11/fuel-tax-anyone.php)

At the risk of beating a dead horse, let me restate the obvious: We all know that the highway trust fund is insufficient to maintain the country's current transportation infrastructure, let alone improve it. Lawmakers would be more than happy to bolster spending for highways, railroads, and bridges if only they could make the dollars materialize out of thin air. Meanwhile, economists and transportation-related business and labor groups all seem to land at the same answer for raising the money--a fuel tax increase, either per gallon or per miles traveled. Last week, the chairmen of President Obama's bipartisan debt commission proposed a 15-cent per-gallon gas tax hike to fully fund highway infrastructure. A few days before the draft debt commission outline was released, Sens. Tom Carper, D-Del., and George Voinovich, R-Ohio, proposed a 25-cent-per-gallon gas tax increase.

#### B) Gas taxes depress growth, jobs and GDP

Rea Hederman, Jr., Assistant Director, Center for Data Analysis and Research Fellow and Alfredo Goyburu, 3-18-04, [“An Increase in the Gas Tax Would Hurt Consumers and Slow the Economy,” Heritage Foundation, <http://www.heritage.org/research/reports/2004/03/an-increase-in-the-gas-tax-would-hurt-consumers-and-slow-the-economy>] E. Liu

Some leaders in Congress want to increase the federal tax on gasoline by 5.45 cents per gallon, for the first year, and then index it to inflation. They would use the revenue from this tax increase to finance additional spending on highways and other transportation projects, which they say will benefit the economy. Macroeconomic analysis performed by the Center for Data Analysis at the Heritage Foundation, however, shows that increasing the gas tax would depress economic activity and the incomes of millions of Americans. It would also raise significantly less revenue than its proponents project. The President should be commended for his firm stand against raising the federal gasoline tax, and Congress would do well to abandon proposals to increase the gas tax and instead focus on spending highway dollars more efficiently, ideally by turning them back to the states.[1]¶ ¶ The Real Cost of the Gas Tax¶ Analysts in the Center for Data Analysis (CDA) estimated the economic and fiscal effects of a higher gas tax using a well-known econometric model of the U.S. economy.[2] The model allows analysts to vary the gas tax and simulate the effects of higher spending on infrastructure construction, if adequate details about that construction are available. Because such details were not available, CDA analysts instead used the additional revenues from the higher gas tax to pay down national debt, which is an alternative way of infusing government spending into a segment of the economy that is tightly aligned with investment decisions. [3]¶ ¶ This macroeconomic analysis found that:¶ ¶ Personal savings would average $8 billion less per year from 2005 to 2014.¶ $82 billion of the $131 billion increase in federal revenues over 10 years would be financed out of foregone or lower personal savings.¶ Gross Domestic Product would decline by $6.5 billion per year, in real terms, from 2005 to 2014. In other words, this $131 billion in government revenues would shrink the economy by $65.5 billion.¶ There would be, on average, 37,000 fewer job opportunities each year. That works out to one lost job for every $351,000 in new taxes, which is equal to 11 years of work at average yearly wages.[4]¶ Total federal revenues would fall short of gas tax proponent's projections by $3.7 billion.¶ Family disposable income would be, on average, $2.5 billion less per year, in real terms. That's equivalent to the cost of sending 532,600 students to college each year. [5]¶ Congressman Don Young (R-AK) proposed an increase of the federal gas tax from 18.4 cents per gallon to 23.85 cents per gallon in the first year as part of the 2004 highway bill. While this twenty-nine percent tax increase has not generated major support, Congress should not bring the gas tax increase back as a policy proposal. While raising the gas tax would increase government revenues, it would only do so at the expense of economic growth, jobs, and family income.

## Business Confidence

### Link – Bailouts

#### Bailouts enhance legal and political uncertainty – Eviscerates investment and jobs

Todd Zywicki, George Mason University Foundation Professor of Law, George Mason Uni‐ versity School of Law, [**11**](http://www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdfhttp%3A/www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdf), [“ECONOMIC UNCERTAINTY, THE COURTS, AND THE RULE OF LAW,” Harvard Journal of Law & Public Policy Vol. 35, No. 1, <http://www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdf>] E. Liu

The larger cost of the auto bailouts is the uncertainty they spawn for the future of the economy and the message that by trumpeting them as a success sends.68 As noted, the initial mar‐ ket response to the bailout was to increase the uncertainty of investors.69 Uncertainty about whether contracts and property rights will be honored according to regularized rules raises the cost of capital in the economy, thereby hampering investment and new wealth creation.70 The cost of subsidizing large obso‐ lete enterprises is that it raises the cost of capital for new start‐ ups seeking to enter the market.71 Thus, for every job saved through government intervention on behalf of favored political groups, dozens or hundreds of jobs might never be created be‐ cause of uncertainty about the political and legal climate.72 Similarly, by entrenching “too big to fail” as government pol‐ icy, it appears Washington has placed its thumb on the scale in favor of the massive banks favored by this designation. As a result of the government’s implicit guarantee of their debts, favored banks can gain access to capital markets at a discount to other banks, a reflection of the public’s belief that the gov‐ ernment will bail them out.73 These institutions now resemble Fannie Mae and Freddie Mac, which capital markets valued as having an implicit government guarantee.74 As their subse‐ quent multi billion dollar bailouts demonstrated, investors were correct in assuming that the government would actually stand behind Fannie Mae and Freddie Mac—and one suspects that they are correct about the “too big to fail” banks too.

### Link – Discretion – Rule of Law

#### Political discretion during economic crisis extend government powers, undermining rule of law

Todd Zywicki, George Mason University Foundation Professor of Law, George Mason Uni‐ versity School of Law, [**11**](http://www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdfhttp%3A/www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdf), [“ECONOMIC UNCERTAINTY, THE COURTS, AND THE RULE OF LAW,” Harvard Journal of Law & Public Policy Vol. 35, No. 1, <http://www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdf>] E. Liu

 In  times  of  economic  crisis,  unleashing political discretion and rent seeking is highly destructive to the rule of law. Discre‐ tion, some insist, is necessary to give the government power to act for the public good during the crisis.33 As Rahm Emmanuel, who would become President Obama’s Chief of Staff, famously observed, politicians should “[n]ever allow a crisis to go to waste.”34 The crisis becomes the excuse for any and all political agendas that can plausibly (or even implausibly) be linked to the crisis. More importantly, discretion to address the crisis provides cover for identifying political winners and losers and favoring political supporters while punishing others—as Indi‐ ana’s teachers and policemen learned the hard way in the Chrysler bailout.35 Political discretion is dangerous in a second way: once it is unleashed, it creates a ratchet effect. When judges relax the rule of law and allow politicians to exercise discretion, it is difficult to reestablish the rule of law. After the crisis abates, politicians con‐ solidate the political discretion used to respond to the crisis.36 The Great Depression is a historical example of this ratchet effect. In the face of supposed public necessity, New Deal judges essentially stopped enforcing contract rights, property rights, and structural limits on the federal government.37 The federal government seized broad discretionary control, which was supposed to improve the economy. In reality, the endless ill‐conceived experimentation made the economy worse, not better.38 After the Great Depression, the constitutional con‐ straints on government that were temporarily suspended were never reimposed. Instead, the Supreme Court’s endorsement of the Roosevelt Administration’s lawlessness during the New Deal became the new baseline for government power, thereby laying the foundation for the rise of the administrative and rent‐seeking state.39 The massive Dodd‐Frank legislation40 enacted in the wake of the financial crisis provides another textbook example of this ratchet effect. Reading through the 2,400 pages of Dodd‐Frank, one is left with one overriding conclusion: The legislation epitomizes the caprice and discretion that characterized the bailouts and other ad hoc interventions of the government dur‐ ing the financial crisis. Filled with vague terminology and broad grants of governmental authority, Dodd‐Frank embodies not only government discretion as a way of life, but also the principle that politicians should have free rein to pick economic winners and losers through political, not market, processes. Most notably, Dodd‐Frank institutionalizes the policy of “too big to fail” and establishes an implicit guarantee to bail out the nation’s largest financial institutions.41 It creates new bureaucra‐ cies with broad and loosely defined powers subject to minimal restraint or oversight, such as the new Bureau of Consumer Fi‐ nancial Protection in the Federal Reserve: an agency headed by a single director removable only for cause42 and funded with a guaranteed budget of several hundred million dollars that is not subject to Congress’s standard appropriations process.43

### Link – Long Timeframes

#### Stimulus is on really long cycles – That undermines investor confidence

Henrique Schneider, Economist, Swiss Federation of Small and Medium Enterprises, 12-11, [“The Crisis of Crisis Management,” Korea and the World Economy, Vol. 12, No. 3 (December 2011) 555-578, www.dbpia.co.kr/Journal/ArticleDetail/1612135]E. Liu

If this causality cannot hold, and if the Keynesian idea of spending in crisis and accumulating wealth in booms does not equal the time-frame accepted by risk takers, investors are either prone to analyze each information without context — irreducible uncertainty in decision making and resulting influence of personality traits as well as the prevalence of mistakes — or lose their faith in the markets and governments. This is much of the picture of the financial crisis. The near-bankruptcy of states like Greece, Portugal, and Spain as well as highest levels of volatility in the world markets are the witnesses of the crisis of crisis management.

### Link – Poor Management

#### Poorly managed infrastructure shatters confidence – Tax money and history

Richard A. Epstein, James Parker Hall Distinguished Service Professor of Law, The University of Chicago; The Peter and Kirsten Senior Fellow, The Hoover Institution; and Visit‐ ing Professor of Law at New York University Law School, 10, [“WHY I WILL NEVER BE A KEYNESIAN ,” Harvard Journal of Law & Public Policy, Vol. 33, No. 2, <http://www.harvard-jlpp.com/33-2/387.pdf>] E. Liu

There is no reason to think that the government knows what projects to invest in, or why. To be sure, there is always room for government investment in infrastructure under any sensi‐ ble theory of laissez‐faire,19 but in general the effort should be to invest only to the point where the last dollar on public ex‐ penditure has the same rate of return as the last dollar on the private side. That ratio need not change as times get bad, espe‐ cially if infrastructure were properly cared for in good times. Yet that is not how matters sit with the new Keynesians. Posner seeks to find a larger space for public investment in a downturn by declaring that “[an a]mbitious public‐works pro‐ gram can be a confidence builder,” seeking to tap into Keynes’s explanation of how the government can promote the “return of confidence.” But the argument ignores the obvious indignant response that a poorly run government program can destroy confidence and further demoralize businesses who think that higher taxes will snatch away the fruits of their efforts. Only by assuming the eternal and unalterable benevolence of govern‐ ment can one posit that all soft externalities will move in the same direction. Think of the public cynicism about the Alaskan “bridge to nowhere,” or foolish public expenditures that led to the construction of the Murtha‐Johnstown‐Cambria Airport. These projects shatter public confidence.

### Magnifier – Seed

#### Their intervention plants the seed for future interventions that hamper certainty

Todd Zywicki, George Mason University Foundation Professor of Law, George Mason Uni‐ versity School of Law, [**11**](http://www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdfhttp%3A/www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdf), [“ECONOMIC UNCERTAINTY, THE COURTS, AND THE RULE OF LAW,” Harvard Journal of Law & Public Policy Vol. 35, No. 1, <http://www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdf>] E. Liu

The final lesson of the past several years is that interventions in times of crisis (often animated by understandable sympathy for those seemingly harmed by the crisis) invite moral hazard. For example, the bank bailouts, beginning with the rescue of Bear Stearns, can be traced in a straight line back through the rescue of Long‐Term Capital Management in the 1990s to bail‐ out of Continental Illinois in the 1980s.75 Each intervention plants the seeds of the need for larger future rescues. In turn, politicians face extremely strong temptations to engage in bail‐ outs and to incur the moral hazard problems that they create. In the short run, bailouts avert possible disaster, even if disas‐ ter is implausible.76 Because politicians focus on their next elec‐ tion,77 they face a compelling incentive to focus on the short‐ term benefit of a bailout and to discount the long‐term harm which different, future politicians will have to confront. Yet when that time comes, private interests know that future politi‐ cians face exactly the same short‐term incentive to kick the can still further down the road if they can. Banks are not the only institutions that raise issues of moral hazard. Moral hazard also arises when it comes to simple con‐ sumer events such as foreclosure. According to empirical stud‐ ies, foreclosure rates are two to three times higher in states that have anti‐deficiency laws (laws that limit the bank to taking a consumer’s house upon default and prohibit suing the con‐ sumer for the remainder) than elsewhere.78 Anti‐deficiency laws79 create much stronger incentives for a consumer to walk away from his house when it is underwater. Designed to pro‐ vide a soft landing for consumers who can’t pay their mort‐ gages, anti‐deficiency laws invite moral hazard and become hammocks for those who won’t pay their mortgages and who recognize the investment value of walking away.80 In addition, the rules imposed in many areas of the country during the early days of the foreclosure crisis to make foreclo‐ sure slower and more expensive than it otherwise would be also encourage moral hazard and strategic behavior.81 If foreclosure amelioration and mitigation make it more expensive and more difficult for lenders to foreclose, then more people will choose to default and enter foreclosure.82 Intended to help consumers who want to stay in their homes work out arrangements to do so, these rules instead turn into opportunities for investors to live in their houses rent free even as they pocket the money they oth‐ erwise would pay. People respond to incentives, and rules that encourage moral hazard will increase opportunistic behavior over the long run. In addition, when it comes to bailouts of individual home own‐ ers the government simply does not have the ability to make nu‐ anced assessments to distinguish worthy parties from strategic rent‐seeking ones. The government is even less able to distinguish the two groups in the midst of a crisis.

### Certainty Key – Regulations Bad

#### Uncertainty causes demand and unemployment – Limiting regulations is key

Lawrence Summers, President Emeritus of Harvard University, and former Nathaniel Ropes Professor of Political Economy, 1-23-12, [“Davos needs to address uncertainty,” Reuters Blog, <http://blogs.reuters.com/lawrencesummers/2012/01/23/davos-needs-to-address-uncertainty/>] E. Liu

Uncertainty about future growth prospects as a major driver of markets also correlates with other observations, such as the abnormally high level of cash sitting on corporate balance sheets, the reluctance of businesses to hire, and the sense that consumers are hesitant about discretionary big ticket purchases even as borrowing costs and capital goods prices are at near record lows. All of this suggests that for the industrial world as a whole, the most important priority for governments must be giving confidence that recovery will continue and accelerate in the United States and that the downturn in Europe will be limited. How best to do this remains an area of active debate. At Davos and beyond there will be many who argue that top priority must be given to increasing business confidence and that government stimulus is useless at best and potentially counterproductive. There will be others — more economists than businesspeople — who will argue that top priority must be given to government stimulus and that issues about business confidence are red herrings. Keynes saw through this sterile debate 75 years ago, writing to Roosevelt that either “the business world must be induced, either by increased confidence in the prospects or by a lower rate of interest, to create additional current incomes in the hands of their employees” or “public authority must be called in aid to create additional current incomes through the expenditure of borrowed or printed money.” The right current approach involves borrowing from both contending lines of thought. Government has no higher responsibility than insuring that economies have an adequate level of demand. Without growing demand, there is no prospect of sustained growth, let alone significant reduction in joblessness. And without growth and reduced unemployment, there is no chance of engineering reductions in government debt-to-income ratios. Of course risks of inflation, of promoting excessive risk-taking in the future, and of spending that is not ideally efficient need to be balanced. But the simple fact is that markets in the large concur with the judgment of individual business managers that increasing demand is the sine qua non of a return to economic health. At the same time, businesses are understandably uncertain about their prospects after the events of recent years. This is not the right time to add unnecessarily to their worries. Except where the rationale is both urgent and compelling, new regulations that burden investment should be avoided. Inequality is a growing problem that will have to be addressed in the United States and beyond — it cannot be ignored. But there is the risk that policies introduced in the name of fairness that excessively burden job-creating investment could actually exacerbate the challenges facing the middle class. At a moment of substantial doubt about the functionality of government, government could do much to increase confidence in its functioning by devising a clear plan to better align spending and taxing once recovery is established.

### Certainty Key – Stimulus Doesn’t Solve

#### Certainty is key to business demand and spending – Fiscal policy fails to stimulate that

David M. Schizer, Dean and Lucy G. Moses Professor of Law at Columbia Law School, 10-17-11, [“Fiscal Policy in an Era of Austerity,”, Working Paper No. 408, The Center for Law and Economic Studies Columbia University School of Law, [http://ssrn.com/abstract=1948692](http://ssrn.com/abstract%3D1948692)] E. Liu

These challenges are enormous, and there are no easy answers. But we should begin with an obvious point: If we could find ways to help our economy grow faster, it would be enormously helpful. A growing economy creates more jobs, generates more tax revenue, and reduces the need for certain types of government services, so that both unemployment and the deficit decline. The problem is that this is easier said than done. A traditional lever for promoting growth – monetary policy – has been essentially exhausted. The Federal Reserve has pushed short-term rates to zero and committed to keeping rates there through 2013.29 At this point, an essential missing ingredient is confidence. Through rigorous cost- cutting, American businesses have become profitable again and have cash on hand,30 but so far they are not hiring. “[T]hey simply cannot budget or manage for the uncertainty of fiscal and regulatory policy,” said Richard Fisher, the President of the Federal Reserve of Dallas. “In an environment where they are already uncertain of potential growth in demand for their goods and services and have yet to see a significant pickup in top-line revenue, there is palpable angst surrounding the cost of doing business.”31 A crucial challenge is to restore business confidence, so that firms increase their hiring. This will, in turn, enhance consumer purchasing power, which will prompt further hiring, and so on. But how do we induce this virtuous cycle to begin? II. Uncertainties and Challenges With A Keynesian Stimulus A traditional remedy for a stalled economy, dating back to John Maynard Keynes, is for the government to borrow money to purchase goods and services. This sort of fiscal stimulus is meant to increase aggregate demand and, thus, employment. In the winter of 2009, the Obama administration began an $862 billion stimulus. Unfortunately, it underperformed expectations,32 and economists disagree about why. Some say a stimulus was the wrong medicine,33 while others claim that we need a bigger dose.34 Following the latter camp, President Obama proposed another $447 billion stimulus. Yet this debate is difficult to resolve because, as Gregory Mankiw observed, “the theory of business cycles . . . is the topic we economists understand least of all: We are still deeply divided on the validity and utility of the basic Keynesian paradigm.”35 Drawing on this macroeconomic debate, this Part offers four reasons why there is so much uncertainty and why, ultimately, a Keynesian stimulus is so difficult to execute effectively.

### Rule of Law Key

#### Rule of law is key to investment, certainty and recovery – Violating it snowballs

Todd Zywicki, George Mason University Foundation Professor of Law, George Mason Uni‐ versity School of Law, [**11**](http://www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdfhttp%3A/www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdf), [“ECONOMIC UNCERTAINTY, THE COURTS, AND THE RULE OF LAW,” Harvard Journal of Law & Public Policy Vol. 35, No. 1, <http://www.harvard-jlpp.com/wp-content/uploads/2012/01/ZywickiFinal.pdf>] E. Liu

Crisis often is invoked to rationalize both governmental dis‐ cretion and waiver of the rule of law.3 But as the financial crisis and its aftermath reveal, it is precisely during times of crisis that it is most important to tie the hands of government with the bonds of the rule of law. First, in times of economic crisis there is a special need for government behavior to be predict‐ able and rule‐bound to encourage investment and economic recovery in a period of uncertainty. Second, adherence to the rule of law in the face of crisis is important to restrain politi‐ cians from using the crisis to pursue their own self‐interest or unleashing rent seeking by special interest groups—both of which dampen economic recovery and long‐term economic growth. Third, the government’s seizure of discretion creates a ratchet effect whereby the discretion and exceptions to the rule of law made during the crisis ossify and never return to pre‐ crisis levels. Fourth, the dynamics of short‐term interventions tend to invite moral hazard that can be exploited by powerful special interest groups.

### Uncertainty Bad

#### Policy uncertainty inhibits spending, growth and employment

Nick Bloom, Assistant Professor of Economics at Stanford University, having previously worked at the Centre for Economic Performance, et al., Scott Baker and Steven J. Davis, 2-3-12, [“Has Economic Policy Uncertainty Hampered the Recovery,” forthcoming from the Hoover Institution Press, papers.ssrn.com/sol3/papers.cfm?abstract\_id=2000734] E. Liu

The U.S. economy hit bottom in June 2009. Thirty months later, output growth remains sluggish and unemployment still hovers above 8%. A critical question is why. One view attributes the weak recovery, at least in part, to high levels of uncertainty about economic policy. This view entails two claims: First, that policy uncertainty is unusually high in recent years. Second, that high levels of policy uncertainty caused households and businesses to hold back significantly on spending, investment and hiring. We take a look at both claims in this article. We start by considering an index of economic policy uncertainty developed in Baker, Bloom and Davis (2012). Figure 1, which plots our index, indicates that economic policy uncertainty fluctuates strongly over time. The index shows historically high levels of economic policy uncertainty in the last four years. It reached an all-time peak in August 2011. As discussed below, we also find evidence that policy concerns account for an unusually high share of overall economic uncertainty in recent years. Moreover, short-term movements in overall economic uncertainty more closely track movements in policy-related uncertainty in the past decade than earlier. In short, our analysis provides considerable support for the first claim of the policy uncertainty view. The second claim is harder to assess because it raises difficult issues of what causes what. We do not provide a definitive analysis of the second claim. Nevertheless, our evidence suggests that policy uncertainty can damage the economy, and that high levels of policy uncertainty have been an important factor hampering the recovery. We find evidence that increases in economic policy uncertainty foreshadow declines in output, employment and investment. While we cannot say that economic policy uncertainty necessarily causes these negative developments – since many factors move together in the economy – we can say with some confidence that high levels of policy uncertainty are associated with weaker growth prospects.

#### Uncertainty delays risk-taking and demand – Statistically proven to hamper recovery

Nick Bloom, Assistant Professor of Economics at Stanford University, having previously worked at the Centre for Economic Performance, et al., Scott Baker and Steven J. Davis, 2-3-12, [“Has Economic Policy Uncertainty Hampered the Recovery,” forthcoming from the Hoover Institution Press, papers.ssrn.com/sol3/papers.cfm?abstract\_id=2000734] E. Liu

Given the evidence pointing to high policy uncertainty in recent years, it is natural ask how much it matters for economic performance. At this point in our analysis, we must recognize that identifying causal relationships in macroeconomic data is very hard. What we can do is talk a bit about the theoretical connections between uncertainty and economic performance. We can also investigate empirically whether high levels of economic policy uncertainty are associated with weaker growth prospects. In the theoretical realm, the economics literature has focused on three channels. The first is the real options effect. There is a long literature on this topic and, in fact, one of the best known and earliest pieces is a paper by Ben Bernanke (1983) titled “Irreversibility, Uncertainty and Business Cycles,” recently extended and quantified by Bloom (2009). The premise is that when firms are uncertain, it is expensive to invest or disinvest and to hire or fire. So uncertainty encourages firms to delay, more so for longer-lived investments and decision that are costlier to reverse. The second channel is similar but works on the consumption side. Households become more likely to postpone spending when uncertainty is high, particularly on consumer durables like cars and major appliances – something Romer (1990) regards as a key driver of the drop in demand during the Great Depression. So high uncertainty encourages people to spend less and to build up a buffer stock of liquid assets. A third channel involves financing costs. Higher uncertainty can raise the cost of capital, especially because much of policy uncertainty is macroeconomic in character and thus hard to diversify. Moreover, because many managers are not diversified in their wealth holdings – they often have explicit or implicit equity stakes in their employers – higher uncertainty encourages managers to adopt a cautious stance toward risk taking and investment (Panousi and Papanikolaou, 2011). As these brief remarks suggestion, economic theory identifies reasons to suspect that high levels of policy uncertainty might undermine economic performance. To approach the issue empirically, in BBD we estimate Vector Auto-Regressions (VARs) that include measures of output, employment, prices, stock market levels, and interest rates. We regress current levels on lagged values and look at what predicts what. Figure 3 summarizes one of our main results in the form of estimated dynamic relationships. The top graph displays the estimated path of industrial production following an innovation to the policy uncertainty measure in Figure 1. Similarly, the bottom graph displays the estimated path for employment. These graphs are predictions, based on an underlying statistical model, of what would happen over the following three years if policy uncertainty increases by the amount of the actual change from 2006 to 2011. Because the underlying statistical model is linear, we can turn the graphs upside down to get the predicted increase in output and employment if current levels of policy uncertainty returned to 2006 levels. To be clear, we cannot say that the dynamic relationships displayed in Figure 3 are causal without invoking strong assumptions. But we can say that a return to 2006 levels of policy uncertainty, similar to the average level over our sample period, would be very good news for future employment and output growth. Pastor and Veronesi (2011) identify another negative aspect of policy uncertainty. They use our index to show that firm-level equity returns move together more closely when policy uncertainty is high, especially in the period since 2000. Greater comovement in firm-level stock returns makes it harder for investors to diversify financial risks. That leaves investors with greater risk exposures and is likely to discourage risk taking, as discussed above. High levels of policy uncertainty probably lead to stronger comovement of firm-level equity returns because much of the policy-related uncertainty is macroeconomic in nature. So policy uncertainty leads to market volatility at the aggregate level, and not just volatility at the level of individual firms. This article summarizes our efforts to measure economic policy uncertainty and assess its effects on economic performance. Our research is ongoing, but we draw a few preliminary conclusions at this point: • Policy uncertainty stands at historically high levels over the past four years. This conclusion finds support in our new index of economic policy uncertainty and in our analysis of the factors that precipitate big movements in the stock market. • Policy-related concerns now account for a large share of overall economic uncertainty. Here as well, this conclusion finds support in both the analysis of our news-based indexes and in our investigation into the factors that precipitate big stock market moves. • A rise in policy uncertainty, similar in magnitude to the actual change since 2006, is associated with substantially lower levels of output and employment over the following 36 months. Whether this dynamic relationship warrants a causal interpretation is a difficult question, as are most questions of causality in macroeconomics. We think the weight of the evidence and the lessons of economic theory argue for assigning some weight to the policy uncertainty view. If U.S. policymakers can deliver a policy environment characterized by greater certainty and stability, there will likely be a positive payoff in the form of improved macroeconomic performance.

