# Keynesian Spending Core

# Spending Good

## Spending Good Frontline

#### Spending Key to Economic growth

Krugman 11 (Paul Krugman, is an American economist, Professor of Economics and International Affairs at the Woodrow