## Delay

### Slow

#### Infrastructure stimulus is subject to high delays and slow transfers of money

David M. Schizer, Dean and Lucy G. Moses Professor of Law at Columbia Law School, 10-17-11, [“Fiscal Policy in an Era of Austerity,”, Working Paper No. 408, The Center for Law and Economic Studies Columbia University School of Law, [http://ssrn.com/abstract=1948692](http://ssrn.com/abstract%3D1948692)] E. Liu

Second, whatever the purchases multiplier proves to be, it stimulates the economy only if the government actually uses stimulus funds for purchases. As it turns out, show that in 2009 and the first half of 2010, only $18 billion – that is, only 2.1% of the $862 billion program -- funded government purchases, with only $2.4 billion supporting infrastructure (0.3%).42 Much of the money was given to states. While though, only a tiny fraction of the 2009 stimulus was used for government purchases. John Cogan and John Taylor the Administration assumed that 60% of these grants would be used for government purchases,43 they were used instead to reduce state borrowing – for example, states received $132 billion in stimulus payments and reduced debt levels by $136 billion in the third quarter of 2010 – and also to fund Medicaid and other transfers.44 Transfers are less likely to stimulate the economy, since they generally are thought to involve lower multipliers.45 One reason why so little was used for government purchases – and, indeed, why it is so difficult to rely on deficit-financed purchases to stimulate the economy – is that infrastructure projects are slow and difficult to plan. After all, the spending needs to begin (or at least to be announced) quickly, or the stimulus will not be timely. But government-funded infrastructure projects are not famous for their speed.

### Slow – Inflation/Solvency DA

#### Infrastructure takes years to move money into the economy – Also causes inflation

Claudia Copeland, Specialist in Resources and Environmental Policy, Congressional Research Service, et al., Linda Levine Specialist in Labor Economics William J. Mallett Specialist in Transportation Policy, 9-21-11, [“The Role of Public Works Infrastructure in Economic Recovery,” CRS Report for Congress, [www.fas.org/sgp/crs/misc/R42018.pdf](http://www.fas.org/sgp/crs/misc/R42018.pdf)] E. Liu

Funding infrastructure is a long-term investment, not quick-fix spending, that should lead to something durable, useful, and financially productive. The long-term nature of such investments can be at odds with the goal of quickly injecting money into the economy. Thus, the overriding question in debating infrastructure spending as part of a job creation package is, what will the increased spending buy? Two important considerations regarding any such proposal are, will the proposal produce short-term or long-term benefit, and will it produce a significant amount of incentive for the economy, relative to its budgetary cost. Some analysts are cautious about the effectiveness of infrastructure spending in this regard because of one key issue: timing. This concern was described in testimony by the Director of the Congressional Budget Office in 2008. The timing of fiscal stimulus is critical. If the policies do not generate additional spending when the economy is in a phase of very slow growth or a recession, they will provide little help to the economy when it is needed.... Poorly timed policies may do harm by aggravating inflationary pressures and needlessly increasing federal debt if they stimulate the economy after it has already started to recover. For federal purchases [of goods and services, such as infrastructure spending], the primary issue in targeting the spending is that of timing ... because many infrastructure projects may take years to complete, spending on those projects cannot easily be timed to provide stimulus during recessions, which are typically relatively short lived.39 By definition, the goal of stimulus spending is to get money into the economy swiftly. But that objective conflicts with the reality of building infrastructure projects that typically are multiyear efforts with slow initial spendout. Public works projects are likely to involve expenditures that take a long time to get underway and also are spread out over a long time. Large-scale construction projects generally require years of planning and preparation, including cost analysis, land acquisition, engineering, environmental review, and securing financing. For major infrastructure, such as highway construction and water resource projects, the initial rate of spending can be 25% or less of the funding provided in a given year.40 Based on CBO information, the National Governors Association reported spendout rates for several infrastructure categories: • About 68% of highway and 45% of transit obligations spend out over the first two years of a project. • About 19% of airport obligations spend out in the first year and another 42% in year two. • About 24% of drinking water and wastewater obligations are expended over two years, and 54% over three years.41 Economist Mark Zandi, who has been an advocate of infrastructure spending to stimulate economic recovery, acknowledged that it does take a substantial amount of time for funds to flow to builders, contractors, and the broader economy. “Even if the funds are only used to finance projects that are well along in their planning, it is very difficult to know just when the projects will get underway and the money spent.”42

### Slow – Instability DA

#### Stimulus is slow – Makes policies ineffective and causes instable fluctuations in demand

Antony Davies, Associate Professor of Economics at Duquesne University and a Mercatus Affiliated Senior Scholar, et al., Bruce Yandle, Derek Thieme, and Robert Sarvis, 4-12, [“THE U.S. EXPERIENCE WITH FISCAL STIMULUS: A Historical and Statistical Analysis of U.S. Fiscal Stimulus Activity, 1953- 2011,” Mercatus Center at George Mason University, mercatus.org/publication/us-experience-fiscal-stimulus] E. Liu

Public employment programs that produce useful goods or services generally take time to plan and implement. Therefore, such programs often have their greatest effects on public employment long after an economic recovery has begun. For this reason, public employment programs have sometimes exacerbated rather than mitigated cyclical fluctuations in aggregate demand. A study of the Accelerated Public Works program enacted in September 1962 by the Congress to combat the high unemployment rate of the early 1960s found that the number of jobs created by the program peaked in June 1964, 37 months after the bottom of the recession. More recent experience also confirms that lags in implementation are long. A recent study by the Office of Management and Budget found that 90 percent of the outlays for the local public works projects designed to stimulate recovery from the 1974–75 recession occurred more than 2 ½ years after the trough of the recession. The lags in implementing public works programs result in their having destabilizing effects, since a large share of the resulting spending occurs during periods of economic expansion.35 George H. W. Bush assumed office in January 1989. The next recession, which was once again associated with oil price shocks, started in July 1990 and ended in March 1991. This downturn ended a 92-month expansion that allowed ample time for White House economists to assess past stimulus actions. The 1990 ERP reviews some difficulties of attempts to manage the economy and concludes that macroeconomic fine-tuning had very limited effectiveness: Experience has shown that the ability of discretionary macroeconomic policies to move the economy in the right direction at the right time is quite limited. First, assessing the current state of the economy is difficult because economic data are subject to appreciable errors and are generally available only after a considerable lag. Second, economic forecasting is difficult and quite imprecise, limiting the ability of policymakers to anticipate swings in the economy. Third, even if economic fluctuations are forecast correctly, determining the appropriate policy measures is difficult because the economy responds somewhat unpredictably to changes in fiscal and monetary policy. Finally, lags between a policy action and its ultimate effect on the economy imply that timely implementation of a discretionary change in policy frequently may not be possible. To be sure, discretionary policy changes might partly offset unusually large and sustained economic fluctuations. But, in general, the ability of discretionary macroeconomic policies to contribute to economic stability is quite limited.36

### Speed Up Bad

#### Speeding up infrastructure means the plans aren’t ready – Undermines effectiveness and turns delays

Jessica Perez, Policy Advisor for the Third Way Economic Program, 3-12, [“Coming in on Budget: Infrastructure Contracting Reform,” The Schwartz Initiative on American Economic Policy, <http://content.thirdway.org/publications/509/Third_Way_Idea_Brief_-_Coming_in_On_Budget_Infrastructure_Contracting_Reform.pdf>] E. Liu

Our current infrastructure delivery system leads to cost overruns. The infrastructure delivery system used in the U.S. today makes it easy for  projects to run over budget. When soliciting bids for projects, states often use  incomplete design documents—meaning that a contractor prices and begins  construction on a project before the plan is even complete.9 While this process  saves time at the outset of a project, it also drastically increases the likelihood  that a contractor will encounter unforeseen site conditions that cause delays and  cost increases. For example, during the reconstruction of Interstate 287 in New  York, unforeseen field conditions resulted in the need for an additional excava- tion, raising the project’s price tag by $687,400. This was just one of at least 65  change orders that have caused the project to run 22% over budget.10  Project cost overruns like these are far too common and pose a serious threat  to our ability to build and maintain a 21st century infrastructure. In fact, nine out  of ten infrastructure projects cost more than expected, with the average overrun  a shameful 28%.11 The state of Indiana spent $17 million on overruns in 2001,12  while the state of California incurred more than $305 million in transportation  cost overruns in just three years from 2007 to 2010.13 These unexpected costs  consume valuable resources that could be devoted to other projects, thus limit- ing states’ ability to meet pressing infrastructure needs.  Contract structures put state and local governments at a disadvantage. Incomplete design documents result in a contract structure that places the  majority of risk with the government entity. Because contractors can’t provide an  accurate price estimate based on an unfinished plan, they aren’t willing to swal- low the additional costs that result from plan changes or unforeseen site condi- tions. Therefore, states are forced to enter into contracts that allow for myriad  changes and additional payments.

### Speed Up Bad – Link and Solvency Turn

#### Stimulus is designed to be spent quickly – That takes out infrastructure’s beneficial effects

Anthony E. Shorris, Professor of Practice at the Robert F. Wagner School of Public Service and serves as Director of the Rudin Center for Transportation Policy, 12-8-09, [“What Have We Learned From The Recovery Act?,” National Jouranl Experts Blog, <http://transportation.nationaljournal.com/2009/12/what-have-we-learned-from-the.php?comments=expandall#comments>] E. Liu

First, we need to be honest with ourselves about what the goals of such a program are, and then accept that the policy choices we make will affect the outcomes. Disappointment in some quarters that ARRA did not, for instance, lead to nationally transformative infrastructure programs was inevitable for an initiative that was in fact designed to create jobs as quickly as possible which, in turn, guaranteed a focus on short-term, job-intensive, and pre-approved projects. ARRA contained five overarching goals, yet the short-timeframe and “use it or lose it” deadlines attached to nearly $35 billion of transportation funded through DOT ended up trumping other policy objectives. A second effort at job creation should be recognized as just that – and not over-sold for its impact on the underlying economy.

### Speed Up Bad – Misallocation

#### Speeding up infrastructure for short-term gains undermines long term efficiency

Douglas Holtz-Eakin, President American Action Forum and Martin Wachs, Senior Principal Researcher, 1-21-11, [“Strengthening Connections Between Transportation Investments and Economic Growth ,” Bipartisan Policy

Center’s National Transportation Policy Project, <http://www.rand.org/pubs/external_publications/EP20110012.html>] E. Liu

In actuality employment impacts have been far more variable from one project to another, even when one considers only directly-related construction jobs. And while there is great interest in short-term job creation during a deep recession, it is also important to focus on longer-term impacts. Transportation investments can have a more significant and lasting impact on jobs by providing a foundation for overall economic growth and improved productivity well into the future. By contrast, hastily spending tens of billions of dollars on “shovel-ready” projects for the primary purpose of immediate job creation risks misallocating resources in ways that fail to maximize overall returns to the economy. Federal legislation should focus future spending on surface transportation in ways that reach well beyond the immediate creation of construction jobs to capture broad, sustainable economic benefits. in transportation infrastructure and the nation’s short- and long-term economic well-being. Transportation infrastructure investment programs is surely not all equally effective at creating jobs or economic growth, so it is important to refine the debate. On one hand, poorly targeted transportation dollars represent a wasted opportunity that the country can ill afford given its current fiscal predicament. On the other hand, ac- celerating the return of robust and sustained economic expansion will be imperative and can be advanced by the sound investment of scarce resources. Good trans- portation policy can help prevent waste and promote real growth. Different types of expenditures on transportation can have very different long-term economic and short-term jobs impacts—notwithstanding the tendency to invoke simplistic relationships in which a given level of invest- ment are claimed to create a fixed number of jobs. For decades advocates for transportation investment have asserted that each billion dollars of transportation infra- structure investment would generate or “create” more than 30,000 jobs and thus be good for the economy. Such claims, though routinely asserted, are not well supported by evidence from rigorous analysis and at best represent a hope rather than an assured outcome.

### AT: Shovel-Ready

#### Shovel ready programs rarely exist and are terrible investments that turn solvency

Claudia Copeland, Specialist in Resources and Environmental Policy, Congressional Research Service, et al., Linda Levine Specialist in Labor Economics William J. Mallett Specialist in Transportation Policy, 9-21-11, [“The Role of Public Works Infrastructure in Economic Recovery,” CRS Report for Congress, [www.fas.org/sgp/crs/misc/R42018.pdf](http://www.fas.org/sgp/crs/misc/R42018.pdf)] E. Liu

In 2009, policymakers concerned about these timing issues included requirements in ARRA that stimulus funds be awarded to “shovel ready” or “ready to go” infrastructure projects that could proceed to construction and contribute to economic output quickly. ARRA’s effectiveness in meeting that challenge is not fully known, but may be less than was hoped for, at least according to CBO: “As a practical matter, the experience with ARRA suggests that fewer projects are ‘shovel ready’ than one might expect: By the end of fiscal year 2009, outlays for infrastructure spending from ARRA made up less than 10 percent of the budget authority granted for infrastructure in that year.”43 A related concern raised by some is whether spending that is undertaken in efforts to stimulate economic recovery will represent investment in long-term assets for society. Critics contend that emphasizing “ready to go” projects is likely to result in spending on many with marginal value, such as projects with plans that have been backlogged for some time because they lack sufficient merits. Critics contend that most projects are small and do not solve long-term problems or have strategic value. Infrastructure projects should be justified on the merits, not as job-creating instruments. One such critic of additional infrastructure spending noted, “If additional infrastructure is worthwhile, it should be constructed. Such determinations are most likely to be accurate, however, when they are made without the haste associated with an attempt to respond to economic weakness.”44 Undoubtedly, some types of public jobs programs support jobs that have little long-term impact, such as hiring workers to sweep streets or rake leaves, sometimes called “make work.” Projects that involve substantial new construction are slower to complete and to impact jobs, but often have a political appeal because of high visibility to the public. Some infrastructure, such as highway resurfacing and minor road repairs or replacement of pumps and compressors at water facilities, does benefit the value of the nation’s capital assets and can be done more quickly than new construction. Likewise, acquiring new clean fuel buses or rehabilitating transit stations can occur more rapidly than extending collector sewer lines into unsewered communities. Many public officials believe that it is possible to balance both short-term and long-term goals through infrastructure projects.

#### Shovel-ready projects don’t exist and are often pursued inevitably

Garrett Jones, Assistant Professor of Economics and Senior Scholar at the Mercatus Center and Daniel M. Rothschild, researcher at the Mercatus Center, 9-11, [“No such thiNg as shovel ready: the supply side of the recovery act,” Mercatus Center at George Mason University, mercatus.org/publication/no-such-thing-shovel-ready] E. Liu

To some extent the tradeoff was a result of the ill-defined goal of being ―shovel-ready.‖ Several respondents suggested that this was not a meaningful phrase for the large infrastructure projects that the popular imagination considered ARRA to be funding. For instance, one state transportation manager suggested that ―shovel ready‖ was an arbitrary distinction that did not comport with the realities of infrastructure building, saying, ―It takes years of permitting work, environmental analysis, et cetera, to get to the shovel ready stage, and millions of dollars. Who’s going to get that far and then stop on a project that’s really important? It doesn’t make sense.‖ Another public-sector manager said of a major infrastructure project for which his agency received ARRA funding, ―We were going to move forward with the project whether or not we had ARRA money.‖ Had ARRA not paid for the project, he reported that they would have sold bonds or taken out federal Railroad Rehabilitation and Improvement Financing loans.

### AT: Shovel-Ready – Maintenance

#### Regulatory needs block even maintenance projects from being fast

James Huffman, Erskine Wood Sr. Professor of Law at Lewis and Clark Law School in Oregon, 9-10-11, [“Why More Infrastructure Spending Is Unlikely to Create Jobs and Stimulate the Economy,” Hoover Institution, <http://www.advancingafreesociety.org/exclusive/topics/freedom/more-infrastructure/>] E. Liu

There are several reasons why a new burst of infrastructure spending by the federal government is unlikely to stimulate a significant economic recovery. To create jobs in the near term, spending must be in the near term. Although spending planned for infrastructure was actually a small fraction of the 2009 stimulus package, there was enough to make clear that there are few, if any, “shovel ready” projects in our heavily regulated world. Even deferred maintenance often requires extensive regulatory approvals before work (and hiring) can begin. Pressures to create jobs in the short term, combined with the absence of shovel ready projects, leads to “make work” projects selected because they can be implemented immediately, and not because they are part of a comprehensive and long term infrastructure plan. The result, at best, is temporary employment and a completed project that is unlikely to contribute to long term economic growth.

## Crowd-Out

### Privates Solve – Government Fails

#### Government lacks information or incentive to act well – Displaces the private sector which is better

Guy Bentley, Editorial Assistant, The Commentator, 3-14-12, [“Government infrastructure spending won't stimulate growth,” Adam Smith Institute, <http://www.adamsmith.org/blog/planning-transport/government-infrastructure-spending-wont-stimulate-growth>] E. Liu

It is a fallacy to believe that the government can allocate resources effectively to meet future economic needs, instead of entrepreneurs. What advocates of state infrastructure spending fail to grasp is that government cannot suddenly acquire the knowledge as to which parts of the UK’s infrastructure either needs repair, replacement or, indeed, which new projects should be undertaken. The economy is dynamic and never static. The government cannot predict what it will look like in 30 years time, whether there will be an increase of manufacturing jobs in the northeast or high tech in the midlands. This is simply not possible to anticipate into the next twenty or thirty years. The argument commonly made for infrastructure spending is that it will have a kind of Keynesian multiplier effect. Private construction firms will be employed, idle resources will be put to use and money will start to circulate through the economy as people spend their newly earned wages. But this, again, is untrue. Government infrastructure drains the economy of resources and, even in the short term, stops resources from being used elsewhere. These decisions are difficult even for the private sector, which relies on price signals. Sometimes the private sector fails, sometimes it succeeds, but because it is the investor's money that is on the line it has a reason to act rationally. Government lacks the information to act wisely, and the incentives to act prudently. In Japan, large government infrastructure projects have failed to lift the country out if its low growth high debt slump. In the UK, many cities have built tramlines, which have almost universally turned out to be loss makers and failed to promote growth. Entrepreneurs, not state bureaucrats, will be best to judge whether a particular project is worth the risk. The history of white elephant infrastructure projects is one that seems to repeat itself with each new administration. Let us hope that the politicians fail to match their rhetoric with our money.

### Privates Solves – Productivity

#### They trade off with the productive private sector – Privates solve productivity and growth

Brian M. Riedl, fellow in federal budgetary affairs at The Heritage Foundation, 11-12-08, [“Why Government Spending Does Not Stimulate Economic Growth,” Thomas A. Roe Institute for Economic Policy Studies Published by The Heritage Foundation, [www.heritage.org/Research/Budget/bg2208.cfm](http://www.heritage.org/Research/Budget/bg2208.cfm)] E. Liu

Productivity growth requires increasing the amount of capital, either material or human, relative to the amount of labor employed. Productivity growth is facilitated by smoothly functioning mar- kets indicating accurate price signals to which buy- ers and sellers, firms and workers can respond in flexible markets. Only in the rare instances where the private sector fails to provide these inputs in ade- quate amounts is government spending necessary. For instance, government spending on education, job training, physical infrastructure, and research and development can increase long-term productiv- ity rates—but only if government spending does not crowd out similar private spending, and only if gov- ernment spends the money more competently than businesses, nonprofit organizations, and private cit- izens. More specifically, government must secure a higher long-term return on its investment than tax- payers’ (or investors lending the government) requirements with the same funds. Historically, gov- ernments have rarely outperformed the private sec- tor in generating productivity growth. Even when government spending improves eco- nomic growth rates on balance, it is necessary to dif- ferentiate between immediate versus future effects. There is no immediate stimulus from government spending, since that money had to be removed from another part of the economy. However, a productiv- ity investment may aid future economic growth, once it has been fully completed and is being used by the American workforce. For example, spending on energy itself does not improve economic growth, yet the eventual existence of a completed, well- functioning energy system can. Those economic impacts can take years, or even decades, to occur. Most government spending has historically reduced productivity and long-term economic growth due to: 3 1. Taxes. Most government spending is financed by taxes, and high tax rates reduce incentives to work, save, and invest—resulting in a less motivated workforce as well as less business investment in new capital and technology. Few government expenditures raise productivity enough to offset the productivity lost due to taxes; 2. Incentives. Social spending often reduces in- centives for productivity by subsidizing leisure and unemployment. Combined with taxes, it is clear that taxing Peter to subsidize Paul reduces both of their incentives to be productive, since productivity no longer determines one’s income; 3. Displacement. Every dollar spent by politicians means one dollar less to be allocated based on market forces within the more productive pri- vate sector. For example, rather than allowing the market to allocate investments, politicians seize that money and earmark it for favored organizations with little regard for improve- ments to economic efficiency; and 4. Inefficiencies. Government provision of housing, education, and postal operations are often much less efficient than the private sector. Government also distorts existing health care and education markets by promoting third-party payers, resulting in over-consumption and insensitivity to prices and outcomes. Another example of inefficiency is when politicians earmark highway money for wasteful pork projects rather than expanding highway capacity where it is most needed.

### Crowd-Out – Disincentives Privates

#### Public infrastructure is inefficient and displaces private investment

Balázs Égert, economist at the Economics Department of the OECD. He previously worked at the Austrian central bank, et al., Tomasz Kozluk, Douglas Sutherland, 09, [“Infrastructure Investment: Links to Growth and the Role of Public Policies”, OECD Economics Department Working Papers, No. 686, OECD Publishing, <http://en.scientificcommons.org/43954199>] E. Liu

The decline of public ownership partly reflects increasing recognition among OECD governments that it can create conditions contributing to inefficient investment in infrastructure. For instance, overinvestment may occur as public managers engage in “empire building” behaviour to strengthen their support with the politicians that appointed them (e.g. by expanding capacity and employment in public enterprises). Indeed, some telecom operators cut back ambitious plans to expand fibre-optic networks in the wake of privatisation. At the other extreme, underinvestment may occur, if public authorities pay insufficient attention to the long-term benefits of investment in a context of fiscal pressures. Public investment may also lead to the misallocation of resources across regions and sectors. For example, policymakers may allocate resources to a given region or project at the expense of other potentially higher return investments in more deserving regions or projects.31 Investment may also be allocated sub-optimally over time if it is allowed to be influenced by the electoral cycle.32 Public ownership can also create disincentives for privately-operated firms to invest in network industries. First, the lack of a level playing field – often due to the state-owned company’s soft budget constraint – is a disincentive for private firms to invest. Second, there may be confusion between the role of the state as the regulator and owner, which serves to amplify regulatory discretion and risk (this is discussed below). Finally, state ownership can be a de facto barrier to foreign direct investment. Against this background, private sector provision has become increasingly attractive. First, in some sectors – such as telecoms and electricity – the extent of the natural monopoly element has been redefined, in part as a result of technical progress or as a result of sunk costs having already been incurred, opening the door to competitive private provision. Second, refinements in regulatory techniques have made “arm’s length” regulation of private providers of infrastructure more desirable than direct public provision. Similarly, new contracting techniques were designed, which made contracting out of infrastructure provision more attractive than in the past. Finally, particularly in the presence of mature networks, specific distributional objectives were often found to be more efficiently achieved by other mechanisms, such as targeted social transfers.

### Crowd-Out – Investment

#### Public spending displaces private spending – Rate of return and debt – Undermines growth

Pierre-Richard Agénor, Hallsworth Professor of International Macroeconomics and Development Economics, University of Manchester, and co-Director, Centre for Growth and Business Cycle Research and Blanca Moreno-Dodson, Senior Economist, PREM Vice Presidency, World Bank, 3-30-06, [“Public Infrastructure and Growth: New Channels and Policy Implications,” <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2005043>] E. Liu

In the short term, an increase in the stock of public capital in infrastructure may have an adverse effect on activity, to the extent that it displaces (or crowds out) private investment. This short-run effect may translate into an adverse growth effect if the drop in private capital formation persists over time. Crowding-out effects may take various forms. For instance, if the public sector finances the expansion of public capital through an increase in distortionary taxes, the reduction in the expected net rate of return to private capital, may lower the propensity to invest. A similar, and possibly more detrimental, effect on private capital formation may occur if the increase in public infrastructure outlays is paid for by borrowing on domestic financial markets, as a result of either higher domestic interest rates (in countries where market forces are relatively free to operate) or a greater incidence of rationing of credit to the private sector. Moreover, if an investment-induced expansion in public borrowing raises concerns about the sustainability of public debt over time and strengthens expectations of a future increase in inflation or explicit taxation, the risk premium embedded in interest rates may increase.7 By raising the cost of borrowing and negatively affecting expected after-tax rates of return on private capital, an increase in the perceived risk of default on government debt may have a compounding effect on private capital accumulation. In particular, private investors may revise downward their investment plans because of anticipated hikes in tax rates to cover the increase in public investment.

### AT: Crowd-In

#### Multiple studies show crowd-out – Crowd-in is only true for developing countries

Altin Gjini, State University Aleksander Moisiu Durres, Albania, and Agim Kukeli, University of New York Tirana, Albania , 5-12, [“Crowding-Out Effect Of Public Investment On Private Investment:,” Journal of Business & Economics Research – May 2012, http://journals.cluteonline.com/index.php/JBER/article/view/6978] E. Liu] E. Liu

There is a vast discussion about the effects of public capital investment on private investments. The question is, does public investment crowd in or out private investment? Four common approaches are used for modeling the investment in the existing literature, such as accelerator model, expected profit model, the neoclassical model and Tobin’s q. One way to analyzing the effect of public investment on economic growth is based on the neoclassical investment model in which public capital enters as a separate input and on the productivity measure derived from the production function. The Aschauer (1989.a) and (1989.b) reviewed the impact of the public capital stock on productivity (evidence from US annual and state level data) and the empirical results indicate that nonmilitary public capital stock, particularly on core infrastructure, is more important in determining productivity than is either flow of nonmilitary or military spending. Munnell (1992) analyzing the effects of infrastructure investment in economic growth stock concluded that in addition to provide immediate economic stimulus, public infrastructure investment has a significant, positive effect on output and growth. Also, the further work of Aschauer (1990) and Cashin (1995) conclude the same result that public capital influences positively economic growth. Some other studies such as Holtz-Eakin (1994) and Evans and Karras (1994), find negligible role of public investment on productivity. Khan and Reinhart (1990), Khan and Kumar (1997) and Ang (2009) conclude that for developing countries the increase of the public investment influences positively economic growth, but less than contribution of private investment. Voss (2002) using data from both US and Canada suggests that for both countries there is no evidence to prove that public investment complements private investment, in fact innovations to public investment tends to crowd out private investment. Most of the literature that use the neoclassical approach arrive in conclusion that public capital investment has influence on the economic productivity but this factor is not a major one. Another way that is used in analyzing the effect of public investment in economic prosperity is that of accelerator model, which uses private investment that incorporate public investment in order to point out the direct effect of public investment on private investment and also its indirect effect on economic growth through its effect on private investment. The conclusion that public investment has positive effect on private investment has been supported by studies such as Ramirez (1994) for Mexico, Odedokun (1997) for forty-eight developing countries and Ramirez (2000) for a panel of Latin American countries. Other works such as Blejer and Khan (1984) for a panel of developing countries conclude that public infrastructure crowd in private infrastructure and public non infrastructure investment crowds out private investment. Some other literature such as Way and Wong (1982) for five developing countries and Nazmi and Ramires (1997) suggest that public investment crowd out private investment. Erden and Holcombe (2005) for nineteen developing countries and twelve developing countries suggests that public investment crowd in private investment for developing countries and crowd out private investment for developed countries. The literatures suggest different results on the effect of the public investment on private investment.

#### Productivity benefits of infrastructure come slow and mitigated by taxation

 Brian M. Riedl, fellow in federal budgetary affairs at The Heritage Foundation, 11-12-08, [“Why Government Spending Does Not Stimulate Economic Growth,” Thomas A. Roe Institute for Economic Policy Studies Published by The Heritage Foundation, [www.heritage.org/Research/Budget/bg2208.cfm](http://www.heritage.org/Research/Budget/bg2208.cfm)] E. Liu

As stated above, resulting improvements in the nation’s infrastructure may increase future produc- tivity and growth—once they are completed and in use. This is not the same as suggesting that the act of spending money on additional highway workers and asphalt is itself an immediate stimulant. Even the hope of future productivity increases rest on the assumptions that politicians will allocate money to necessary highway projects (rather then pork), and that those future productivity benefits will outweigh the lost productivity from raising future tax rates to finance the project.20

## Spending

There is nothing here.

## Gas Tax

### Transportation Funded by Gas Tax

#### Gas taxes are critical to fund future transportation

CNN, 11-18-11, [“Five Myths About Your Gasoline Taxes,” Shin-pei Tsay, Deborah Gordon, <http://www.cnn.com/2011/11/18/opinion/tsay-gordon-gas-tax-myths/index.html>] E. Liu

America's transportation system is going broke. Revenue for the Highway Trust Fund is derived almost entirely from federal gas taxes and distributed to all 50 states. It covers nearly 80% of the capital costs of federally-funded transportation projects, with states carrying the remainder. From 2008 to 2010, Congress transferred $34.5 billion from general fund revenues to make up the funding shortfall. This stopgap measure was necessary to continue projects that are already in the works. Moreover, deferred maintenance—the failure to care for existing roads and bridges—combined with lost productivity are estimated to add more than $100 billion to the national deficit annually. Over time, technology will help expand mobility options and improve system efficiency. This includes the ability to track real-time data and charge for system use and facilitate trip decision-making through virtual communications -- social networking, skype, real-time ride-sharing, and on-line meetings. These 21st-century interactions will bolster economic productivity and competitiveness. But they will take time to mature and, in the near-term, will not obviate the need for travel. Moreover, a dedicated source of revenues, such as gas taxes or other user-based fees, will remain critical to fund and facilitate the transition to technology-oriented transportation solutions.

#### Normal means for funding transportation infrastructure is a gas tax.

**Long**, 6/6/**2012** (Cate, Who will pay for new infrastructure spending, Reuters, p. <http://blogs.reuters.com/muniland/2012/06/06/who-will-pay-for-new-infrastructure-spending/>)

The most prevalent means of funding infrastructure is a tax on gasoline. At a recent conference organized by the American Society of Civil Engineers and the American Planning Association, discussion focused on the need to create accountability and transparency between state transportation departments and the public in how their taxes were spent: Also on the panel was Doug McDonald, former Secretary of the Washington state Department of Transportation (2001-07). It was under McDonald’s watch that the department addressed long-standing accountability and trust issues by establishing and publicizing quantifiable benchmarks for measuring performance. That focus on accountability allowed state officials to win legislative passage of a five-cent gas tax in 2003 after increases were rejected in 2001 and 2002. The increase allowed the state to fund a series of high-priority “nickel projects” selected by lawmakers. After demonstrating they could bring the projects in on-time and on-budget, the department was able to push for a second, phased-in 9.5 cent gas tax hike two years later to fund the largest transportation package in the state’s history, an $8.5 billion plan. The generic talk about the need to increase infrastructure spending is persuasive, but, as in most public policy matters, the question comes down to who pays for it. McDonald’s idea of “establishing and publicizing quantifiable benchmarks for measuring performance” is so simple that it would be easy to dismiss it. But as tax revenues shrink and demands for government services increase, it will be more important than ever to justify committing scarce taxpayer dollars to infrastructure. America has seen too many “bridges to nowhere” to sign off on unlimited new spending on roads and sewer systems.

#### Highway Trust Fund proves that the plan is funded by a gas tax.

**Tsay and Gordon**, 12/7/**2011**(Shin-Pei – director of the Leadership Initiative for Transport Solvency in the Energy and Climate Program at the Carnegie Endowment for International Peace, and Deborah – nonresident senior associate in Carnegie’s Energy and Climate Program, Five myths about your gasoline taxes, CNN Opinion, p. http://www.cnn.com/2011/11/18/opinion/tsay-gordon-gas-tax-myths/index.html)

3. Gas taxes are unnecessary because the transportation system is paid for in other ways. Not so fast.

America's transportation system is going broke. Revenue for the Highway Trust Fund is derived almost entirely from federal gas taxes and distributed to all 50 states. It covers nearly 80% of the capital costs of federally-funded transportation projects, with states carrying the remainder. From 2008 to 2010, Congress transferred $34.5 billion from general fund revenues to make up the funding shortfall. This stopgap measure was necessary to continue projects that are already in the works. Moreover, deferred maintenance—the failure to care for existing roads and bridges—combined with lost productivity are estimated to add more than $100 billion to the national deficit annually.

#### Gas tax is the traditional mode of funding for transportation infrastructure.

**Klein**, 2/15/**2011** (Ezra – editor of Wonkblog and a columnist at the Washington Post, The death of the gas tax – and of infrastructure investment?, Washington Post, p. <http://voices.washingtonpost.com/ezra-klein/2011/02/the_death_of_the_gas_tax_--_an.html>)

Perhaps my favorite part of the budget is the Department of Transportation's section (pdf). Readers know that I think infrastructure investment is, at this moment, the biggest no-brainer in the economy. The need is great, the workers are plentiful, the money is cheap, and the material costs are low. And the administration is proposing quite a lot of it: $556 billion over six years. That includes a $50 billion bump in the first year's funding to maximize job creation at a moment when unemployment is high, a $30 billion infrastructure bank, a $32 billion Race to the Top program to encourage states to develop ambitious and innovative reform proposals, and more. It's good stuff. The question is how we're going to pay for all of it. Traditionally, the underlying law -- the Surface Transportation Assistance Act -- was funded by increasing the gas tax. And when I say "traditionally," I mean beginning with Ronald Reagan in 1982. Yes, Reagan increased the gas tax to fund infrastructure investment. George H.W. Bush and Bill Clinton both followed his lead on that. Then came George W. Bush, and for the first time, the law was reauthorized and given new funding without being paid for. The connection between infrastructure investment and its traditional funding source was severed.

### Gas Tax Hurts Consumption/Jobs

#### Any payment for transportation undermines jobs and consumption – causes net losses

Ronald D. Utt, Ph.D, Herbert and Joyce Morgan Senior Research Fellow in the Heritage Foundation's Roe Institute for Economic Policy Studies, 4-2-08, [“More Transportation Spending: False Promises of Prosperity and Job Creation,” Heritage Foundation, [www.heritage.org/Research/Budget/bg2121.cfm](http://www.heritage.org/Research/Budget/bg2121.cfm)] E. Liu

Using a different I/O model, an earlier Congres- sional Research Service (CRS) study reported a much more cautious and qualified estimate of the potential of highway spending to create jobs.10 Although the CRS study found similar first-order and second- order effects—24,300 jobs versus USDOT’s esti- mated 26,524—it clearly states in its summary and conclusion that losses elsewhere in the economy would likely offset these employment gains: To the extent that financing new high- ways by reducing expenditures on other programs or by deficit finance and its im- pact on private consumption and invest- ment, the net impact on the economy of highway construction in terms of both out- put and employment could be nullified or even negative.11 In effect, the CRS study acknowledges that the substitution effects of the new highway spend- ing could more than completely offset the first- order and second-order employment benefits from such spending.12 Similarly, any tax increase to fund an equal amount of highway spending would certainly sub- stantially offset the impact, and output and employ- ment could be nullified or even negative. For example, the National Surface Transportation Policy and Revenue Commission’s proposal to increase the federal fuel tax by up to 8 cents per gallon per year for five years and then link it to the rate of inflation in subsequent years would reduce personal incomes by $204 billion over the next five years. In turn, this reduction in income would reduce personal con- sumption expenditures and eliminate the jobs of the workers who provided the lost goods and services.13

### Volatility – Instability

#### Gas price fluctuations hurt growth, employment and stability – Adds up to a huge economic cost

Rob Bailis, Assistant Professor At Yale's School of Forestry and Environmental Studies. He holds a PhD in Energy and Resources from the University of California at Berkeley, et al., Barbara Sophia Koebl Mark Sanders, 2-11, [“Reducing Fuel Volatility - An Additional Benefit From Blending Bio-fuels?,” Utrecht School of Economics Tjalling C. Koopmans Research Institute Discussion Paper Series 11-01, <http://www.uu.nl/SiteCollectionDocuments/REBO/REBO_USE/REBO_USE_OZZ/11-01.pdf>] E. Liu

Establishing a bio-fuel industry is generally seen to come with eclectic benefits. Among them are environmental aspects such as reduced pollutant emissions (Puppán 2002), energy security improvements, foreign exchange savings (Demirbas 2009), and direct employment effects. Another benefit associated with renewable energies results from diversification and is known as the volatility gain. The latter is the reduction in price fluctuations possibly achieved by mixing two energy sources with different price behaviour. Reducing fluctuations in fuel prices is of utmost importance for the economy. Economists have discovered negative effects of oil price volatility on economic output growth (Ferderer 1996). This can be explained by Bernankes (1983) finding that uncertainty delays irreversible business investments. Such uncertainty is for example introduced by high oil price volatility. Moreover, Uri (1996) discovers that oil price volatility has a delayed but negative effect on employment in the United States. The sum of the costs imposed on the United States due to movements in oil prices add up to around 7 trillion US Dollar (present value 2000) over the period of 1970 to 2000 (Greene and Tishchishyna 2000). Awerbuch and Sauter (2006) argue that the costs generated by the adoption of renewable energy strategies can be amortized simply by the reduction of price volatility resulting from diversification. Diversifying into bio-fuels can thus be an important strategy to assist macro-economic stability.

### Volatility – Uncertainty

#### Oil price uncertainty and volatility crush business investments and value creation

Irene Henriques, Professor of Sustainability and Economics at the Schulich School of Business, York University in Toronto, Canada and Perry Sadorsky, Associate Professor of Economics at the Schulich School of Business, York University, 9-9-10, [“The effect of oil price volatility on strategic investment,” Energy Economics 33 (2011) 79–87, <http://www.sciencedirect.com/science/article/pii/S014098831000143X>] E. Liu

Strategic investments are defined as investments which can provide benefits to the whole organization and not just the operating unit making the investment decision (Milgrom and Roberts, 1992, p.454). Strategic investments are one of the most important decisions that businesses make since such investments can lead to competitive advantage through cost reduction and product differentiation which in turn leads to value creation (e.g. Porter, 1980, 1998; Makadok, 2003). In an ideal situation (i.e., perfect information, no uncertainty), profit maximizing firms can determine the optimal amount of investment. In reality, however, it is often very difficult for firms to determine the optimal amount of investment and, in practice, investment decisions are often characterized by either over or under investment. This is particularly the case when investment decisions are made with less than perfect information. Businesses face uncertainty from a host of different sources including output price uncertainty, factor input cost uncertainty, exchange rate uncertainty or even regulatory uncertainty (Pindyck, 1991; Dixit and Pindyck, 1994). Uncertainty can affect not only the value of a specific investment decision but also the value of the firm (Miller, 1998). One source of uncertainty, oil prices, has in the past demonstrated its importance in affecting firm decision making and is likely to be of even greater concern in the future. A 2005 conference titled “The Top Ten Financial Risks to the Global Economy: A Dialogue of Critical Perspectives” sponsored by Goldman Sacks provides one example of how important oil prices are to the business community (Goldman, 2005). At this conference the world oil supply and rising oil prices topped the list of concerns by the conference participants. Bernanke (1983) is one of the earliest papers to show that it is optimal for firms to postpone irreversible investment expenditures when they experience increased uncertainty about the future price of oil. Bernanke (1983) develops a fairly stylized model of a firm faced with the decision of choosing between adding energy-efficient capital or energy-inefficient capital. Increased oil price uncertainty raises the option value of waiting to invest. As the firm waits for new information regarding the oil price uncertainty, the firm gives up any returns from making the early investment. Waiting for more information, on the other hand, improves the chances of making the correct investment decision. As the level of oil price uncertainty increases, the option value of waiting to invest increases and the incentive to invest declines. Oil price volatility can impact investment decisions because higher oil price volatility is associated with more energy input uncertainty which affects the marginal product of capital (Pindyck, 1991). Consistent with the literature on real options, in the face of increased uncertainty, companies often postpone investment decisions because there is an option value of waiting to resolve uncertainty (Pindyck, 1991; Dixit and Pindyck, 1994). The more recent literature on strategic growth options and compound options emphasizes that when firms do not have monopolistic control over the investment opportunity and product markets are not perfectly competitive, there are two option value effects (the option of waiting to resolve uncertainty and an option to grow the business) (Kulatilaka and Perotti, 1998). In the face of uncertainty, companies often postpone investment until the uncertainty is resolved. Not investing, which delays the possibilities of gaining market share or growing the company, may allow another competitor to seize the opportunity. These two effects give rise to a U shape relationship between investment and uncertainty. The purpose of this paper is to test this real options theory by empirically investigating the effects of oil price volatility on strategic investment. This is a topic which does not seem to have been previously investigated.1

## Link Defense

### Accessibility/Mobility Distinction

#### They’re focused on mobility, or pure vehicle miles traveled – Accessibility model is key to productivity

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

Increasing transport system efficiency provides productivity gains that filter through the economy in various ways. For example, reduced shipping costs may increase business profits, reduce retail prices, improve service quality (more frequent deliveries), allow tax increases or a combination of these. Even modest efficiency gains can provide significant benefits. For example, if a business has an 8% annual return on investment and transport represents 16% of its costs, a 5% reduction in transport costs increases profits 10%. Economic efficiency increases if transport resource costs (including time, land, risk and energy) are reduced or if the value provided by transport activity increases. For example, transport system efficiency can be increased if higher value trips are given priority over lower-value trips, such as if a freight or service vehicle with a $100 per hour opportunity cost is given priority over vehicles with only $10 per hour opportunity cost. This is why efficient road and parking pricing, which tests users willingness to pay for roads and parking, can increase transport system efficiency even if this reduces total vehicle traffic. The ultimate goal (or output) of transportation is accessibility, people and industry’s ability to access desired resources, services and markets, which can include raw materials, labor, worksites, professional services, business meetings, clients and distributors. Increased accessibility (a reduction in the time, money or risk required to reach resources and services) increased productivity. Conventional planning tends to be mobility-based: it assumes that transportation means vehicle travel and evaluates transport system performance using such as vehicle traffic speeds, miles-per-gallon, cents-per-passenger-mile and ton-miles-per-dollar, which reflect the speed and affordability of vehicle travel, and so favor automobile-oriented transportation improvements and sprawled land use development. Accessibility-based analysis expands the range of impacts and options considered in transport planning. For example, accessibility-based analysis recognizes that land use sprawl can increase the distances between destinations and therefore accessibility costs, and that telecommunications and delivery services can substitute for physical travel. Accessibility-based planning expands the range of solutions that can be applied to solve transport problems, including some strategies that reduce total vehicle travel, for example, by improving alternative modes (walking, cycling, ridesharing, public transit, etc.), encouraging more efficient use of existing transport resources (such as more efficient road, parking, insurance, and fuel pricing, and roadway management that favors more efficient modes and higher value trips, such as high-occupant and freight vehicles), more accessible (more compact, mixed, connected, multi-modal) land use development, and improved mobility substitutes (telecommunications and delivery services). These strategies can result in more efficient use of transport resources, for example, by encouraging travelers to shift to more resource efficient modes (walking, cycling, ridesharing, public transit, telework) when feasible, so higher value vehicles (freight, service, bus, urgent personal errands, etc.) can travel unimpeded by congestion.

### Congestion – Adaptation Solves

#### Human adaptation solves congestion impacts – Their models underestimate that

Matthias Sweet, PhD candidate at the University of Pennsylvania City and Regional Planning Department, 11, [“Does Traffic Congestion Slow the Economy?,” Journal of Planning Literature, 2011 26: 391 originally published online 5 October 2011, <http://jpl.sagepub.com/content/26/4/391.abstract>] E. Liu

Regardless of value of time du jour, the arguments that congestion-induced travel delay results in lost productivity are tenuous (Stopher 2004). A body of literature indicates that individuals respond to travel delays by changing their behavior. System users are adept at substituting for trips by traveling at alternative times, on alternative routes, or using alternate modes (Choo and Mokhtarian 2008; Downs 1992; Ory et al. 2004; Salomon and Mokhtarian 1997). Downs (1992) explains how congestion would return using the principle of triple con- vergence, according to which system users adjust their travel behavior in three ways: modal convergence (transferring from transit to auto or vice versa), temporal convergence (adjusting an individual’s departure time and shortening the peak hour), and spatial convergence (altering route choices; Downs 1992). Although short-run responses to travel delays or travel time savingsmore closely reflect the assumption of fixed origins and destinations, long-term adjustments suggest that travelers alter travel behavior in ways that maintain relatively stable travel budgets. In response to congestion-induced travel delay, users may simply forego access to additional locations in response to higher travel times. Or conversely, as Metz (2008) argues, users may simply consume travel time savings by accessing more distant opportunities. Metz (2008) thus attributes the entire long-run economic impact of changing travel speeds to the marginal value of gained (or lost) access to particular des- tinations. As such, measuring the economic cost of congestion by using the value of travel delay in comparison with free-flow speeds underestimates the role of individual adaptations through changed travel behavior. While researchers estimating the value of time have had difficulty distinguishing economic costs from foregone noneconomic opportunities, this literature has had even more difficulty distinguishing a more comprehen- sive range of economic outcomes.

#### People adapt – High wages incentivize it

Eric Dumbaugh, associate professor and interim director at the School of Urban and Regional Planning at Florida Atlantic University, 6-1-12, [“Rethinking the Economics of Traffic Congestion,” The Atlantic Cities, <http://www.theatlanticcities.com/commute/2012/06/defense-congestion/2118/>] E. Liu

Stated another way, people adapt to congested environments. Because cities provide greater access to job opportunities than do rural areas, as well as wages that are more than 30 percent higher than their non-metropolitan counterparts they have a powerful economic incentive to do so. Fortunately for our cities and their economies, urban environments are precisely what is sought by the millennial generation. 88 percent of millennials report that they would prefer to live in urban environments, and they are already driving less and riding transit more than their Gen X and boomer counterparts. Indeed, many millennials view driving as a vice, with 55 percent indicating that they have made a deliberate effort to reduce the amount of driving that they do. They are also leading a surge in cycling in cities like Seattle, Minneapolis, Denver, and Washington, D.C., all of which have seen their share of bike commuting double over the last decade. These trends are of great concern to the auto industry.

### Congestion – Doesn’t Impact Productivity

#### No relation between congestion and productivity – Other factors otuweigh

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

Empirical evidence suggests that traffic congestion is not a major constraint on economic productivity. Figure 17 illustrates the relationship between per capita annual traffic congestion delay reported by the Texas Transportation Institute and per capita Gross Domestic Product reported by the U.S. Bureau of Labor Statistics for major U.S. cities. The results indicate that traffic congestion and economic productivity increase together. This does not necessarily mean that congestion stimulates economic productivity, these cities’ productivity would probably increase if congestion were reduced, but it suggests that other factors are much more important. Transportation system efficiency should be evaluated based on overall accessibility, taking into account all transport modes, land use patterns, and mobility substitutes such as telecommunications and delivery services, not just automobile travel speeds.

### Congestion – Induced Demand Turns Itself

#### Transportation improvements create induced effects that make congestion worse

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

In general, basic roadway improvements, such as paving a gravel road or increasing the load capacity of a bridge, support economic development by reducing transportation costs, provided that increased development in that area that is served is desirable. However, roadway expansion can have undesirable economic impacts: it can create barriers to walking and cycling, and stimulate additional automobile use and sprawl which reduces transportation system efficiency. Expanding existing roadways to reduce traffic congestion is not optimal if a combination of improvements to alternative modes, more efficient pricing, or other incentives to reduce peak-period vehicle travel can reduce congestion at a lower total cost. To the degree that peak-period automobile travel is underpriced (and in most cases it is to a significant degree), expanding highways can have negative overall economic impacts because incremental costs resulting from in induced travel (downstream congestion, parking facility costs, accident damages, increased sprawl and associated costs, increased energy imports and pollution emissions) can exceed incremental congestion reduction benefits.

### Congestion – Low Now

#### Congestion declining now – Economy and gas

Peter Samuel, 5-21-12, [“Traffic congestion dropped off 30% in 2011 INRIX says - weak economy, higher gas prices,” <http://www.tollroadsnews.com/node/5947>] E. Liu

2012-05-21 21:30: 2011 saw a dramatic drop in traffic congestion in the US - 30% fewer hours wasted in congested traffic according to INRIX, the nation's leading provider of traffic data. The 2011 improvement is only outmatched in the years since INRIX has been measuring congestion by the financial crisis year of 2008, when congestion dropped 34%. In 2009 congestion was up 1% and 2010 saw a 10% regrowth of congestion. But now we learn 2011 saw congestion drop again, and well below 2008 levels. In a press statement the Seattle area based company says the decline in congestion is attributable to the "'Stop-’N’-Go Economy' where lack of employment combined with high fuel prices is keeping Americans off the roads." Bryan Mistele INRIX chief executive: "The economic recovery on Wall Street has not arrived on Main Street. Americans are driving less and spending less fueled by gas prices and a largely jobless recovery."

#### Recession makes congestion low now – Their figures are obsolete

Steven P. Erie, Associate Professor of Political Science at the University of California, San Diego, et al., Vladimir Kogan, Scott A. MacKenzie, 10, [“BOOM, BUST AND BEYOND: TRADE INFRASTRUCTURE AND STIMULUS STRATEGIES IN LOS ANGELES AND SAN DIEGO,” http://polisci2.ucsd.edu/vkogan/research/apsa.pdf] E. Liu

In addition to the state’s precarious financial position, Southern California transportation officials face a more uncertain economic and political environment. In late 2008, the global 45 economic downturn led to sharp decreases in demand. The forecasts upon which plans for new facilities were based, most of which predicted near-term capacity challenges, are now obsolete. With excess capacity looming, it will be more difficult to convince elected officials to invest in infrastructure improvements now. Similarly, with many state and local and governments on the verge of bankruptcy, generating funds for improvements will be difficult, even where political will exists to support it. Finally, Southern California’s port complex faces fiercer competition from other ports, including Port of Prince Rupert in Canada, which is closer to Asian markets and has the deepest port on the West Coast. Increased container fees at the San Pedro Bay ports, which would pay the bulk of the costs for new facilities, could increase diversion to competitor ports. Thus, any improvements that are made must be well considered and cost-effective.

### Congestion – Not Bad

#### Congestion is linked with economic growth – It’s indicative of economic productivity

Eric Dumbaugh, associate professor and interim director at the School of Urban and Regional Planning at Florida Atlantic University, 6-1-12, [“Rethinking the Economics of Traffic Congestion,” The Atlantic Cities, <http://www.theatlanticcities.com/commute/2012/06/defense-congestion/2118/>] E. Liu

 But this begs the question: is traffic congestion really a drag on the economy? Economies are measured not in terms of vehicle delay or the amount of travel that people do, but in terms of the dollar value of the goods and services that they produce. If it is true that congestion is detrimental to a region’s economy, then one would expect that people living in areas with low levels of traffic congestion would be more economically productive, on a per capita basis, than those in areas with high levels of congestion. This is a testable assertion. With the help of my research assistant Wenhao Li, I sought to determine whether vehicle delay had a negative effect on urban economies. I combined TTI’s data on traffic delay per capita with estimates of regional GDP per capita, acquired from the U.S. Bureau of Economic Analysis. I used 2010 data for both variables, converted them to their natural logs, and modeled them using regression analysis. And what did I find? As per capita delay went up, so did GDP per capita. Every 10 percent increase in traffic delay per person was associated with a 3.4 percent increase in per capita GDP. For those interested in statistics, the relationship was significant at the 0.000 level, and the model had an R2 of 0.375. In layman’s terms, this was statistically-meaningful relationship. Such a finding seems counterintuitive on its surface. How could being stuck in traffic lead people to be more productive? The relationship is almost certainly not causal. Instead, regional GDP and traffic congestion are tied to a common moderating variable - the presence of a vibrant, economically-productive city. And as city economies grow, so too does the demand for travel. People travel for work and meetings, for shopping and recreation. They produce and demand goods and services, which further increases travel demand. And when the streets become congested and driving inconvenient, people move to more accessible areas, rebuild at higher densities, travel shorter distances, and shift travel modes.

#### Congestion is indicative of growth, doesn’t hurt the economy, and isn’t high in the US

Brian D. Taylor, associate professor of urban planning and Director of the Institute of Transportation Studies at the

University of California, Los Angeles, Fall 02, [“Rethinking Traffic Congestion,” Access, <http://courses.washington.edu/cee320ag/CEE%20320/Readings/Access%2021%20-%2003%20-%20Rethinking%20Congestion.pdf>] E. Liu

W e frequently read staggering estimates of the costs traffic congestion imposes on society. The Texas Transportation Institute, for example, placed the cost of metropolitan traffic congestion in 75 of the over 300 US metropolitan areas at $68 billion in the year 2000. Given such estimates, we can’t help but conclude that the economic health of metropolitan areas is threatened by congestion. While nobody likes being stuck in traffic, I think we overestimate its costs. Cities exist because they promote social interactions and economic transactions. Traffic congestion occurs where lots of people pursue these ends simultaneously in limited spaces. Culturally and economically vibrant cities have the worst congestion problems, while declining and depressed cities don’t have much traffic. By some esti- mates, New York and Los Angeles are America’s most congested cities. But if you want access to major brokerage houses or live theater, you will find them easier to reach in congested New York than in any other metropolitan area. And if your firm needs access to post-production film editors or satellite-guidance engineers, you will reach them more quickly via the crowded freeways of LA than via less crowded roads elsewhere. Despite congestion, a larger number and wider variety of social interactions and eco- nomic transactions can be consummated in large, crowded cities than elsewhere. Seen in this light, congestion is an unfortunate consequence of prosperity and a drag on otherwise high levels of accessibility, not a cause of economic decline and urban decay. So while we can view congestion as imposing costs on metropolitan areas, the costs of inaccessibility in uncongested places are almost certainly greater. The terrible economic and environmental tolls that congestion exacts in places like Bangkok, Jakarta, and Lagos are undeniable. But mobility is far higher and congestion levels are far lower here in the US, even in our most crowded cities. That’s why, for now, we don’t see people and capital streaming out of San Francisco and Chicago, heading for cities like Alturas, California, and Peoria, Illinois.

#### Congestion is a minor cost and projects reduce it marginally

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

Highway expansion advocates generally assume that traffic congestion significantly reduces productivity, roadway expansion can significantly reduce these costs, and alternative congestion reduction strategies are infeasible. These assumptions are often untrue. Congestion is a moderate cost overall so it would be inefficient to reduce it in ways that increase other transport costs such as consumer costs, parking costs or accidents. Highway expansion tends to provide modest long-term congestion reductions, most benefits are captured by consumers, and it increases other costs, so net productivity gains are small. Mobility management generally provides greater net economic benefits because it increases overall efficiency. Table 31 identifies critical questions to consider when evaluating the economic impacts of such a proposal.

### Congestion – Port Demand Low Now

#### Port demand is low now due to the recession – Also mitigates port’s effect on jobs

Steven P. Erie, Associate Professor of Political Science at the University of California, San Diego, et al., Vladimir Kogan, Scott A. MacKenzie, 10, [“BOOM, BUST AND BEYOND: TRADE INFRASTRUCTURE AND STIMULUS STRATEGIES IN LOS ANGELES AND SAN DIEGO,” http://polisci2.ucsd.edu/vkogan/research/apsa.pdf] E. Liu

Because the majority of foreign-made consumer goods are shipped to the United States by vessel, the sharp economic decline has resulted in large drops in maritime business for West Coast ports. Neither the Los Angeles nor the San Diego region were spared the brunt of the recession’s impact, though Los Angeles, by virtue of its well-established ties to Asian manufacturing centers, appears to have secured a better position to take advantage of the trade rebound starting in mid-2009.33 Figure 2 below shows the sharp decline in containerized cargo shipments at the Ports of San Pedro Bay starting in late 2008 and the subsequent traffic rebound. During the last two quarters of 2008, volume at the POLA dropped nearly 30 percent. At the POLB the change in volume was even more severe, dropping nearly 40 percent. In 2010, port cargo traffic was sharply rising again and approaching its mid-2008 levels. To retain their current customers and attract new business, both ports quickly cut their cargo rates. While a detailed analysis is beyond the scope of this paper, anecdotal evidence suggests that their aggressive response has been effective. While POLA and POLB both posted 18 significant declines in shipping volume in late 2008 and early 2009, their losses fell short of those at other West Coast ports, including Oakland and Seattle. Due to this and other factors, the San Pedro Bay ports were well-positioned to capitalize from stabilization and economic recovery that emerged in late 2009. A survey by Moody’s Investors Service showed that the two ports remained the highest-ranked by shippers, suggesting that they would be the first to experience at least partial recovery.35 However, the costs of the global downturn cut deeply across the Los Angeles region. During the boom times of 2006, the two ports had enough work for more than 1,000 laborers for every day shift. By February 2009, the ports were employing only 660. The Inland Empire, a major hub for goods imported through the San Pedro Bay ports, saw its workforce cut by more than 80,000 jobs. Citing the decline in port traffic, credit rating agencies threatened to cut their rating on $2 billion in bonds from the Alameda Corridor Transportation Authority (ACTA). In the first quarter of 2009, ACTA saw its revenues fall 21 percent and it warned that, absent a significant rebound, the ports would need to help pay for its operations. 36 In San Diego, the downturn only accelerated the vessel cargo decline that began in fiscal 2006, as the port continued to lose out to competitors better prepared to handle containerized cargo. Though quarterly figures are not available for San Diego, Figure 3 reports annual cargo tonnage and revenue for the port since 2001. From July 2008 to September 2009, the port saw its shipping tonnage fall 15 percent to its lowest level since fiscal 2003. Since 2006, the decline has totaled almost 22 percent. Excluding revenue guarantees — payments to guarantee minimum shipping volumes made to the port by companies, which often include unused capacity — actual cargo tonnage shipped through the port fell 41 percent during the same period. Trades in goods linked to the construction industry have been hit even harder, with cement imports down almost 80 percent over the three-year period. Port of San Diego maritime revenue has also declined since mid-2008.

### Congestion – AT: Freight

#### Congestion doesn’t hurt freight – That travel occurs in non-congested zones

Eric Dumbaugh, associate professor and interim director at the School of Urban and Regional Planning at Florida Atlantic University, 6-1-12, [“Rethinking the Economics of Traffic Congestion,” The Atlantic Cities, <http://www.theatlanticcities.com/commute/2012/06/defense-congestion/2118/>] E. Liu

While behavioral adaptations and changes in consumer preferences have already begun to address the issue of personal transportation in congested environments, a second issue remains unanswered: how do congested areas deal with freight and goods movement? A common argument is that if a region’s roadways are congested, goods will be unable to get to market and its economy will falter. Yet even the most casual glance at our most congested regions - New York, Los Angeles, and San Francisco to name three - quickly dispels this idea. These are not places where consumer choices are limited, nor are they areas with stagnant economies. Quite the contrary. They are precisely the areas where one finds not only the most vibrant economies, but also the greatest variety of goods and services. How is this possible? It is important to recognize that major manufacturing and freight activities rarely occur in congested city centers, where land values are too high to make these activities economically viable. Likewise, long-haul truck drivers, who are paid on a per-mile travelled basis, have a powerful economic incentive to avoid traveling through urban areas during congested time periods, which reduces the number of miles per hour they can travel, and thus the number of dollars per hour they receive for their time. Urban economies naturally encourage these activities to move away from congested areas and time periods.

### Congestion – AT: Productivity

#### Travel time doesn’t trade-off with productivity gains

Matthias Sweet, PhD candidate at the University of Pennsylvania City and Regional Planning Department, 11, [“Does Traffic Congestion Slow the Economy?,” Journal of Planning Literature, 2011 26: 391 originally published online 5 October 2011, <http://jpl.sagepub.com/content/26/4/391.abstract>] E. Liu

While researchers agree that the value of time is related to the regional wage rate (Miller 1989; Small 1992), they do not agree on how to determine its present value. Many cite half of the wage rate, while the range extends from virtually nothing to values greater than the wage rate (Rouwendal and Nijkamp 2004). Differences stem from two factors. First, it is not clear what proportion of travel delay (if any) results in lost produc- tivity (Stopher 2004). If an employee finds that his or her commute is 15 min longer due to congestion, they may leave for work earlier or may depart from work later in order to make up the additional work time. Similarly, 15 min of congestion delay would not replace economically productive time for an individual traveling to a social event after shopping. While foregone recreational time would certainly be valuable from a CBA perspective, it is not economically productive and is therefore more difficult to quantify. Second, individuals may simply change their travel destinations despite maintaining a constant travel time budget (Metz 2008). Researchers have found that, individuals average 1 hr of travel over the course of a day. In a discussion of time valuation for new transport investments, Metz (2008) argues that travel time savings would not exist in the long term and that there is little reason to value long-term travel time savings. Instead, faster travel times would be spent to access a greater range of activity locations (Metz 2008). When applying this logic to congestion-induced delay, individuals would choose closer activity locations in order to maintain stable travel times despite slower travel speeds.

### Diminishing Returns

#### Benefits from improving transportation are diminishing – Costs of mobility outweigh

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

These represent huge increases in interregional transport productivity. A typical long- distance trip costs just 1% to 10% of time and money required a century ago, currier services can ship small packages to almost any major city within a day or two, and electronic communication allows nearly instantaneous information transmission. These greatly increased economic productivity. Although some transport productivity gains are likely to occur in the future, primarily due to improved operations, they are likely to be smaller than what occurred during the last century and partly offset by rising fuel costs and congestion. For example, it is unlikely that travel from London to New York will be significantly faster or cheaper in 2050 than it is now. Automobile transport has a different efficiency profile. During the Twentieth Century vehicle and roadway improvements increased travel speed, comfort, fuel efficiency and reliability, but this imposed significant financial costs on households, as illustrated in Figure 5, and increasing indirect costs such as congestion, parking subsidies, accidents and pollution damages, and more dispersed land use development patterns (sprawl) which reduced accessibility. Although mobility increased significantly the benefits were partly offset by the high costs of owning and operating vehicles.

### Diminishing Returns – Go Negative

#### Increasing improvements to roads cause negative returns – Means no net productivity increases

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

However, actual impacts vary widely. Building the first highway to a region tends to significantly increase local economic productivity, but once a basic paved road system exists, expanding it provides declining marginal benefit (SACTRA 1999; Kopp 2006). Since traffic congestion imposes economic costs, highway expansion (more traffic lanes) is sometime promoted to increase productivity (Hartgen and Fields 2006; ATA 2008), but alternative congestion reduction strategies tend to be more cost effective and efficient overall (Hodge, Weisbrod and Hart 2003; Utt 2004; Litman 2007a). A significant portion of the perceived economic benefits of incremental highway improvements are economic transfers (some businesses and property owners gain at others’ expense) rather than net increases in productivity (SACTRA 1999). After analyzing Washington State highway investment economic impacts, Peterson and Jessup (2007) conclude that “some transportation infrastructure investments have some effect on some economic indicators in some locations” but dismiss the idea that such investments are always worthwhile. Weiss (1999) and Horst and Moore (2003) show that rural areas with good highway access experienced more employment growth, poverty alleviation and industrial diversity than areas that lack such access, but these are largely economic transfers from one location to another without overall gain in economic activity (Baird 2005; CBP 2002; Chalermpong 2004). Shirley and Winston (2004) found that infrastructure spending increased productivity but returns declined from more than 15% annually in the 1970s to less than 5% in the 1980s and 1990s. They conclude, “During the past two decades, the primary objective of highway spending has shifted from expanding the nation's capital stock to maintaining it. Undoubtedly, the improvement in costs and service from such investments and the concomitant reduction in plants’ inventories cannot compare with those produced by the construction of thousands of miles of new roads.”

### Diminishing Returns – Turns Congestion

#### Increasing mobility means diminishing returns while externalities increase linearly – Turns itself

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

These distinctions become increasingly important as society becomes wealthier and more mobile, due to diminishing marginal benefits. An increase from low to middle incomes tends to provide large social welfare benefits, but once people’s basic material needs are satisfied additional wealth provides less incremental benefit, and non-market goods (personal time, family and friendship, fitness and health, respect) become relatively more important. Similarly, an increase from low to moderate mobility (for example, from only walking, to a combination of walking, cycling, public transit and automobile travel) tends to provide large benefits, but additional mobility tends to provide less marginal benefit although external costs, such as congestion, accidents and pollution, continue to increase as indicated in Figure 1. Conventional indicators fail to account for these factors. They generally consider any increase in GDP incomes desirable, even if lower-income households are no better off. Similarly, they assume that any increasing in vehicle travel is desirable, even if it results from public policies that reduce the availability of alternative modes or increase sprawl and therefore the distances people must travel to access goods, services and activities. Increasing from minimal to moderate income or mobility provides large benefits, but marginal benefits tend to decline as incomes and mobility increase, while total costs (including external costs such as congestion, accident risk and pollution costs) increase linearly. This suggests that accurate evaluation of transportation economic development impacts should reflect the following: • Clearly define goals (what you ultimately want), objectives (specific ways to achieve goals) and performance indicators (practical ways to measure progress toward goals). • Account for weaknesses of common performance indicators. • Measure the distribution of economic impacts, such as changes in incomes, mobility and economic opportunity for people with low incomes and physical disabilities. • Use accessibility-based indicators rather than just mobility-based indicators. For example, strategies that improve accessibility by improving telecommunications, delivery services and more accessible land use should be considered equally with strategies that increase mobility. Similarly, the reduced accessibility that results from degradation of alternative modes (walking, cycling, public transit) and from sprawled land use should be recognized as increasing transportation costs and reducing economic productivity. • Account for indirect and external costs. Transportation facilities and activities can impose various external costs, including traffic congestion, barrier effects, road and parking facility subsidies, accidents, externalities associated with energy consumption, and pollution emissions. All of these should be considered in economic evaluation. • Account for diminishing marginal benefits. Although a certain amount of mobility may provide large benefits, additional mobility tends to provide less incremental benefits.

### Displacement – Modal Shifts

#### Tradeoffs in transportation means all investment displaces another sector

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

Transportation policies and projects often affect the employment, productivity and profits of specific industries and businesses, and communities in which they are located. For example, policies that improve transport options and discourage motor vehicle travel may reduce employment and profits in vehicle and fuel production industries, and therefore economic activity in areas where those industries are concentrated. Similarly, improving airport transit service may reduce taxi service demand. Advocates for the affected industries often lobby against such policies on grounds that jobs and economic activity will decline, but such impacts are generally economic transfers (one industry, business or area benefits at others expense). There is generally no overall public policy justification to favor older, established industries over newer, more efficient transport services, regardless of their size. Rather, it may be most efficient to help such industries contract.

### Doesn’t Create Growth

#### Studies show growth from transportation is taken from elsewhere, not created

Tom Rye, Professor of Transport Policy & Mobility Management in the School of Engineering and the Built Environment and David Scotney, Edinburgh Napier University, 11, [“ DOES REDUCING JOURNEY TIMES IMPROVE THE ECONOMY – AND, IF NOT, WHAT ARE THE IMPLICATIONS FOR TRANSPORT ASSESSMENT?,” STSG, <http://www.stsg.org/star/2011/TomRye.pdf>] E. Liu

There are few empirical studies that have unequivocally been able to demonstrate significant economic development benefits as a result of transport investments. Banister and Berechman17 review case studies of the M25 and a new LRT in Buffalo in the US; neither case studies reveals economic growth that can be seen to be additional to that which would have occurred without that transport investment. As noted in the Strategic Business Case for High Speed Rail to Scotland18: ‘Development which occurs in Glasgow and Edinburgh following the opening of any high speed link will likely be redistributed from elsewhere rather than new development. This is the conclusion of previous studies, which suggest that up to 95% of development following investment in transport links is redistributed from other areas.’ Lian and Ronnevik19 reviewed 102 major road investments completed in Norway between 1993 and 2005. They were unable to establish any relationship between infrastructure investments and employment, income and industrial development, although they did find some evidence that these investments led to some agglomeration effects in regional centres, reducing leakage from them to larger Norwegian cities. Some positive labour market effects were also observed by their colleagues Gjerdåker and Engebretsen20 due to regions being strengthened by road investment.

### Doesn’t Solve GDP

#### Other factors outweigh the effects of transportation on GDP

Tom Rye, Professor of Transport Policy & Mobility Management in the School of Engineering and the Built Environment and David Scotney, Edinburgh Napier University, 11, [“ DOES REDUCING JOURNEY TIMES IMPROVE THE ECONOMY – AND, IF NOT, WHAT ARE THE IMPLICATIONS FOR TRANSPORT ASSESSMENT?,” STSG, <http://www.stsg.org/star/2011/TomRye.pdf>] E. Liu

For this paper the authors have reviewed links between GDP, GDP growth and transport infrastructure investment in western EU member states (the “old” member states). The results are shown in the figures below, and indicate once again that there appears to be very little link between transport infrastructure investment and GDP – or, more probably, that GDP and GDP growth are much more affected by other factors and the effect of transport investment is so minimal as to be difficult to pick up.

### Doesn’t Solve Growth

#### Evidence for transportation enhancing growth is tenuous and disputed

Tom Rye, Professor of Transport Policy & Mobility Management in the School of Engineering and the Built Environment and David Scotney, Edinburgh Napier University, 11, [“ DOES REDUCING JOURNEY TIMES IMPROVE THE ECONOMY – AND, IF NOT, WHAT ARE THE IMPLICATIONS FOR TRANSPORT ASSESSMENT?,” STSG, <http://www.stsg.org/star/2011/TomRye.pdf>] E. Liu

This section of the paper considers the question of how far the available empirical evidence supports the view that new surface transport infrastructure investment will help to increase GDP – both in terms of the immediate employment impact of the investment itself as a public works project, and then more widely, as a stimulus to general economic activity? Nested within this, it also considers the extent to which can we be confident that the agglomeration productivity benefits that have become part of UK transport appraisal in the past few years can actually be realised. SACTRA12 in their report on the links between transport and economic growth stated (p 12) that ‘…we are provided with a strong theoretical expectation that all or part of a successfully achieved transport cost reduction may subsequently be converted into a © PTRC and Contributors 2011 range of different Transport and the economy wider economic impacts. This, in principle, provides for the possibility of improved economic performance. Empirical evidence of the scale and significance of such linkages is, however, weak and disputed. We conclude that the theoretical effects listed can exist in reality, but that none of them is guaranteed. Our studies underline the conclusion that generalisations about the effects of transport on the economy are subject to strong dependence on specific local circumstances and conditions.’ More recently, the Eddington Report13 was commissioned by the UK Treasury. It states (Vol 1 p 3): ‘Today, in mature economies like the UK, with well-established networks and where connectivity between economic centres is already in place, the evidence suggests that there is considerably less scope for transport improvements to deliver the periods of rapid growth seen historically.

#### Transport enhancements don’t solve travel time –empirical studies prove

Tom Rye, Professor of Transport Policy & Mobility Management in the School of Engineering and the Built Environment and David Scotney, Edinburgh Napier University, 11, [“ DOES REDUCING JOURNEY TIMES IMPROVE THE ECONOMY – AND, IF NOT, WHAT ARE THE IMPLICATIONS FOR TRANSPORT ASSESSMENT?,” STSG, <http://www.stsg.org/star/2011/TomRye.pdf>] E. Liu

We have already noted the consistency in average travel time per trip in the UK over recent times in the previous section. The UK National Travel Survey (NTS) has however measured average daily travel time per person since 1972/73. This now amounts to just over 1 hour per day, but this has changed very little over the whole period (possibly marginally upwards). However car ownership has doubled and the average distance travelled increased by 60%. Since the early-1970s there has been a considerable investment in transport enhancements across the UK (>£100 billion), with it would seem virtually no reductions in overall travel time (despite this being one of the main objectives for the investment) and indeed an increase in distance travelled. Studies do show that there are time savings for vehicles with speedier journeys related to transport enhancements, but there seem to be a dearth of studies showing actual travel time savings for users. However this does not mean that travel time savings do not exist in possibly the short term in relation to specific enhancements, although it may be concluded that these overall in some way disappear over time. One empirical study of a new motorway in Melbourne, Australia, was presented by Odgers and Low at the World Conference on Transport Research 20109. This actually showed that the time savings predicted to result from the construction of the road did not arise either on the corridor itself nor on the wider transport network in the city; in fact they decreased, to the extent that the forecast Benefit-Cost Ratio was seriously eroded. So we must ask ‘what has been achieved’ – does travelling further actually yield net economic, social and environmental (dis)benefits?

#### Tradeoff between dollars invested and congestion benefits are tiny

Matthias Sweet, PhD candidate at the University of Pennsylvania City and Regional Planning Department, 11, [“Does Traffic Congestion Slow the Economy?,” Journal of Planning Literature, 2011 26: 391 originally published online 5 October 2011, <http://jpl.sagepub.com/content/26/4/391.abstract>] E. Liu

At the federal level, transportation legislation has targeted congestion reduction through various federal programs. How- ever, existing research suggests that public-sector investments have been largely ineffective at reducing congestion. For example, Winston and Langer (2006) evaluated congestion- reduction policies in seventy-five major U.S. urban areas, find- ing that for every dollar spent, only eleven cents of congestion- reduction benefit accrued. Granted, not all of these investments were justified exclusively as congestion-reduction measures; however, Winston and Langer (2006) interpret the low rate of return as suggesting a need to rethink existing policies. They recommend increasing the use of congestion pricing (discussed in the next section).

### Doesn’t Solve Recession/Small Net Benefits

#### Europe proves transportation alone can’t prevent a recession and it only moves wealth around

David King, Assistant Professor of Urban Planning, Colombia, 5-1-12, [“The Productive Value of Transport Infrastructure,” Getting from Here to There, blog, <http://davidaking.blogspot.com/2012/05/productive-value-of-transport.html>] E. Liu

We often hear about the productivity and economic benefits of large transportation investments. In the US the California high speed rail line is touted as a boon to employment, the environment and the economy. It's worth considering under what circumstances transport infrastructure investment will actually achieve some of these goals. Transport investment leads directly to jobs in construction and manufacturing sectors. These are the direct employment benefits that people love. These jobs are also the direct employment costs of the project, so employment related to building infrastructure is not an unambiguous good. If the public spends money to support employment, which is common and popular policy decision, then we should try to focus investment where it is most cost effective. It's plausible that European countries are somewhat better off because of the employment infrastructure investment provided, but that's far from certain and the debt costs are now crushing. Outside of direct employment gains, where are the expected productivity gains? All of the new rail and road (and airport) investments were not enough to avoid financial catastrophe. This is likely because the incremental gains from new investment were not sufficiently great to overcome the incremental costs. What is the economic value of shifting travelers from air or car trips to rail trips? Travel time savings are not an obvious productivity gain even though travelers may be individually happier. Since the air and road connections were already high quality the shift from air to train or car to train shifted existing economic activity rather than create much new economic activity. Some areas gained while other areas declined as new infrastructure improved or reduced accessibility. The net benefits are small.

### Infrastructure Good Now

#### US infrastructure leads the world – Size of US makes it extra advanced

Charles Lane, journalist and editor who is an editorial writer for The Washington Post and a regular guest on Fox News Channel, 10-31-11, [“The U.S. infrastructure argument that crumbles upon examination,” Washington Post, <http://www.washingtonpost.com/opinions/the-us-infrastructure-argument-that-crumbles-upon-examination/2011/10/31/gIQAnILRaM_story.html>] E. Liu

The American Society of Civil Engineers gives America’s system a “D,” as President Obama often notes in support of his jobs bill, which provides $50 billion for transportation infrastructure and $10 billion to capitalize a national infrastructure bank. So how come my family and I traveled thousands of miles on both the east and west coasts last summer without actually seeing any crumbling roads or airports? On the whole, the highways and byways were clean, safe and did not remind me of the Third World countries in which I have lived or worked. Should I believe the pundits or my own eyes? For all its shortcomings, U.S. infrastructure is still among the most advanced in the world — if not the most advanced. I base this not on selective personal experience but on the same data alarmists cite. The contiguous United States (that is, excluding Alaska and Hawaii) cover 3.1 million square miles, including deserts, mountain ranges, rivers and two oceanic coastlines. In a world of vast dictatorships (China), tiny democracies (Switzerland) and everything in between, from Malta to Mexico, the challenge of building and maintaining first-rate roads, bridges, railroads, airports and seaports in a country like the United States is extraordinary — and so is the degree to which the United States succeeds.

### Infrastructure Not Key

#### Low infrastructure supply won’t be too bad – Supply inevitably meets demand

Antonio Estache, Senior Economic Advisor to both the Vice President for Sustainable Development and to the Vice President for the Poverty Reduction and Economic Management of the World Bank. He received his Ph.D. in Economics from the Université Libre de Bruxelles. Mr. Estache has advised governments in Asia, Latin America and West Africa on infrastructure regulation, public economics and macroeconomic policy, 8-10, [“Infrastructure policy for shared growth post-2008: More and better, or simply more complex?,” <http://164.15.27.46/ecaresdocuments/cbvo/2010-02.pdf>] E. Liu

In sum, the overall impact of the crisis on infrastructure supply must be unbundled into its short, medium and long term components as well as into the various expectations increases in infrastructure investments must meet. When these various dimensions are considered, it seems reasonable to argue that the long term effect is likely to be modest. The supply will have to meet the demand sooner or later for the growth effects to reach their potential. The short term composition however may be influenced by a number of factors and the associated risk of failing to meet expectations may lead politicians to favor other expenditure types over acceleration of infrastructure investments. Globally however, the undisputable beneficiaries of the crisis are infrastructure suppliers. Their sector has benefited from a major improvement in the general awareness of its importance and has guaranteed short financing to the sector. The crisis has also provided an opportunity to address the increased concerns for more environmentally friendly infrastructure supply around the globe in the choice of supply technology. Ideally, the relatively large amounts committed by government should allow large scale investments in climate friendly technologies, serving as a tipping point not only allowing but also forcing infrastructure to switch from inertia in its investment decisions towards pro-active decisions to deal with climate change.

### Infrastructure Not Key – Correlations

#### Growth outpaces investment in infrastructure – There’s no ceiling to growth

Robert Pollin, professor of economics at the University of Massachusetts-Amherst and founding co-director of its Political Economy Research Institute and Dean Baker, o-director of the Center for Economic and Policy Research in Washington, D.C, 12-09, [“Public Investment, Industrial Policy and U.S. Economic Renewal,” CENTER FOR ECONOMIC AND POLICY RESEARCH, <http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1179&context=peri_workingpapers>] E. Liu

Two important observations emerge from these data trends. The first, clearly, is the long-term shift downward in the growth of both GDP and public investment from 1975 – 2007 relative to 1950 – 74. Based on these figures alone, we are not yet able to conclude the extent to which causation runs in either direction—i.e. to what extent declining GDP growth produces declining spending on public investment or vise versa. That is, was the high rate of public investment in the 1950 – 74 period con- tributing to healthy overall economic growth in that period, or was it just a byproduct of the overall economic expansion? Similarly, was the slowdown in public investment from the mid-1970s on- ward—to a rate well below even the tepid GDP growth rate—a cause, or primarily just an effect, of the overall growth slowdown? We consider this issue below in some detail. But a second, more straightforward point can be highlighted from these figures themselves: on aver- age, the rate of public investment growth over 1975 – 2007 lagged behind the growth of GDP, with GDP growing at an average annual rate of 3.1 percent as against a 2.3 percent average growth rate for public investment. This is in sharp contrast with the experience over 1950 – 1979, when public investment and GDP basically grew virtually in step with one another. The point we can therefore make from these figures alone is that since the mid-1970s, the growth of the U.S. economy has been proceeding with a diminishing supply of public assets on which to foster growth.

### Infrastructure Not Key – Exists Now

#### Economic advantages to infrastructure are overstated – Existing assets solve

Claudia Copeland, Specialist in Resources and Environmental Policy, Congressional Research Service, et al., Linda Levine Specialist in Labor Economics William J. Mallett Specialist in Transportation Policy, 9-21-11, [“The Role of Public Works Infrastructure in Economic Recovery,” CRS Report for Congress, [www.fas.org/sgp/crs/misc/R42018.pdf](http://www.fas.org/sgp/crs/misc/R42018.pdf)] E. Liu

During the 1990s, further research on this issue modified the methodology used to analyze the economic effects of investing in public infrastructure and either affirmed or challenged the findings of the initial work. Although not all subsequent studies found a growth-enhancing effect of public capital, a general consensus has developed over time that there are positive returns on investment in public infrastructure, but that the impact is less than was first reported. Some of this research suggests that investments in energy infrastructure have the greatest impact on long-term wages and investment, followed by mass transit, and water and sewer.15 Another aspect of the issue is the interconnected nature of multiple infrastructure systems and the argument that being competitive in a global economy requires investment in what some refer to as “supply chain infrastructure,” that is, ports and associated road, rail, and air connections that facilitate manufacturing, transport, and export. According to this view, inefficient connections and capacity limitations lead to delays that raise the price of a company’s product and make it harder to compete globally, especially if global competitors out-perform the United States in this regard.16 One conclusion of more recent research is that both the average return and range of return to the economy vary, based on the type of infrastructure and the amount of infrastructure already in place. In other words, the larger the existing stock and the better its efficient use and current quality, the lower will be the impact of new infrastructure. Also, the effect of new public investment will crucially depend on the extent to which spending aims to alleviate bottlenecks in the existing network of infrastructure systems and facilities.17

### Manufacturing Not Key – Tradeoff With Services

#### Manufacturing isn’t key to the economy and focus on it trades off with more productive sectors

J. Bradford Jensen, professor at Georgetown University’s McDonough School of Business, a senior fellow at the Peterson Institute for International Economics and the author of “Global Trade in Services: Fear, Facts and Offshoring.”, 2-22-12, [“U.S. should focus on business services, not manufacturing,” Washington Post, <http://www.washingtonpost.com/opinions/us-should-focus-on-business-services/2012/02/22/gIQAm1MZWR_story.html>] E. Liu

As President Obama tirelessly points out, the U.S. manufacturing sector is experiencing a long-sought rebound — adding about 400,000 jobs over the past two years. This is welcome news, and it is justifiably generating headlines. But a rebound in the manufacturing sector alone will not be enough to speed the recovery. Manufacturing is an important component of the U.S. economy, but it accounts for about only 10 percent of employment. Further, a Washington focus on manufacturing — such as Obama’s proposed corporate tax break for manufacturing companies, announced Wednesday — may lead policymakers to overlook significant opportunities for growth in a much larger part of the economy: the business services sector, which includes software, finance, architecture and engineering services. This sector is large, pays well and is growing. Business services employ 25 percent of U.S. workers, more than twice as many as the manufacturing sector. The average business-service job pays about $56,000 a year — more than 20 percent better than the average manufacturing job. And over the past 10 years, business-service employment grew by more than 20 percent, while manufacturing employment decreased by more than 20 percent. Yet this part of the economy could be growing faster. Many business services are delivered at a distance within the United States and could be exported. America also has a comparative advantage in offering these services globally, thanks to its highly skilled workforce, and indeed it consistently runs a trade surplus in this area — in stark contrast to the large merchandise trade deficit. However, the business-service sector significantly lags behind manufacturing when it comes to exports. Twenty percent of U.S. manufacturing output is exported — five times more than tradable business-service output. This could and should change. The time is ripe for such a push. A global boom in infrastructure spending over the next two decades could generate $40 trillion, according to financial analysts, as the large, fast-growing developing economies undertake the building of roads, airports, harbors, residential and commercial projects, water treatment plants and utilities. This work will require armies of architects, engineers, project managers and financiers — exactly the type of labor in which the United States has a comparative advantage over the rest of the world.

### Vehicles Reduce Productivity

#### Vehicles are economically harmful – Cost of ownership, inefficiency, and negative externalities

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

The previous section indicates that excessive vehicle travel can reduce productivity. The additional mobility may benefit users by increasing motorist convenience, comfort and status, but does not increase productivity, employment or tax revenue; in fact, the analysis indicates that high levels of automobile travel tends to be economically harmful. To individuals, automobile travel is often faster and more cost effective than other modes, and so appears to increase productivity, allowing more activities to be accomplished in a day. However, this increased productivity is offset in various ways: • Owning and operating a vehicle is costly. A typical motorist spends about 10 hours per week driving and another 10 hours per week working to pay vehicle expenses. The average effective speed (distance divided by total time spent on travel, vehicle maintenance, and working to pay vehicle expenses) is only about 10 miles-per-hour. • The relative speed advantage of driving compared with other modes in automobile- oriented communities results, in part, from dispersed land use patterns and reductions in alternative modes which increase the distance that people must travel reach destinations and reduces the efficiency of alternatives, reducing overall accessibility. • Automobile dependency imposes indirect costs. It forces motorists to chauffeur non- drivers; reduced walking and cycling force residents to devote special time to exercise; and increases traffic congestion, road and parking costs, accident and pollution damages. Table 8 summarizes automobile transport productivity impacts. Even people who rely entirely on driving can be more productive in an accessible, multi-modal community, which reduces the traffic congestion they face, the distances they must travel, their need to chauffeur non-driving friends and family members, and their cost burdens for roads, parking, accident risk and pollution damages (for example, business owners save money if customers and employees use alternative modes so fewer parking spaces are needed).

### VMT – Automobiles Decrease Productivity

#### VMT decreases accessibility and productivity – Traveling becomes expensive

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

But mobility tends to experience declining marginal benefits. As per capita mobility increases a declining portion serves productive travel (freight and service delivery, business travel, emergency transport), and an increasing portion of vehicle-miles consist of consumer travel. In addition, high levels of VMT can result from reduced accessibility (more money, time and land needed to reach services and activities such as shops, schools and jobs), reduces transport system efficiency and increases costs. As a result, in automobile-dependent regions there is often a negative relationship between mobility and productivity: cities and neighborhoods with less per capita VMT due to their more efficient transport systems are more economically productive.

### VMT – Automobiles Don’t Solve Growth

#### VMT is correlated with growth but masks harmful social and economic effects

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

Factor 1 causes wealth to increase, while factors 2-5 result from increased wealth. Factors 1 and 2 cause positive relationships between VMT and GDP, while factors 3, 4 and 5 cause negative relationships. Factors 4 and 5 partly reflect the increased economic activity that results if more automobile travel is required to maintain a given level of accessibility, which increases GDP but does not increase social welfare, since it actually reflects increased costs and harms to society. It is therefore unsurprising that VMT and GDP correlate, since vehicle expenditures account for 10-20% of personal consumption and a significant portion of government and business consumption, so all else being equal, doubling VMT increases GDP about 10%. However, this does not necessarily reflect true economic development that increases social welfare. For example, public policies that favor automobile travel over walking and bicycling for children’s travel to school, force parents to spend more money on vehicles and fuel, although consumers and society could be worse off overall. In such situations, policies that improve walking and cycling conditions may reduce VMT in ways that support economic development and increase social welfare overall. Empirical evidence suggests that increasing from very low to moderate levels of mobility increases productivity since motor vehicles are used for high-value trips, but at higher levels of per capita VMT, marginal benefits decline and eventually becomes negative as external costs and inefficiencies increase. An international study found that per capita vehicle ownership peaks at about $21,000 (1997 U.S. dollars) annual income (Talukadar 1997). Similarly, a World Bank study found that beyond an optimal level (about 7,500 kilometers annual motor vehicle travel per capita, with considerable variance due to geographic and economic factors), vehicle travel marginal costs outweigh marginal benefits (Kenworthy, et al. 1997). The researchers conclude that, “there are no obvious gains in economic efficiency from developing car dependence in cities,” and, “There are on the other hand significant losses in external costs due to car dependence.”

### AT: ASCE

#### ASCE has an interest in underevaluating transportation – They’ve done it since 98

Charles Lane, journalist and editor who is an editorial writer for The Washington Post and a regular guest on Fox News Channel, 10-31-11, [“The U.S. infrastructure argument that crumbles upon examination,” Washington Post, <http://www.washingtonpost.com/opinions/the-us-infrastructure-argument-that-crumbles-upon-examination/2011/10/31/gIQAnILRaM_story.html>] E. Liu

And while that D from the American Society of Civil Engineers is undoubtedly sincere, the organization has a vested interest in greater infrastructure spending, which means more work for engineers. The engineers’ lobby has given America’s infrastructure a D in every one of its report cards going back to 1998, except for 2001, when the mark was D-plus.

### AT: Freight – No Jobs

#### Freight is productive and not key to jobs regardless of amount of use

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

Figure 2 shows how rail freight costs declined over a 150 year period. This resulted from technological improvements such as larger, faster and more efficient vehicles, and more efficient loading and operations (such as containerization and automated dispatching). Despite growing freight volumes, the portion of U.S. employment devoted to transportation services declined during the last decade, as illustrated in Figure 3. This indicates large increases in fright transport productivity. It is unlikely that productivity will continue to increase at this rate in the future, since costs are already low, many major efficiency improvements have been fully implemented, and rising fuel prices may offset some future efficiency gains.

### AT: Input-Output Models

#### Input-output models have false assumptions and exaggerate job effects

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

Input-output tables are generally static and backward looking in terms for factors such as domestic inputs and productivity, and so will exaggerate future job creation by industries such as petroleum and automobile production, which are increasingly automated and dependent on imported imports (such as domestic vehicles assembled with imported engines and electric systems. These models often assume the economy has excess capacity so public projects do not compete with other industries, that without government expenditures labor and equipment would be unused, which is often untrue. Without government projects contractors might accept lower-profit but productive projects.

### AT: Our Sector Is Important

#### Claims for importance of one sector are outdated – We should let it contract and restructure

Todd Litman, executive director of the Victoria Transport Policy Institute, 10, [“Evaluating Transportation Economic Development Impacts,” Victoria Transport Policy Institute, <http://vtpi.org/econ_dev.pdf>] E. Liu

Advocates of policies favoring automobile transportation sometimes make claims such as “Ten percent of all U.S. jobs are in the automobile industry” or “Automobile production is a particularly important economic sector.” Such claims are generally outdated (the portion of the U.S. economy devoted to automobile production and distribution has declined significantly during the last half-century), and misguided since vehicle manufacturing tends to be overcapitalized and unprofitable compared with other industries, so the best strategic goal is generally to allow that sector to contract to a more efficient size and invest in more profitable industries.

### AT: WEF

#### WEF rankings are based on arbitrary and reductive scales

Charles Lane, journalist and editor who is an editorial writer for The Washington Post and a regular guest on Fox News Channel, 10-31-11, [“The U.S. infrastructure argument that crumbles upon examination,” Washington Post, <http://www.washingtonpost.com/opinions/the-us-infrastructure-argument-that-crumbles-upon-examination/2011/10/31/gIQAnILRaM_story.html>] E. Liu

But France and Germany, in addition to being substantially smaller than the United States, are part of the European Union, a borderless single market from the Baltic Sea to the Black Sea. Sure enough, when you average out the scores of all 27 E.U. nations, the United States beats them by a clear margin. The WEF produced its rankings based on a survey in which business executives were asked to rate their respective countries’ infrastructure on an ascending scale of 1 to 7. Barbados’s 5.8 average score means that paradise’s execs are a smidgen happier with their infrastructure than are their American counterparts, who gave the United States an average score of 5.7. This is a “national disgrace”? Barbados has one commercial airport. The United States has more than 500. The WEF asked executives to rate “railroad infrastructure,” without distinguishing between freight (which excels in the United States) and passenger (which does not). Perhaps the survey’s subjectivity accounts for odd results such as Guatemala outranking Italy. Or that the U.S. score plunged below 6.0 for the first time in 2008 — proof of a sudden drop in the actual quality of our roads and bridges, or merely an indicator of the general despondency that hit U.S. businesses along with the Great Recession?

## Stimulus Bad

### Businesses Won’t Invest

#### No demand for business investing now – Stimulus won’t work if they just don’t want to

Al Chatterjee, former director of economics at Bell Canada. He was pre- viously a deputy manager of a leading international bank and a professor of economics, 5-12, [“CANADA DOES NOT REQUIRE FISCAL STIMULUS,” <http://www.irpp.org/po/archive/may12/chatterjee.pdf>] E. Liu

More importantly, Canadian cor- porate balance sheets are in good order and flush with cash (see table 5). It is no secret that corporate hous- es are reluctant to invest in plant and equipment or in technology, largely due to uncertainty about the future demand of their products and of the financial risks felt globally by the European sovereign debt crisis. Indeed, the balance sheet of non- financial corporations in Canada reveals that they are sitting on a fire- power of cash. Unfortunately, they are not hungry to invest at the moment. Already there is sufficient unused capacity in the system, as ref- erenced earlier, that would allow businesses to increase production should our economy bounce back more quickly and vigorously than currently anticipated. There is no “animal spirit” to invest in new proj- ects. As the saying goes, you can take a horse to water but he will not drink if he is not thirsty. Therefore, in the current environment any stimulus in the form of accelerated capital cost allowance will not be effective.

### Displacement – Transportation

#### Highways prove transportation spending only displaces money and creates no net jobs

Brian M. Riedl, fellow in federal budgetary affairs at The Heritage Foundation, 11-12-08, [“Why Government Spending Does Not Stimulate Economic Growth,” Thomas A. Roe Institute for Economic Policy Studies Published by The Heritage Foundation, [www.heritage.org/Research/Budget/bg2208.cfm](http://www.heritage.org/Research/Budget/bg2208.cfm)] E. Liu

Nowhere is the government spending stimu- lus myth more widespread than in highway spending. Congress is already rumbling to push billions in highway spending in the next stimulus package. Over the years, lawmakers have repeat- edly supported their errant claim that highway spending is an immediate economic tonic by cit- ing a Department of Transportation (DOT) study. This study supposedly states that every $1 bil- lion spent on highways adds 47,576 new jobs to the economy.15 The problem: The DOT study made no such claim. It stated that spending $1 billion on high- ways would require 47,576 workers (or more pre- cisely, it would require 26,524 workers, who then spend their income elsewhere, supporting an addi- tional 21,052 workers). But before the government can spend $1 billion hiring road builders and pur- chasing asphalt, it must first tax or borrow $1 bil- lion from other sectors of the economy—which would then lose a similar number of jobs. In other words, highway spending merely transfers jobs and income from one part of the economy to another. As The Heritage Foundation’s Ronald Utt has explained, “The only way that $1 billion of new highway spending can create 47,576 new jobs is if the $1 billion appears out of nowhere as if it were manna from heaven.”16 The DOT report implicitly acknowledged this point by referring to the trans- portation jobs as “employment benefits” within the transportation sector, rather than as new jobs for the total economy. An April 2008 DOT update to its previous study reduced the employment figure to 34,779 jobs supported by each $1 billion spent on highways, and explicitly stated that the figure “refers to jobs supported by highway investments, not jobs cre- ated.”17 Similarly, a Congressional Research Service study calculated similar numbers as the DOT study, but cautioned: To the extent that financing new highways by reducing expenditures on other programs or by deficit finance and its impact on private consumption and investment, the net impact on the economy of highway construction in terms of both output and employment could be nullified or even negative.18 Not surprisingly, highway spending has a poor track record of stimulating the economy. The Emer- gency Jobs Appropriations Act of 1983 appropri- ated billions of dollars in highway spending (among other programs) in hopes of pushing the double- digit unemployment rate downward. Years later, an audit by the General Accounting Office (GAO, now the Government Accountability Office) found that highway spending generally failed to create a signif- icant number of new jobs.19 The bottom line is that there is no reason to expect additional highway spending this year to boost short-term economic growth or create new jobs.

### Doesn’t Create Jobs

#### Stimulus jobs are poached, not created, mandated wages decrease output, and companies just make people work harder

Garrett Jones, Assistant Professor of Economics and Senior Scholar at the Mercatus Center and Daniel M. Rothschild, researcher at the Mercatus Center, 9-11, [“No such thiNg as shovel ready: the supply side of the recovery act,” Mercatus Center at George Mason University, mercatus.org/publication/no-such-thing-shovel-ready] E. Liu

Perhaps, one might say, those other companies whose workers were poached ultimately hired people from the unemployment line, and perhaps future research can find out the extent to which that actually happened. In any case, the process of hiring good workers takes time, and that eats up the short time wherein free-lunch Keynesianism can work.14 And if, as is the case of the construction engineering firm discussed above, only a third of a company’s new hires come from unemployment, then it is quite a lot to hope that some other firm will actually hire the unemployed. Moreover, job switching is not costless. When companies lose workers to stimulus- funded firms, they lose valuable skills and experience, what economists call ―organizational capital.‖ So when a mid-level manager who understands the company’s database program switches jobs, or when an engineer with valuable contacts moves to the ARRA-funded engineering firm, the old firm is left weaker. The unseen effects of ARRA need to be counted, and the employees lost by other firms are among those costs. A reality-based stimulus accounting would certainly calculate at least two numbers: ―jobs created‖ and ―jobs shifted.‖ For the engineering firm from the previous section that hired 20 new people, there would have been 6 ―jobs created‖ and 14 ―jobs shifted.‖ If the raided firms ultimately hired unemployed workers—a speculation at this point—then second-round effects of stimulus might raise the ―jobs created‖ figure. Our interviews did not provide enough information to create a full, firm-by-firm account of job creation versus job shifting. The organizations we interviewed often didn’t reveal or didn’t know if their new hires were unemployed beforehand; but in some cases, they pointed out that they either hired workers from the private sector or brought retirees back into the labor force. More often, firms just told us they hadn’t created that many jobs— they just used their own workers more15 and just hired some temps for a few days or weeks. Job shifting into an ARRA-funded job would be particularly attractive to many workers because the terms of the statute often required ARRA-funded jobs to pay so-called ―prevailing wages,‖ or ―Davis-Bacon wages,‖ which are typically equivalent to union- level wages. This is great news for the worker who gets the job, but it’s usually bad news for the national economy. When the government-set prevailing wage is higher than the market wage, then as a matter of arithmetic, stimulus funds purchase less output than if firms could pay the market wage.16 For example, one local government manager told us he could only do energy-saving retrofits of 10 schools instead of 14 because the government-mandated wages were so much higher than the going construction wage in his area. In this case, Davis-Bacon rules alone cut the immediate public benefits of stimulus by 40 percent.17 As mentioned above, we also found evidence that ARRA often created work without creating jobs: we heard many versions of, ―Things were slow until the stimulus money came along; ARRA gave our employees something to do.‖ In Keynesian terms, these organizations were labor hoarding, holding onto workers through the slowdown even though they didn’t have much work to do. In these cases, ARRA funds boosted profits by plugging a hole in the company’s revenue stream; whether or not ARRA actually saved jobs at labor-hoarding firms is still a matter of speculation. To summarize our job creation findings: job switching: yes; giving a company’s current workers more to do: certainly. But hiring people from unemployment was more the exception than the rule in our interviews.

### Empirics – Japan

#### Japan had a massive infrastructure stimulus that failed

Martin Fackler, Tokyo bureau chief for the New York Times, 2-6-09, [“Japan’s Big-Works Stimulus Is Lesson ,” NYTimes, <http://www.nytimes.com/2009/02/06/world/asia/06japan.html?_r=1&sq>=] E. Liu

Moreover, it matters what gets built: Japan spent too much on increasingly wasteful roads and bridges, and not enough in areas like education and social services, which studies show deliver more bang for the buck than infrastructure spending. “It is not enough just to hire workers to dig holes and then fill them in again,” said Toshihiro Ihori, an economics professor at the University of Tokyo. “One lesson from Japan is that public works get the best results when they create something useful for the future.” In total, Japan spent $6.3 trillion on construction-related public investment between 1991 and September of last year, according to the Cabinet Office. The spending peaked in 1995 and remained high until the early 2000s, when it was cut amid growing concerns about ballooning budget deficits. More recently, the governing Liberal Democratic Party has increased spending again to revive the economy and the party’s own flagging popularity. In the end, say economists, it was not public works but an expensive cleanup of the debt-ridden banking system, combined with growing exports to China and the United States, that brought a close to Japan’s Lost Decade. This has led many to conclude that spending did little more than sink Japan deeply into debt, leaving an enormous tax burden for future generations. In the United States, it has also led to calls in Congress, particularly by Republicans, not to repeat the errors of Japan’s failed economic stimulus. They argue that it makes more sense to cut taxes, and let people decide how to spend their own money, than for the government to decide how to invest public funds. Japan put more emphasis on increased spending than tax cuts during its slump, but ultimately did reduce consumption taxes to encourage consumer spending as well. Economists tend to divide into two camps on the question of Japan’s infrastructure spending: those, many of them Americans like Mr. Geithner, who think it did not go far enough; and those, many of them Japanese, who think it was a colossal waste. Among ordinary Japanese, the spending is widely disparaged for having turned the nation into a public- works-based welfare state and making regional economies dependent on Tokyo for jobs. Much of the blame has fallen on the Liberal Democratic Party, which has long used government spending to grease rural vote- buying machines that help keep the party in power.

### Industry Targeted Spending Fails

#### Targeted stimulus raises taxes for the broader economy – Offsets increased consumption

Daniel Murphy, PhD Candidate in the Department of Economics at the University of Michigan, Graduate Student Instructor, 3-4-12, [“How Does Government Spending Stimulate Consumption?,” <http://www-personal.umich.edu/~dpmurphy/MultiplierImperfectInfo.pdf>] E. Liu

The onset of the economic crisis in 2008 brought some urgency to the ongoing debate over whether fiscal policy can stimulate the economy. While standard neoclassical models imply that the response of output to increases in government spending is close to zero and that the response of consumption is negative, a broad range of empirical evidence suggests that the output multiplier is close to unity and that the consumption multiplier is positive. For example, Perotti (2008) finds that the consumption multiplier is on average positive. Ramey (2011) finds a positive response of consumption of services to defense spending shocks, and Galí, López- Salido, and Vallés (2007) find that the positive consumption multiplier is robust to a number of specifications. This empirical evidence is puzzling in light of the inability of standard macroeconomic models to generate a positive consumption response. For example, Hall (2009) demonstrates the difficulty of generating a positive consumption multiplier in Neoclassical and New Keynesian models and calls for, “new ideas outside the New Keynesian framework” to reconcile economic theory with the empirical evidence. (p. 228). Below I present one such idea. I show that the positive consumption multiplier can arise from perceptions of increased permanent income in response to government spending shocks. The basic insight is that government spending is focused on a subset of firms, while tax liabilities are spread across all firms. Therefore government expenditure on an individual firm increases firm owners’ expectations of their permanent income if they perceive the fraction of government expenditure directed toward their firm to be large relative to aggregate government spending. In the model the mechanics that determine agents’ expectations of the values of aggregate state variables are similar to those in Lorenzoni (2009). The net effect of government spending on perceptions of permanent income depends on the relative persistence of idiosyncratic (firm-specific) demand and aggregate demand, and the extent to which agents are aware of changes in aggregate government expenditure. A simple example will help build intuition. Consider what happens when the government increases aggregate expenditure by signing a contract with Boeing to manufacture airplanes for the Air Force. Boeing shareholders correctly perceive that their income from the government will exceed their tax liability. Assuming a near-constant consumer price level, their permanent income increases. Now consider the response of other workers and firms in the economy (who are assumed to behave as Ricardian consumers). If they observe the increased aggregate government expenditure, they will also perceive an increase in the present value of their tax liabilities and hence will reduce their desired consumption, offsetting the increased consumption demand from Boeing shareholders. If, on the other hand, they are not aware that the government has just signed a contract with Boeing, their desired consumption will remain constant for a given aggregate price level. On average (across Boeing shareholders and everyone else), perceptions of permanent income will increase, as will consumption demand.

### Infrastructure Fails

#### Infrastructure is slow and doesn’t create jobs – Efficiency, not labor intensive and empirics

Michael J. Boskin, Regular Columnist for The Economists’ Voice. He is T.M. Friedman Professor of Economics and Hoover Institution Senior Fellow, Stanford University. He chaired the President’s Council of Economic Advisers from 1989-1993 , 3-12, [“Fiscal Policy for Economic Growth,” The Economists’ Voice, http://www.degruyter.com/view/j/ev March, 2012] E. Liu

President Obama in his new stimulus pro- posals has been emphasizing infrastructure spending and tax hikes on the rich to pay for it, along with an extension of the temporary small payroll tax and extended unemployment insur- ance. The nation certainly has important infra- structure needs, some of which are properly fed- eral. ARRA was initially sold as “shovel-ready” projects that would quickly create jobs. But only a tiny fraction went for infrastructure; it was spent slowly and widely criticized as inefficient (the Los Angeles City Comptroller estimated that it cost $2 million per job). As Harvard’s Ed Glaeser (2010) notes, the ARRA infrastruc- ture spending was not directed to areas with the highest unemployment or biggest housing busts. Besides, modern public infrastructure jobs use large equipment, not shovels, and so are not very labor intensive. The Japanese re- sult, after repeated 15–20 trillion yen stimulus programs heavy on infrastructure, was dismal. It is better that infrastructure spending take place through the normal multiyear legislation rather than poorly planned, highly politicized short- term stimulus occurring well after it is most needed and likely to be most effective.

### Infrastructure Fails – Not Keynesian

#### Infrastructure doesn’t create many jobs and is slow – It’s not a Keynesian style stimulus

Swaminathan S. Anklesaria Aiyar, Consulting Editor of The Economics Times and a research scholar at The Cato Institute, 11-19-08, ["Building Infrastructure is not Keynesian,” <http://swaminomics.org/?p=669>] E. Liu

Manmohan Singh thinks this is the best way to combat the recession. So do many economists. But I have reservations.

 In Rooosevelt’s time, road building was labour intensive. But today, it is highly mechanised, using little labour. Dams are no longer built by armies of workers. Power plants, ports and airports are hugely capital-intensive. With today’s technology, infrastructure is not a massive job creator, unless we insist on obsolete, inefficient techniques. This is exactly what we do in the National Rural Employment Guarantee Scheme. This mandates that 60% of the cost must be in wages. But such labour-intensive techniques yield low-quality roads that disappear after every monsoon. Decades of rural employment schemes have failed to create permanent assets. This approach cannot create good infrastructure. Keynes would not have been surprised. He would have said that creating jobs should not be confused with creating infrastructure. He would have opted for digging and filling ditches. Building infrastructure is time-consuming. Every big project requires a lengthy environmental impact assessment, with public hearings. Land acquisition disputes can hold up projects for years. So infrastructure projects disburse money slowly, and cannot provide a quick Keynesian boost.

### Job Shifting

#### Stimulus doesn’t create jobs – Half of employees are hired from other jobs

Garett Jones, BB&T Professor for the Study of Capitalism at the Mercatus Center, George Mason University and Daniel M. Rothschild, researcher at the Mercatus Center, 9-11, [“DiD stimulus Dollars hire the unemployeD? answers to questions about the american recovery anD reinvestment act,” <http://mercatus.org/sites/default/files/publication/Did_Stimulus_Dollars_Hire_The_Unemployed_Jones_Rothschild_WP34.pdf>] E. Liu

Did stimulus-funded projects hire the unemployed or the already employed? Our surveys indicate a near-tie on this question. Of the 277 respondents hired after January 31, 2009, 42.1 percent had been unemployed immediately beforehand and 47.3 percent had come directly from another job. Of the rest, 4.1 percent had been out of the labor force, and 6.5 percent had been in school. Thus, the weight of the evidence suggests that ARRA did an enormous amount of “job shifting” rather than “job creating.” There is evidence of the latter, but, under Keynesian reasoning, every worker hired away from another job reflects some weakening of the stimulus. We saw this “worker poaching” tendency in our interviews as well. This is similar to the amount of job shifting that goes on in relatively normal economic times. Eva Nagypal (2008, p.1) notes that “employer-to-employer transitions…ma[de] up 49 percent of all—a separations from employers” in the decade prior to her study. Robert Hall (2005) finds a similar number, roughly 40 percent. Since on average separations equal hires (the minor factor of net job growth aside), there is little difference between the recent U.S. average and our sample average. In other words, we find little evidence that stimulus spending was particularly effective at moving the unemployed into work. During the worst recession in generations, the ARRA- receiving organizations in our sample hired away employed workers at roughly the same rate as in normal economic times. Indeed, economists’ estimates of normal rates of job-switching overstate direct job-to-job transitions. The Nagypal estimate, like most other U.S. estimates we found in the literature (e.g., Hartweck 2007), is based on a Current Population Survey question that simply ask whether the person has a different job than four weeks ago.15 By contrast, our survey questions ask directly about a job-to-job switch, without a stint of unemployment—and 10.6 percent of the previously unemployed in our survey were unemployed for six weeks or less, most of whom would count as “job switchers” under the CPS definition.

### Models Bad

#### Their models overestimate stimulus effects by ignoring a host of confounding factors

Antony Davies, Associate Professor of Economics at Duquesne University and a Mercatus Affiliated Senior Scholar, et al., Bruce Yandle, Derek Thieme, and Robert Sarvis, 4-12, [“THE U.S. EXPERIENCE WITH FISCAL STIMULUS: A Historical and Statistical Analysis of U.S. Fiscal Stimulus Activity, 1953- 2011,” Mercatus Center at George Mason University, mercatus.org/publication/us-experience-fiscal-stimulus] E. Liu

When estimating stimulus effects, one encounters a host of issues. Theoretical models typically rely on the logic of Occam’s Razor and employ the fewest possible variables to explain outcomes. Models, after all, are abstractions of the real world. They are valuable to the extent that a small amount of information can provide useful insight to large problems and issues. We describe a number of empirical models later in our report, and although these models provide useful information, none assesses directly the information problem people in government face when trying to determine what is really going on. Nor do the models typically adjust for the lags between the recognition of a serious economic problem by, say, White House officials, and actions taken by Congress and then approved by the president. Even more perplexing, the elegant models used to explain and predict stimulus effects do not consistently account for decisions by monetary authorities that may either support or confound stimulus policy actions developed by the executive and legislative branches of government. And finally, as good as the information obtained may be and as well coordinated as political decision making can be, most models cannot adjust for fiscal actions that may be taken across the 50 states. Washington’s actions may be disrupted by state-level taxing and spending.

#### Lack of knowledge of stimulus means stimulus is difficult – Delay causes instability

Antony Davies, Associate Professor of Economics at Duquesne University and a Mercatus Affiliated Senior Scholar, et al., Bruce Yandle, Derek Thieme, and Robert Sarvis, 4-12, [“THE U.S. EXPERIENCE WITH FISCAL STIMULUS: A Historical and Statistical Analysis of U.S. Fiscal Stimulus Activity, 1953- 2011,” Mercatus Center at George Mason University, mercatus.org/publication/us-experience-fiscal-stimulus] E. Liu

Ford’s 1976 ERP offers a more sober assessment of the difficulties associated with managing the stimulus. The report suggests fine-tuning the economy just could not be done: There is a lesson to be drawn from past policy mistakes. The history of monetary and fiscal policies demonstrates that we have a great deal to learn about implementing discretionary policy changes. Our ability to forecast is at best imperfect, especially in an increasingly complex and interdependent world, and the difficulties in forecasting grow larger as we extend the period for which the forecast is made. . . . We also lack reliable estimates of how long it takes before the economy responds to policies once they are undertaken and how large the response will be. This is especially true now because high rates of inflation in recent years have made price expectations a much more important determinant of consumer and business behavior than they formerly were. . . . With respect to fiscal policy there is the additional complication that countercyclical increases in Government expenditures are difficult to check during later upswings. Because countercyclical policy changes may be slow to take hold and then hard to reverse, their effects may extend well past the time when they are most needed. Consequently a significant danger exists that, instead of smoothing economic fluctuations, discretionary changes in policy aimed at demand management may themselves become a source of economic instability. The proper conclusion is not that we should foreswear the use of discretionary policy. . . . But we must be mindful of the great difficulties in successfully executing countercyclical policies.28

### Negative Returns

#### Spending on stimulus eventually dries out – Makes economic effects turn negative

Claudia Copeland, Specialist in Resources and Environmental Policy, Congressional Research Service, et al., Linda Levine Specialist in Labor Economics William J. Mallett Specialist in Transportation Policy, 9-21-11, [“The Role of Public Works Infrastructure in Economic Recovery,” CRS Report for Congress, [www.fas.org/sgp/crs/misc/R42018.pdf](http://www.fas.org/sgp/crs/misc/R42018.pdf)] E. Liu

While the fiscal stimulus from ARRA added to demand over time, this effect diminished as spending authority was spent and tax cuts expired. By CBO’s estimate, ARRA funds will continue to be spent out through 2020, but the economic effects of ARRA—including direct and indirect effects—peaked in the first half of 2010. After that, the stimulus still adds to demand but by smaller amounts, and its effect eventually turns negative.7 At least two factors are bringing renewed attention to these issues, including whether another round of fiscal stimulus—including infrastructure spending—is needed. One is the slow pace of the current recovery. ARRA was controversial when enacted. While most economists believe it was effective, there is dispute among some economists.8 Nevertheless, there is widespread desire to accelerate job creation and economic recovery, although consensus on how to do so is not apparent.

### No Consumer Spending

#### People won’t spend the stimulus – They can’t control the consumption of millions

Ansgar Belke, Full Professor of Macroeconomics (W3) at the University of Duisburg-Essen (Campus Essen) since April 2007, 3-09, [“Fiscal Stimulus Packages and Uncertainty in Times of Crisis: Economic Policy for Open Economies,” ECONOMIC ANALYSIS & POLICY, VOL. 39 NO. 1, MARCH 2009, <http://www.eap-journal.com/download.php?file=689>] E. Liu

Those politically responsible will be asked why they have used the tax payer so unresponsively as a host for the rescue of some large enterprises and banks. Since experience clearly speaks against the success of fiscal stimulus packages. For instance, Germany fell flat on its face with its expenditure programmes in the 1970s. Government debt started to grow at unprecedented rates, but unfortunately unemployment increased in parallel. Only recently, also the US has not made satisfying experiences. The US treasury had distributed in early summer 2008 tax bonuses of around 120 billion $. However, the citizens have saved more than 75 percent of this package. The effect on total consumption is nearly deflagrated by now because the consumers have acted in a sensible way. They have run into much too high debts during the time of cheap money. As compared with the basically more optimistic assessment of monetary policy efficacy in the current crisis, the perspectives of fiscal policy measures to work are rather bleak. Government fiscal stimulus packages designed in order to fight the crisis have to be rejected not only with an eye on the option value of waiting under uncertainty. Contrary to the beliefs under the regime of the current ‘zeitgeist’, it will turn out to be a great fallacy to believe that one could really steer the consumption of millions of people. First and foremost, one sells money down the river which could be spent in more useful directions. ‘Just as in the 1980s, when extreme supply-side views on tax cuts were unjustified, it is wrong now to think that added government spending is free’

### No Consumption/Yes Savings

#### Saved money is still in financial markets – They increase the amount of idle funds

J. D. Foster, Ph.D., is Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation, 7-27-09, [“Keynesian Fiscal Stimulus Policies Stimulate Debt—Not the Economy,” Thomas A. Roe Institute for Economic Policy Studies , [www.heritage.org/Research/Economy/bg2302.cfm](http://www.heritage.org/Research/Economy/bg2302.cfm)] E. Liu

The dynamics in an open economy are slightly more complicated, but the final outcome for output is unchanged. An open economy permits a govern- ment to finance its deficits by importing savings from abroad as the United States has done for years, rather than by tapping domestic sources. However, an increase in deficit spending met by an increase in net imports of foreign savings must, in turn, be matched by an increase in net imports of goods and services to preserve the balance of payments. Thus, the increase in domestic demand due to deficit spending is fully offset by a reduction in demand arising from an increase in net exports. Once again, Keynesian stimulus has no effect. What if the extra government borrowing soaks up “idle savings” in an underperforming economy, proponents may ask. In troubled economic times those who can save more often do so, directing their savings toward safe investments like Treasury Bonds and bank deposits. However, these cautious savers almost never withdraw their savings from the finan- cial system entirely by stuffing cash into mattresses. Aside from the occasional mattress stuffer, even sav- ings held in the safest of instruments are not idle but remain part of the financial system, working to find their most productive uses through the available channels. Borrowing to finance Keynesian stimulus, then, remains a subtraction from the funds available to the private sector. Suppose widespread fear spurred savers to engage in rampant mattress stuffing, withdrawing purchasing power from the economy and creating large amounts of truly idle savings. This has hap- pened before, and could be happening now to some extent. Surely, Keynesian stimulus works in such cases. Highly unlikely. Nothing about a flood of government bonds engulfing capital markets to finance a surge in wasteful government spending is likely to convince nervous mattress stuffers that their concerns are misplaced. Idle savings, then, remain idle, making deficit spending a competitor for an even smaller pool of available private savings. Worse, mattress stuffers are likely to increase their mattress-based, economically idle saving in the face of a surge of profligate, irresponsible government spending. Keynesian “stimulus” would then be an economic depressant.

### No Consumption/Helps Successful Firms

#### Stimulus only targets already successful firms that don’t need help and turn down other projects

Garrett Jones, Assistant Professor of Economics and Senior Scholar at the Mercatus Center and Daniel M. Rothschild, researcher at the Mercatus Center, 9-11, [“No such thiNg as shovel ready: the supply side of the recovery act,” Mercatus Center at George Mason University, mercatus.org/publication/no-such-thing-shovel-ready] E. Liu

Six of the organizations we interviewed, primarily engineering firms, said that there was little or no change in their work level due to the stimulus. They were niche firms with services in high demand. When they took ARRA work, they were turning down other work. These six were an extreme version of what many firms told our teams: The lunch wasn’t nearly as free as advertised. Tradeoffs mattered, and skilled firms and workers were scarce even in a world of 10 percent unemployment. From the perspective of normal government efficiency and accountability, hiring skilled and reliable firms is good federal contracting practice: if the federal government finds a high-quality firm, there’s good reason to stick with them. But when the ostensible goal of ARRA spending is ―targeting‖ slack sectors of the economy, this contracting is a complete Keynesian failure. Unfortunately for Keynesian theory, no contract officer wants a scandal, especially on a high-profile program such as ARRA, so funding will flow to firms least likely to create boondoggles. That means funds will often go to firms that are already quite likely to be busy, firms that are likely to stick to trusted workers, firms that are unlikely to take a chance on the long-term unemployed. The ―good (and idle) firm is hard to find‖ theory would help explain why job creation among the firms we interviewed was so low: the federal government preferentially hired good, and often busy firms, so instead of massive Keynesian ramping-up, firms did just what neoclassical economists would expect: they smoothed out their workload, turning down other work to take ARRA projects.

### No Domestic Stimulus

#### Infrastructure components are imported – Takes out domestic job creation

Antonio Estache, Senior Economic Advisor to both the Vice President for Sustainable Development and to the Vice President for the Poverty Reduction and Economic Management of the World Bank. He received his Ph.D. in Economics from the Université Libre de Bruxelles. Mr. Estache has advised governments in Asia, Latin America and West Africa on infrastructure regulation, public economics and macroeconomic policy, 8-10, [“Infrastructure policy for shared growth post-2008: More and better, or simply more complex?,” <http://164.15.27.46/ecaresdocuments/cbvo/2010-02.pdf>] E. Liu

There also some concern with the extent to which the job creation will be local rather than abroad. Expansions of spending in the sector often implies some external leakage from the basic short and long term multiplier effects which are not picked up by macro models that do not account for some key sectoral dimensions. Indeed, for some infrastructures, many basic components are imported meaning that some of the job creation impact is abroad. For instance, for many countries, the rolling stocks components of railways expansions are imported. This concern for subsidies to external jobs has been a reason why the domestic multipliers have not always been as high as hoped for.

### No Government Spending

#### People and governments won’t spending stimulus money – They save it or reduce debts

Antony Davies, Associate Professor of Economics at Duquesne University and a Mercatus Affiliated Senior Scholar, et al., Bruce Yandle, Derek Thieme, and Robert Sarvis, 4-12, [“THE U.S. EXPERIENCE WITH FISCAL STIMULUS: A Historical and Statistical Analysis of U.S. Fiscal Stimulus Activity, 1953- 2011,” Mercatus Center at George Mason University, mercatus.org/publication/us-experience-fiscal-stimulus] E. Liu

In a 2011 publication, John A. Taylor examines data for three stimulus programs that occurred in 2001, 2008, and 2009.60 The programs included both tax rebates and increased spending. Taylor finds that individuals receiving tax rebates used most of the funds to pay off debt and increase savings; the rebates did not significantly stimulate consumption spending. State governments receiving funds substituted those funds largely for planned spending using their own revenues and also used the funds to support transfer programs already in place. Taylor reaches the following conclusion: In sum, this empirical examination of the direct effects of the three countercyclical stimulus packages of the 2000s indicates that they did not have a positive effect on consumption and government purchases, and thus did not counter the decline in investment during the recessions as the basic Keynesian textbook model would suggest. Individuals and families largely saved the transfers and tax rebates. The federal government increased purchases, but by only an immaterial amount. State and local governments used the stimulus grants to reduce their net borrowing (largely by acquiring more financial assets) rather than to increase expenditures, and they shifted expenditures away from purchases toward transfers.61 Taylor ends his paper by speaking to another important question: Without stimulus spending, would the economic situation have deteriorated even more? He concludes that the stimulus programs did not reduce job losses or add new jobs.

### No Jobs

#### Transportation jobs displace jobs elsewhere and creation is slow

Mike Brownfield, assistant director of strategic communications at the Heritage Foundation, 9-8-11, [“Reaction Roundup: Heritage Responds to Obama’s Jobs Speech,” <http://blog.heritage.org/2011/09/08/reaction-roundup-heritage-responds-to-obamas-jobs-speech/>] E. Liu

Building and repairing roads and bridges neither creates net job growth nor boosts the economy in the near term. First, increasing government spending on these projects simply moves resources from one place to another — it may employ construction workers, but only by reducing jobs in other sectors. Further, the money never gets out the door soon enough to promote near-term job growth: “shovel-ready” projects are not nearly so shovel ready as they may seem, as the President himself recently acknowledged.

#### Transportation creates variable number of jobs – Their figures are wishful thinking

Douglas Holtz-Eakin, President American Action Forum and Martin Wachs, Senior Principal Researcher, 1-21-11, [“Strengthening Connections Between Transportation Investments and Economic Growth ,” Bipartisan Policy

Center’s National Transportation Policy Project, <http://www.rand.org/pubs/external_publications/EP20110012.html>] E. Liu

In actuality employment impacts have been far more variable from one project to another, even when one considers only directly-related construction jobs. And while there is great interest in short-term job creation during a deep recession, it is also important to focus on longer-term impacts. Transportation investments can have a more significant and lasting impact on jobs by providing a foundation for overall economic growth and improved productivity well into the future. By contrast, hastily spending tens of billions of dollars on “shovel-ready” projects for the primary purpose of immediate job creation risks misallocating resources in ways that fail to maximize overall returns to the economy. Federal legislation should focus future spending on surface transportation in ways that reach well beyond the immediate creation of construction jobs to capture broad, sustainable economic benefits. in transportation infrastructure and the nation’s short- and long-term economic well-being. Transportation infrastructure investment programs is surely not all equally effective at creating jobs or economic growth, so it is important to refine the debate. On one hand, poorly targeted transportation dollars represent a wasted opportunity that the country can ill afford given its current fiscal predicament. On the other hand, ac- celerating the return of robust and sustained economic expansion will be imperative and can be advanced by the sound investment of scarce resources. Good trans- portation policy can help prevent waste and promote real growth. Different types of expenditures on transportation can have very different long-term economic and short-term jobs impacts—notwithstanding the tendency to invoke simplistic relationships in which a given level of invest- ment are claimed to create a fixed number of jobs. For decades advocates for transportation investment have asserted that each billion dollars of transportation infra- structure investment would generate or “create” more than 30,000 jobs and thus be good for the economy. Such claims, though routinely asserted, are not well supported by evidence from rigorous analysis and at best represent a hope rather than an assured outcome.

### No Multiplier

#### Consensus of studies is that multipliers are small due to crowd-out – Assumes Keynesian models

David M. Schizer, Dean and Lucy G. Moses Professor of Law at Columbia Law School, 10-17-11, [“Fiscal Policy in an Era of Austerity,”, Working Paper No. 408, The Center for Law and Economic Studies Columbia University School of Law, [http://ssrn.com/abstract=1948692](http://ssrn.com/abstract%3D1948692)] E. Liu

First, economists disagree about how much a dollar of deficit-financed government purchases actually contributes to economic growth. Using an “Old Keynsian” model, the Obama administration assumed in 2009 that it would add $1.50 to the economy – a so-called “government purchases multiplier” of 1.5.36 In contrast, neoclassical models never predict multipliers higher than 1.0, since they assume that interest rates, wages, and prices rise in response to a fiscal stimulus, crowding out private activity.37 Meanwhile, “New Keynesian” models generally predict multipliers between .6 and 1.0,38 although they can support multipliers as high as 1.5 during a limited period in which short-term interest rates have fallen to zero.39 Most empirical studies, meanwhile, conclude that government purchases multipliers are below 1.0. For example, according to Barro and Redlick, a dollar increase in U.S. defense spending has contributed only about 70 cents of economic growth.40 The experience in Japan, which implemented 15 fiscal stimulus packages between 1990 and 2008, generally also involved government purchases multipliers below 1.41

### No Multiplier – Publicity

#### Public stimulus fails – Future taxation depresses demand

Daniel Murphy, PhD Candidate in the Department of Economics at the University of Michigan, Graduate Student Instructor, 3-4-12, [“How Does Government Spending Stimulate Consumption?,” <http://www-personal.umich.edu/~dpmurphy/MultiplierImperfectInfo.pdf>] E. Liu

Policy Implications. The model presented above predicts that government spending multipliers are large when idiosyncratic volatility is large relative to the volatility of government spending because people misperceive aggregate demand shocks for idiosyncratic shocks. Comin and Philippon (2005) present evidence that firm-level volatility has been increasing relative to macro volatility, in which case the model predicts that government spending shocks should lead to large multipliers. However, evidence on the multiplier effects of the recent American Recovery and Reinvestment Act of 2009 (ARRA) stimulus has been mixed. Consumption has remained sluggish despite considerable fiscal stimulus. Why, then, is the implication of my model not borne out? Under an alternative calibration agents’ signals of macro aggregates are imprecise, consistent with the evidence in Coibion and Gorodnichenko (2011) that informational rigidities are economically large. When combined with persistent shocks to idiosyncratic demand, the output response to government spending shocks causes perceptions of high permanent income. The resulting output multiplier is above unity and the consumption response is positive. In contrast to a neoclassical model, which relies on a negative wealth effect to generate an increase in output and hours, the alternative calibration generates an increase in output and hours through a positive wealth effect. The model actually provides several reasons to question the effectiveness of the Recovery Act. First, a large portion of ARRA funding was spent on tax cuts, which are unlikely to cause the positive wealth effect obtained in the model through direct spending. Second, ARRA was highly publicized, causing nearly everyone to be very aware of the government expenditure. Not only were recipients of ARRA funding likely to perceive that the aid was temporary, but everyone else may have perceived an increase in their future tax liabilities, further depressing demand. In the model agents’ awareness of government expenditure depends primarily on the volatility of idiosyncratic spending, but in reality many factors, including publicity, are likely to affect agents’ awareness of their future tax liabilities resulting from government expenditure. Thus ARRA stimulus is not consistent with the type of stimulus shown to be effective in my model.

### No Short Term Jobs

#### Infrastructure takes a long time to build – Means few short-term jobs

Antonio Estache, Senior Economic Advisor to both the Vice President for Sustainable Development and to the Vice President for the Poverty Reduction and Economic Management of the World Bank. He received his Ph.D. in Economics from the Université Libre de Bruxelles. Mr. Estache has advised governments in Asia, Latin America and West Africa on infrastructure regulation, public economics and macroeconomic policy, 8-10, [“Infrastructure policy for shared growth post-2008: More and better, or simply more complex?,” <http://164.15.27.46/ecaresdocuments/cbvo/2010-02.pdf>] E. Liu

Slow or unreliable procurement practices are not the only reason why increased in infrastructure supply there are some disagreements in the policy and academic communities on the extent to which infrastructure is the most effective short term instrument to deliver sustained longer term growth. Additional arguments have been used by politicians to justify some reluctance to bet on an increase in infrastructure supply as a fiscal stimulus. These arguments have been fueled by differences in expectations associated with key dimensions of infrastructure expenditures. There is some disagreement on the intensity and the sustainability of job creation through infrastructure. 18 The real issue is the extent to which infrastructure projects do more than create short term jobs. There seems to be an implicit assumption in the political speeches that the effects on jobs will be sustained and go beyond the short term jobs in the sector due to the construction phase. In practice, the extent to which the jobs will last and multiply largely depends on the speed and the duration of the growth impact of the infrastructure stimulus. Since infrastructures take quite a long time to build, short term multipliers should be expected to be lower than longer term ones.19 Most researchers do not distinguish between short and term effects and find an infrastructure multiplier in the range of 0.5 to 1.20 These conservative estimates give some reason not to be overoptimistic on the job effects of the policy. Stevans and Sessions (2009) suggest that this order of magnitude is fine in the short run but underestimates the longer run effect. According to them, in the US, it reaches 0.867 after a year but gets to 3.3 after 2 years when all secondary effects are properly accounted for. This happens because the real growth payoff comes after the construction phase, once the new assets can actually be used to meet demand.21

### Not Enough/Infrastructure Fails

#### They have to spend over four billion dollars on stimulus, construction fails, and privates are crowded out

Martin Fackler, Tokyo bureau chief for the New York Times, 2-6-09, [“Japan’s Big-Works Stimulus Is Lesson ,” NYTimes, <http://www.nytimes.com/2009/02/06/world/asia/06japan.html?_r=1&sq>=] E. Liu

They also say that the size of Japan’s apparently successful stimulus in the early 1990s suggests that the

United States will need to spend far more than the current $820 billion to get results. Between 1991 and 1995, Japan spent some $2.1 trillion on public works, in an economy roughly half as large as that of the United States, according to the Cabinet Office. “Stimulus worked in Japan when it was tried,” said David Weinstein, a professor of Japanese economics at Columbia University. “Japan’s lesson is that, if anything, the current U.S. stimulus will not be enough.” Most Japanese economists have tended to take a bleaker view of their nation’s track record, saying that Japan spent more than enough money, but wasted too much of it on roads to nowhere and other unneeded projects. Dr. Ihori of the University of Tokyo did a survey of public works in the 1990s, concluding that the spending created almost no additional economic growth. Instead of spreading beneficial ripple effects across the economy, he found that the spending actually led to declines in business investment by driving out private investors. He also said job creation was too narrowly focused in the construction industry in rural areas to give much benefit to the overall economy. He agreed with other critics that the 1990s stimulus failed because too much of it went to roads and bridges, overbuilding this already heavily developed nation. Critics also said decisions on how to spend the money were made behind closed doors by bureaucrats, politicians and the construction industry, and often reflected political considerations more than economic. Dr. Ihori said the United States appeared to be striking a better balance by investing in new energy and information-technology infrastructure as well as replacing aging infrastructure.

### Optimism Bias

#### Default to us – Their estimates are politically motivated and fall to the optimism bias

Veronique de Rugy, senior research fellow at the Mercatus Center at George Mason University, 11-16-11, [“FEDERAL INFRASTRUCTURE SPENDING: NEITHER A GOOD STIMULUS NOR A GOOD INVESTMENT,” Joint Economic Committee, <http://mercatus.org/publication/federal-infrastructure-spending-neither-good-stimulus-nor-good-investment>] E. Liu

Economists have long recognized the value of building highways, bridges, airports, and canals as they are the conduits through which goods are exchanged and hence a source of economic growth. This explains the general support for federally funded infrastructure on both sides of the political aisle. Unfortunately, government funded infrastructure projects don’t often make for good investments either. First, infrastructure spending by the federal government tends to suffer from massive cost overruns, waste, fraud, and abuse. As a result, many projects that look good on paper turn out to have much lower return on investments than planned. A comprehensive 2002 study by Danish economists Bent Flyvbjerg, Mette K. Skamris Holm, and Søren L. Buhl examined 20 nations on five continents and found that nine out of ten public works projects come in over budget. 19 For rail, the average cost is 44.7 percent greater than the estimated cost at the time the decision is made. For bridges and tunnels, the equivalent figure is 33.8 percent, and for roads 20.4 percent.20 These cost overruns dramatically increase infrastructure spending. On average, U.S. cost-overruns reached $55 billion per year.21 Even if they lead to localized job growth, these investments are usually inefficient uses of public resources. According to the Danish researchers, American cost overruns reached on average $55 billion per year. This figure includes famous disasters like the Central Artery/Tunnel Project (CA/T), better known as the Boston Big Dig.22 By the time the Beantown highway project—the most expensive in American history—was completed in 2008, its price tag was a staggering $22 billion. The estimated cost in 1985 was $2.8 billion. The Big Dig also wrapped up 7 years behind schedule. Unfortunately, studies have shown that project promoters routinely ignore, hide, or otherwise leave out important project costs and risks to make total costs appear lower.23 Researchers refer to this as the “planning fallacy” or the “optimism bias.” Scholars have also found that it can be politically rewarding to lie about the costs and benefits of a project. The data show that the political process is more likely to give funding to managers who underestimate the costs and overestimate the benefits. In other words, it is not the best projects that get implemented but the ones that look the best on paper.24 In addition, inaccurate estimates of demand contribute to consistent underestimation of public projects: A study of 208 projects in 14 nations shows that 9 out of 10 rail projects overestimate the actual traffic.25 Moreover, 84 percent of rail-passenger forecasts are wrong by more than 20 percent. Thus, for rail, passenger traffic averages 51.4 percent less than estimated traffic.26 This means that there is a systematic tendency to overestimate rail revenues. For roads, actual vehicle traffic is on average 9.5 percent higher than forecasted traffic, and 50 percent of road traffic forecasts are wrong by more than 20 percent.27 In this case, there is a systematic tendency to underestimate the financial and congestion costs of roads.

### Rapid Taxation Bad

#### Transportation causes rapid taxation that destroys growth

Douglas Holtz-Eakin, President American Action Forum and Martin Wachs, Senior Principal Researcher, 1-21-11, [“Strengthening Connections Between Transportation Investments and Economic Growth ,” Bipartisan Policy

Center’s National Transportation Policy Project, <http://www.rand.org/pubs/external_publications/EP20110012.html>] E. Liu

While a focus on productivity and net societal returns provides important guidance for federal transportation investments, the current economic and political context presents two important additional challenges for policy- makers: first, coping with daunting budget deficits for the foreseeable future and second, addressing sustained high unemployment in the aftermath of a severe recession. The Fiscal Environment That the federal government’s fiscal posture is unten- able in the long run has been widely understood for some time. Successive versions of the Long-Term Budget Outlook put out by the Congressional Budget Office (CBO) show that absent major budget changes, the inexorable growth of existing entitlement programs and other government obligations will, over the next 30 years, raise federal outlays from about 20 percent of Gross Domestic Product (GDP) to between 30 and 40 percent of GDP.6 In this context, continued spending while holding revenue flows to their post-war norm of 18 percent of GDP will quickly generate an unmanage- able debt spiral. On the other hand, a rapid increase in taxes to match federal spending would likely also be self-defeating as it would cripple economic growth. The basic contours of this looming fiscal crisis have been unchanged for a decade or more, but the most recent Administration budget shows that the prob- lem has become dramatically worse in just the past few years. This means that severe consequences can be expected to emerge even more quickly. In fiscal year 2009, the federal government ran a deficit of $1.4 trillion—the highest since World War II—as spend- ing reached nearly 25 percent of GDP and receipts fell below 15 percent of GDP.

### Spending Inevitable – Stimulus Redistributes

#### Any private money is already being invested – They only redistribute money

Brian M. Riedl, fellow in federal budgetary affairs at The Heritage Foundation, 11-12-08, [“Why Government Spending Does Not Stimulate Economic Growth,” Thomas A. Roe Institute for Economic Policy Studies Published by The Heritage Foundation, [www.heritage.org/Research/Budget/bg2208.cfm](http://www.heritage.org/Research/Budget/bg2208.cfm)] E. Liu

Spending-stimulus advocates claim that govern- ment can “inject” new money into the economy, increasing demand and therefore production. This raises the obvious question: Where does the gov- ernment acquire the money it pumps into the econ- omy? Congress does not have a vault of money waiting to be distributed: Therefore, every dollar Congress “injects” into the economy must first be taxed or borrowed out of the economy. No new spending power is created. It is merely redistrib- uted from one group of people to another.2 Spending-stimulus advocates typically respond that redistributing money from “savers” to “spend- ers” will lead to additional spending. That assumes that savers store their savings in their mattresses or elsewhere outside the economy. In reality, nearly all Americans either invest their savings by purchasing financial assets such as stocks and bonds (which finances business investment), or by purchasing non-financial assets such as real estate and collecti- bles, or they deposit it in banks (which quickly lend it to others to spend). The money is used regardless of whether people spend or save. Government cannot create new purchasing power out of thin air. If Congress funds new spend- ing with taxes, it is simply redistributing existing income. If Congress instead borrows the money from domestic investors, those investors will have that much less to invest or to spend in the private economy. If Congress borrows the money from foreigners, the balance of payments will adjust by equally reducing net exports, leaving GDP unchanged. Every dollar Congress spends must first come from somewhere else. This does not mean that government spending has no economic impact at all. Government spending often alters the composition of total demand, such as increasing consumption at the expense of investment.

### Small Businesses

#### Stimulus funds don’t go to small businesses – Those are key to jobs

Amit Swaroop, Investment Banking Analyst, Barclays Capital, 5-10, [“How Effective was the American Recovery and Reinvestment Act of 2009?,” Thesis, <http://mmss.wcas.northwestern.edu/thesis/articles/get/722/Swaroop2010.pdf>] E. Liu

Another reason the stimulus may not be working is because small businesses did not receive enough money. Small businesses received $730 million from the American Recovery and Reinvestment Act, mostly to eliminate fees for loans on small businesses and for new loans to them so that they can meet existing debt payments. Small businesses are extremely important to the US Economy. According to the US Small Business Administration, small firms represent 99.7% of all employer firms and employ over half of all private sector jobs. Therefore, perhaps the fiscal stimulus should have focused on getting small businesses more money, especially if increasing employment was the main goal of the stimulus. The Obama Administration may have underestimated the large effect that small business has on employment.

### Turns Itself

#### Investment now causes taxation and tax evasion later – Undermines future infrastructure

Pierre-Richard Agénor, Hallsworth Professor of International Macroeconomics and Development Economics, University of Manchester, and co-Director, Centre for Growth and Business Cycle Research and Blanca Moreno-Dodson, Senior Economist, PREM Vice Presidency, World Bank, 3-30-06, [“Public Infrastructure and Growth: New Channels and Policy Implications,” <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2005043>] E. Liu

In principle, crowding-out effects associated with public infrastructure should be short term in nature; to the extent that an increase in the public capital stock raises output growth in the medium and longer term, future government borrowing needs may actually fall as a result of higher tax revenues. In that sense, deficits today will pay for themselves tomorrow, a common logic when discussing tax cuts and increases in expenditure in a growth context (see, for instance, Ireland, 1994, and Agénor and Yilmaz, 2006). However, as noted earlier, these effects may also persist beyond the short term, and turn into longer-run (adverse) effects on growth. For instance, if higher tax rates create permanent incentives for tax evasion, lower resources may reduce durably the government’s capacity to invest in infrastructure and other areas in the future, or its ability to ensure adequate maintenance of the public capital stock (as discussed later). If so, then, despite the complementarity effect mentioned earlier, the net effect of an increase in public infrastructure may well be to hamper, rather than foster, economic growth.

### Yes Earmarks

#### Earmarks on infrastructure are necessary and the government can’t plan it well

James Huffman, Erskine Wood Sr. Professor of Law at Lewis and Clark Law School in Oregon, 9-10-11, [“Why More Infrastructure Spending Is Unlikely to Create Jobs and Stimulate the Economy,” Hoover Institution, <http://www.advancingafreesociety.org/exclusive/topics/freedom/more-infrastructure/>] E. Liu

Another lesson relearned with the enactment of ARRA and the 2009 Omnibus Appropriations Act is that rent seeking, on behalf of the district or state members of Congress represent, is difficult to overcome even when the President has declared an end to earmarks. In his Thursday speech the President insisted, again, that there would be no earmarks. It is possible that public opposition to earmarks (at least for others) is sufficiently strong to prevent a rerun of the 2009 scramble for shares of the federal largess. But absent earmarked spending, it is unlikely an infrastructure spending bill can be passed. And if a bill is passed with earmarked spending, the resulting infrastructure is, again, unlikely to be part of a considered plan that will promote long term economic growth. Although more muted than in the past, the President clearly remains committed to promoting “green jobs” and a “green economy.” While such spending might create some short term jobs, and there might be a long term future for alternative energy solutions, the recent failure of solar innovator Solyndra (and the earlier collapse of Spain’s alternative energy ambitions) should remind us that the much ballyhooed green economy will not be achieved in a timeframe relevant to solving current economic challenges. The idea of an infrastructure bank has been around for several years and was part of ARRA (as the National Infrastructure Reinvestment Bank). The idea is to attract private capital to infrastructure projects, a good idea that will only work if markets are allowed to play a significant role in the defining of infrastructure priorities. That seems unlikely in an Administration wedded to central planning and government control of the economy. Without significant reliance on market indicators of demand, government supplied infrastructure will be, as often as not, a net drag on economic development. The President promised no more “bridges to nowhere,” but without market signals it is difficult to know where nowhere, or somewhere, is. We are left to rely on experts (in the Progressive tradition) guided by visions of the good society, rather than user demand. President Obama often touts as precedents the federal subsidy of 19th century railroads and the mid 20th century federal investment in the Interstate and Defense Highway System. He fails to mention that a large majority of the (increasingly heavily) subsidized railroads went belly up, but he is not wrong in insisting that there is a federal role in infrastructure development. The problem with his just announced proposal, like the infrastructure spending in ARRA, is its ad hoc nature. For federal spending on infrastructure to support long term economic growth it must meet needs that will not be met privately, will be of the right type supplied in the right places, and is best funded by the federal government rather than state and local governments. These are not questions Congress or the Administration can answer if the proposal is enacted and implemented “right now.” If any or all of the proposed infrastructure spending gets funded by Congress, the most interesting question will be whether anti-earmark Republicans in Congress will be strong enough to resist the smell of fresh pork.

### AT: Induced Jobs

#### Job creation figures are overestimated – Induced jobs are based on assumptions of spending

Claudia Copeland, Specialist in Resources and Environmental Policy, Congressional Research Service, et al., Linda Levine Specialist in Labor Economics William J. Mallett Specialist in Transportation Policy, 9-21-11, [“The Role of Public Works Infrastructure in Economic Recovery,” CRS Report for Congress, [www.fas.org/sgp/crs/misc/R42018.pdf](http://www.fas.org/sgp/crs/misc/R42018.pdf)] E. Liu

Actual job creation may differ from estimated job creation, however, because I-O models assume that resources are unlimited. If, for example, the economy were performing at a fairly high level (i.e., plants operating near full capacity and few workers unemployed), the actual number of new jobs might fall short of the estimate due to capital and labor constraints. In addition, I-O tables may not differentiate between imported and domestically produced goods. As a consequence, the domestic employment impact of expenditures might be overstated to the extent that inputs are imported. Employment requirements tables also do not distinguish between jobs by number of hours worked (part- or full-time) or length of employment (short- or long-term). Induced jobs, that is, the number of jobs resulting from purchases of goods and services by those in first-round (direct and indirect) jobs, may be included in job creation estimates as well. For example, workers who are directly or indirectly employed as the result of a highway construction program might spend some of their wages in grocery stores, at auto repair shops, etc. Estimates of induced jobs (i.e., the multiplier) are considered tenuous in part because their calculation relies on estimates of how much of the additional money earned by first-round workers will be spent versus saved. The jobs multiplier will further depend on economic conditions (e.g., the availability of labor, the inflation rate).

### AT: Tax Cuts

#### Tax cuts without an economic incentive undermine growth

Brian M. Riedl, fellow in federal budgetary affairs at The Heritage Foundation, 11-12-08, [“Why Government Spending Does Not Stimulate Economic Growth,” Thomas A. Roe Institute for Economic Policy Studies Published by The Heritage Foundation, [www.heritage.org/Research/Budget/bg2208.cfm](http://www.heritage.org/Research/Budget/bg2208.cfm)] E. Liu

The debate on taxes and economic growth is also clouded with confusion. By asserting that tax cuts spur economic growth by “putting spending money in people’s pockets,” many tax cutters commit the same fallacy as do government spenders. Similar to government spending, the money for tax cuts does not fall from the sky. It comes out of investment and net exports if financed by budget deficits or govern- ment spending if offset by spending cuts. However, the right tax cuts can add substantially to productivity. As stated above, economic growth requires that businesses produce increasing amounts of goods and services, and that requires consistent business investment and a growing, pro- ductive workforce. Yet high marginal tax rates— defined as the tax on the next dollar earned—create a disincentive to engage in those activities. Reduc- ing marginal tax rates on businesses and workers will increase incentives to work, save, and invest. These incentives encourage more business invest- ment, a more productive workforce by raising the after-tax returns to education, and more work effort, all of which add to the economy’s long-term capac- ity for growth. Thus, not all tax cuts are created equal. The economic impact of a tax cut is measured by the extent to which it alters behavior to encourage productivity. Tax rebates fail to increase economic growth because they are not associated with productivity or work effort. No new income is created because no one is required work, save, or invest more to receive a rebate. In that sense, rebates are economically indistinguishable from government spending pro- grams that write each American a check. In fact, the federal government treats rebate checks as a “social benefit payment to persons.”9 They represent another feeble attempt to create new purchasing power out of thin air. Consider the 2001 tax rebates. Washington bor- rowed billions from the capital markets, and then mailed it to Americans in the form of $600 checks. Rather than encourage income creation, Congress merely transferred existing income from investors to consumers. Predictably, the following quarter saw consumer spending growth surge from 1.4 per- cent to 7.0 percent, and gross private domestic investment spending drop correspondingly by 22.7 percent10 The overall economy grew at a meager 1.6 percent that quarter, and remained stagnant through 2001 and much of 2002.

# Other

## Negative

### Austerity Key to Competitiveness and Future Investment

#### Loss of deficit control undermines future investment – Makes competitiveness unsustainable

Xavier Sala-i-Martin, Professor of Economics at Columbia University, and visiting professor at the University of Pompeu Fabra, et al., JENNIFER BLANKE MARGARETA DRZENIEK HANOUZ THIERRY GEIGER IRENE MIA, 10, [“The Global Competitiveness Index 2010–2011: Looking Beyond the Global Economic Crisis,” Chapter 1.1, https://members.weforum.org/pdf/GCR10/Report/Part1/Chapter%201.1\_The%20Global%20Competitiveness%20Index%202010-2011.pdf] E. Liu

In this context, policymakers are being confronted with difficult economic management challenges. Following their active stance in addressing the crisis and the ensuing recession, governments are struggling to unwind their deficit spending in an effort to control soaring debts. Indeed, fears of a double dip are hinder- ing many governments from articulating clear exit strategies, a major topic of discussion in recent G-20 summits.1Yet without a clear commitment to getting spending under control in the medium term, countries will compromise their future ability to make pro-growth investments in areas such as infrastructure, health, and education, which are necessary for sustained develop- ment and competitiveness over the longer term.

### Deficits Crush Competitiveness

Xavier Sala-i-Martin, Professor of Economics at Columbia University, and visiting professor at the University of Pompeu Fabra, et al., JENNIFER BLANKE MARGARETA DRZENIEK HANOUZ THIERRY GEIGER IRENE MIA, 10, [“The Global Competitiveness Index 2010–2011: Looking Beyond the Global Economic Crisis,” Chapter 1.1, https://members.weforum.org/pdf/GCR10/Report/Part1/Chapter%201.1\_The%20Global%20Competitiveness%20Index%202010-2011.pdf] E. Liu

As the world emerges from the global recession, the full extent of the deterioration of fiscal accounts is becoming visible and is raising questions about the consequences for longer-term competitiveness. In the Global Competitiveness Index, fiscal policy is assessed by including the budget balance and public debt in the macroeconomic environment pillar, based on the belief that, although sound fiscal policy does not contribute directly to raising productivity and competitiveness, disarray can be very harmful. Continued budget deficits and high public debt are likely to have a negative impact on productivity for a number of reasons. First, they reduce fiscal flexibility. Because of higher interest pay- ments on debt, the government will have fewer funds available to invest in areas that are necessary to maintain future growth such as public health, education, or the upkeep of infrastructure. The government will also be unable to use fiscal stimulus in any new downturns. Second, because the government needs to finance spending by issuing new debt, interest rates across the economy will tend to rise, and the higher cost of capital for enterprises will stifle investment and future growth. These effects can be exacerbated by the fact that economic behavior is driven by expectations. Because taxes will most likely have to be raised in order to repay debt, economic agents will adapt their growth expectations, investing less and saving more. Taken together those factors may lower growth, making it even more difficult to repay debt in the future and potentially leading to a vicious cycle. In countries that are fiscally challenged, increases in debt could set off a different type of spiral, as recently seen in the case of Greece. Debt increases can lead to downgrades of sovereign risk ratings, thereby sharply raising the refinancing cost of short-term debt and, in the most extreme case, leading to sovereign default.

### NIB Fails – No Profit/Short Term

#### NIB has no profit motive, way of self-financing and is only for short-term projects

Jason J. Fichtner, senior research fellow at the Mercatus Center, 9-8-11, [“President’s Infrastructure Bank Missing Key Component for Success,” Mercatus Center, <http://mercatus.org/expert_commentary/president-s-infrastructure-bank-missing-key-component-success>] E. Liu

The president will deliver his long-awaited proposals for creating jobs tonight, including the idea of an infrastructure bank. An infrastructure bank, if created correctly, could be a positive move for long-term investment in the economy. However, the idea being proposed is missing a key component for success of any bank: making loans that are required to be paid back with interest. The infrastructure-bank model that is being promoted by President Obama is all smoke and mirrors. It continues to funnel taxpayer dollars to projects in a vain attempt to stimulate the economy in the short term without accounting for long-term costs and benefits. The infrastructure bank proposed by the president only consists of tax credits, direct subsidies, and loan guarantees that will shift the burden of risk onto federal taxpayers. The problem with the current plan is that it’s not a bank. There’s no profit motive to direct investment decisions, and the funding is not sustainable – it relies on Congressional appropriations. If an infrastructure bank were to be done correctly, it would have to make loans that borrowers would have to pay back with interest. This way “the bank” would presumably only make loans and fund projects that have a reasonable chance of getting paid back and making a profit – in order to reinvest the money into other worthwhile projects. If this were done, the bank would presumably be self-financing, reducing the risk to taxpayers.

### Protectionism Link

#### Stimulus magnifies protectionist tendencies – Blocks free trade through government intervention

Henrique Schneider, Economist, Swiss Federation of Small and Medium Enterprises, 12-11, [“The Crisis of Crisis Management,” Korea and the World Economy, Vol. 12, No. 3 (December 2011) 555-578, www.dbpia.co.kr/Journal/ArticleDetail/1612135]E. Liu

There is still another problem created by the possible breakdown of states due to their sovereign debt: Some countries — the US, Europe, China, and India — are playing with the idea of protectionism. The issue is not about classic trade protectionism, but about resurgent involvement of the state in the economy, in financial regulation, and in technological development. This is born of the financial and economic crisis. There is a new notion, according to which prosperity, economic security, and success can best be achieved by disengagement and disintegration. As important economies were hit by the crisis and contributed in creating the sovereign-debt bubble, political entities noted that by worldwide disintegration, prices would be easier to manipulate, and therefore their own past mistakes easier to mask. This was the case especially in the US, where ex-post regulations were used to change environments once again and to make it even more difficult for prices to reveal the needed information. This drives regulation protectionism, which is specific for the US and Europe. Under the pretext of wanting to have better and more stable markets, and ill- using Bator’s efficiency argument, regulatory protectionism tries to bind all relevant market players to regulation, thus maximizing the power of the state and the means for distorting markets and prices. The developed world became suspicious of globalization leading to protectionist rhetoric: “You do it your way, I do it mine, but if you want to do business in my country, you have to do it my way.” State expansion in global economy happens through three different channels. First, state-owned enterprises use their relative weight, solidity, and ability to accumulate capital to growth and dominate worldwide markets. This is specific to India, China, and France. Second, stimuli and spending programs tend to protect national enterprises against internationals. And third, the fusion of central banking and government creates geographic inequalities. The last form of new protectionism is related technology. Either by developing country-specific standards or by designing and enforcing them through laws, once again, fences against free trade are built. In order to sum up: What effect did state-driven crisis management have? First, it ended the independency of central banking; second, it distorted all prices, risk-propensity, and the informational exchange in the markets by manipulating interest rates; third, by boosting spending, it increased the risk of sovereign default, thus privatizing public debt, boosting inflation, and lowering productivity as well as efficiency; and fourth, it contributed to a revival of protectionist tendencies.

### Yes Trade-Off

Douglas Holtz-Eakin, President American Action Forum and Martin Wachs, Senior Principal Researcher, 1-21-11, [“Strengthening Connections Between Transportation Investments and Economic Growth ,” Bipartisan Policy

Center’s National Transportation Policy Project, <http://www.rand.org/pubs/external_publications/EP20110012.html>] E. Liu

As the nation moves into an era of unprecedented budget pressures and likely severe fiscal austerity, trans- portation projects will necessarily compete with other priorities for scarce public funds. There may be grow- ing pressure to divert traditional sources of revenue for transportation projects—even those that have generally been protected by “firewalls” and dedicated to trans- portation programs, such as the Highway Trust Fund— away from the purposes for which they were intended to contribute to general deficit reduction. At that point, having the “best” transportation project may no longer be enough. Rather, it will be necessary to demonstrate that spending on a particular transportation project is “better” or more justified than a competing outlay for health insurance, old-age income support, or other social needs.

### AT: Cards from Lobby Groups

#### Disregard evidence from advocacy groups – It’s arbitrary, not based in economics, and biased

Claudia Copeland, Specialist in Resources and Environmental Policy, Congressional Research Service, et al., Linda Levine Specialist in Labor Economics William J. Mallett Specialist in Transportation Policy, 9-21-11, [“The Role of Public Works Infrastructure in Economic Recovery,” CRS Report for Congress, [www.fas.org/sgp/crs/misc/R42018.pdf](http://www.fas.org/sgp/crs/misc/R42018.pdf)] E. Liu

Traditionally, setting priorities for infrastructure spending is based on a combination of factors. Estimates of funding needs are one factor that is commonly used as a measure of the dimension of a problem and to support spending on some activities relative to others, as in: funding needs for X are much greater than for Y, therefore, society should spend more heavily on X. One widely cited estimate of the nation’s infrastructure needs is presented in the finding of the American Society of Civil Engineers (ASCE) that the condition of the nation’s infrastructure merits a letter grade of “D.” According to ASCE, five-year funding needs total $2.2 trillion, while the “gap” between estimated investment needs and estimated spending is $1.8 trillion. ASCE reported the condition of a dozen categories of infrastructure, including roads (“Poor road conditions cost U.S. motorists $67 billion a year in repairs and operating costs—$333 per motorist”), dams (“The gap between dams needing repair and those actually repaired is growing significantly”), wastewater (“Aging, underdesigned, or inadequately maintained systems discharge billions of gallons of untreated wastewater into U.S. surface waters each year”), and schools (“No comprehensive, authoritative nationwide data on the condition of America’s school buildings has been collected in a decade. The National Education Association’s best estimate to bring the nation’s schools into good repair is $322 billion.”).46 However, assessing “need” is complicated by differences in purpose, criteria, and timing, among other issues. In the infrastructure context, funding needs estimates try to identify the level of investment that is required to meet a defined level of quality or service. Essentially, this depiction of need is an engineering concept. It differs from economists’ conception that the appropriate level of new infrastructure investment, or the optimal stock of public capital (infrastructure) for society, is determined by calculating the amount of infrastructure for which social marginal benefits just equal marginal costs. The last comprehensive national infrastructure needs assessment was conducted by the National Council on Public Works Improvement that was created by the Public Works Improvement Act of 1984 (P.L. 98-501). The Council reported in 1988 that government outlays for public works capital totaled about $45 billion in 1985 and that a commitment to improve the nation’s infrastructure “could require an increase of up to 100 percent in the amount of capital the nation invests each year.”47 This estimate of future needs by the Council may have been imprecise because of the inherent difficulties of needs assessments, something its report discusses in detail.48 It is worth highlighting a few of these key difficulties as a cautionary note when attempting to interpret infrastructure needs assessments. One of the major difficulties in any needs assessment is defining what constitutes a “need,” a relative concept that is likely to generate a good deal of disagreement. For this reason, some needs assessments are anchored to a benchmark, such as current provision in terms of physical condition and/or performance. This current level of provision may be judged to be too high by some and too low by others, but nonetheless it provides a basis for comparison as future spending needs can be estimated in terms of maintaining or improving the current condition and performance of the infrastructure system. Needs estimates in highway and public transit are calculated in this way by the U.S. Department of Transportation (DOT). The Environmental Protection Agency (EPA) similarly estimates total U.S. funding needs for wastewater treatment facilities. EPA defines a “need” as the unfunded capital costs of projects that address a water quality or water quality-related public health problem existing as of January 1, 2008, or expected to occur within the next 20 years.49 In some cases, estimates are intended to identify needs for categories of projects that are eligible for assistance under various federal programs. By being defined in that manner, assessments based solely on funding eligibility may not take into consideration needs for non-eligible categories, such as replacement of aging infrastructure or projects to enhance security. Some federal agencies estimate the funding necessary to bring the current infrastructure system to a state of good repair. The resulting funding estimate is sometimes referred to as the infrastructure “backlog.” Again, among other problems, such as inventorying the current condition of infrastructure and calculating repair costs, the needs estimate is affected by judgments about what constitutes a state of good repair. It is worth noting, too, that needs assessment are often conducted by organizations with a vested interest in the outcome. This is most obviously a concern when a needs assessment is conducted by an advocacy group, but may also occur with government agencies.

## Affirmative

### No Crowd-Out

Robert Pollin, professor of economics at the University of Massachusetts-Amherst and founding co-director of its Political Economy Research Institute and Dean Baker, o-director of the Center for Economic and Policy Research in Washington, D.C, 12-09, [“Public Investment, Industrial Policy and U.S. Economic Renewal,” CENTER FOR ECONOMIC AND POLICY RESEARCH, <http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1179&context=peri_workingpapers>] E. Liu

How could a high level of public investment actually serve to crowd out private investment? The basic argument is straightforward. Investments in infrastructure require real economic resources— materials, equipment, and human effort. They also require financial resources—money coming either from tax revenues or government borrowing. The ‘crowding out’ argument assumes that when the public sector consumes more of these real and financial resources, it necessarily diminishes the amount available to the private sector. Therefore, an increase in public capital expenditures results in less private sector production. The overall ‘economic pie’ is fixed in this view. When the government takes a bigger slice, it leaves less for the private economy. Does this argument make sense? To begin with, just at the level of simple logic, it is important to recognize that the crowding out argument is plausible only under a specific set of narrow economic circumstances. These circumstances would be when: 1) all the economy’s real resources are being fully utilized, i.e. workers are fully employed, and the economy’s existing productive apparatus is be- ing run full-tilt; 2) the economy’s financial resources are, correspondingly, also being fully used up in financing productive investment projects; and 3) new public investment spending makes no contri-

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bution toward expanding the economy’s productive capacity—i.e. it is not succeeding in its purpose of increasing the overall size of the economic pie. Over the 2008-09 recession, which is ongoing as we write, unemployment has reached its highest level in a generation while private banks and other financial institutions have been providing almost no loans to finance private investments. The private financial institutions have chosen instead to hoard huge cash reserves and to purchase U.S. Treasury bonds. During the recession, the private financiers have clearly decided that U.S Treasury bonds, not investments by private businesses, are the best place to channel their funds. Under these circumstances, there is no possibility of public investment projects bidding resources away from the private sector. Rather, the $65 billion in public investments included in the ARRA are expanding employment opportunities and putting to good use the financial resources that the private sector has been pouring into U.S. Treasury bond purchases. But the 2008-09 recession—the most severe downturn since the 1930s Depression—is clearly an extraordinary historical moment. We need to also consider the issue of whether crowding out or crowding in is more likely to result during a typical period of economic expansion, when private sec- tor investment is growing and unemployment is relatively low. In fact, even during such a period of economic expansion, it does not follow that public investments will necessarily crowd out private investments. That is, even when the economy is utilizing most of its productive machinery and most people have jobs, there are still good reasons for public investment to be an important part of the overall mix of public and private investment. The basic explanation here is that public infrastructure investments will expand the economy’s long- term productive capacity, with benefits flowing primarily to the private sector. Because public infra- structure investment actually increases the overall size of the economic pie, both the public and the private sectors can expand together through a complimentary, mutually-supportive growth path. More specifically, public spending provides goods and services essential for private production, in- cluding roads, bridges, energy, water, aviation, and water transport. Infrastructure improvements can increase labor productivity—e.g. more efficient transportation systems to and from work reduce wasted time. Better infrastructure can also reduce fossil fuel consumption specifically, and overall energy consumption more generally. This reduces greenhouse gas emissions, and thus the environ- mental barriers to economic growth (an issue to which we return below). Overall then, these are the channels through which, even during a period of economic expansion, when the economy’s workers and productive equipment are being heavily utilized, public investment can still serve to crowd in, rather than crowd out, private investment. Examining the Formal Statistical Evidence These arguments in support of crowding in can be convincing as a broad analytic framework. How- ever, it is more difficult to demonstrate their validity through systematic statistical analysis. But it is crucial to be able to put these arguments to more formal tests. As we have seen, in terms of broad general perspectives, one can also construct plausible arguments in behalf of crowding out, at least during a period of economic expansion. In considering the formal statistical evidence, we begin by introducing the important research con- ducted in the 1980s and early 1990s, led by Alicia Munnell and David Aschauer. Working separately, Munnell and Aschauer both suggested that public investment in the United States economy contrib- utes to better performance of the private economy in terms of higher productivity and employment expansion (Aschauer 1989a, 1989b; Munnell 1990a, 1990b, 1992). That is, public investment actually raises the return on private investment—crowding in rather than crowding out private investment. Both Munnell and Aschauer suggested that the sharp decline in the growth of public investment, which we documented earlier, contributed to the declining trend in productivity growth in the 1970s and 1980s. A growing infrastructure deficit would drag down the productivity and competitiveness of the U.S. economy. Numerous critiques of this earlier work were advanced, focusing on technical statistical matters. For the sake of the current discussion, it is sufficient to point out that the earlier work of Aschauer and Munnell did not fully address important properties of the data they used to generate their results, raising the possibility that the relationship they found between public investment and private eco- nomic performance was spurious.4 Critics argued that, once these problems were addressed, the sta- tistical findings they had derived end up falling apart. However, Professor James Heintz has re-estimated these relationships using up-to-date data and ad- dressing the statistical issues associated with the earlier research (see Heintz forthcoming 2010). Overall, Heintz found that sustained increases in public infrastructure investment increases the growth rate of private sector GDP by a substantial amount. Specifically, he found that a sustained one-percentage point increase in the growth rate of public infrastructure leads, over time, to an in- crease in the growth rate of private sector GDP of approximately 0.6 percentage points, after hold- ing constant all the other factors that influence U.S. economic growth.

### No Financial Crowd-Out

Robert Pollin, professor of economics at the University of Massachusetts-Amherst and founding co-director of its Political Economy Research Institute and Dean Baker, o-director of the Center for Economic and Policy Research in Washington, D.C, 12-09, [“Public Investment, Industrial Policy and U.S. Economic Renewal,” CENTER FOR ECONOMIC AND POLICY RESEARCH, <http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1179&context=peri_workingpapers>] E. Liu

These results still do not explicitly address the possibility for financial crowding out. That is, by channeling financial resources to public investment, there could be fewer funds available for private investment. Arguments about financial crowding out are longstanding. Most frequently, these arguments are pre- sented with reference to the federal government’s fiscal deficit. That is, when the federal government borrows money from financial markets to cover its deficit, then less credit becomes available for the private sector. This point was advanced frequently in the 1980s, in response to the large fiscal deficits run during the Reagan presidency. For example, Professor Benjamin Friedman of Harvard wrote in Day of Reckoning, his highly influential anti-deficit tract in 1988, “The heart of the matter is that deficits absorb saving. When more of what we save goes to finance the deficit, less is available for other activities that also depend on borrowed funds” (1988, p. 164). However, at the simple level of logic, the validity of the financial crowding out argument does not hinge on whether the government borrows money to finance its activities or pays for these activities through its tax revenues. When tax revenues, as opposed to borrowing are the source of funds, it is still the case that when these funds finance public investment, they are not then available for private investments. To evaluate whether financial crowding out is occurring, the broader consideration is therefore whether we can observe private businesses being inhibited from undertaking productive investments because public investment projects have been absorbing an excessive amount of funds. The data presented in Table 1 present some useful perspective on this question. For nonfinancial corporations as a whole, these data show the long-term relationship between investments in produc- tive equipment and structures and measures of how the corporations obtain the financing to pur- chase these investment goods (i.e. their “sources and uses” of funds). The data also show how much corporations use their overall level of available funds to acquire financial assets as opposed to pur- chasing new plants and productive equipment. We present these figures over two long time periods, 1950 – 79 and 1980 – 2007. The first row of the table shows the relationship between the level of retained profits by corpora- tions (their “internal funds”) and the amount of money the corporations spent on investments in plants and productive equipment. As we can see, over both long time periods, corporations have tended to spend money on investments in close correspondence with their level of retained profits. Thus, from 1950 – 79, an average of about 95 percent of their investment spending was covered by retained profits. Over 1980-2007, retained profits as a share of investments had risen higher, to where profits were sufficient to finance fully 98.7 percent of corporations’ investments.5

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However, these figures do still shed important light on the issue of financial crowding out. Have non-financial corporations in general faced difficulties obtaining funds that they can channel into investments, perhaps because the public sector is absorbing funds to an excessive extent? As these data show, as an average over long periods of time—that is, averaging out the effects of business cycle ups and downs and other short-term adjustments—U.S. corporations borrow more than what they needed to fully fund their investment spending. What these data therefore show is that, as a long-term average, corporations do not experience a shortage of funds available to finance their in- vestments. They are not experiencing financial crowding out. Rather, as a long-term average, corpo- rations use the funds widely available to them not primarily to expand their investment spending, but to engage in various sorts of financial market activities.6

### No Gas Tax

James Corless, Campaign Director, Transportation for America, 3-18-11, [“More options are a must,” National Journal Transportation Experts Blog, <http://transportation.nationaljournal.com/2011/03/the-impact-of-high-gas-prices.php?comments=expandall#comments>] E. Liu

The timing of the current price spike — a likely precursor to many more such episodes — presents Congressional authorizers with an extremely thorny conundrum. On the policy side of the ledger, it argues powerfully for an aggressive program to provide more transportation options for Americans eager to escape the gas-price trap. On the revenue side, it makes it less likely that the gas tax will be the source of the additional funds we need to maintain existing infrastructure and build what we need. Combined with renewed demands for more fuel-efficient vehicles, it almost certainly will hasten the day when the gas tax ceases to be the sole source of most transportation funds. The VMT tax is almost certainly part of the answer, but it is hardly a panacea.

### No State Disinvestment

#### No disinverstment

Claudia Copeland, Specialist in Resources and Environmental Policy, Congressional Research Service, et al., Linda Levine Specialist in Labor Economics William J. Mallett Specialist in Transportation Policy, 9-21-11, [“The Role of Public Works Infrastructure in Economic Recovery,” CRS Report for Congress, [www.fas.org/sgp/crs/misc/R42018.pdf](http://www.fas.org/sgp/crs/misc/R42018.pdf)] E. Liu

Other economists say that if federal assistance merely provides fiscal relief by paying for spending that would have occurred anyway—that is, if federal dollars merely substitute for or replace local dollars invested in the same activity—it provides no economic boost. In response, state and local public officials say that that is not the case in today’s economy. Because of the pressures that they continue to face, states and cities have been cancelling and delaying infrastructure projects. Another way of describing this situation could be to say that what is under discussion is in reality about holding state and local governments harmless in order to encourage them to carry out projects that they could not otherwise do, because of budget shortfalls.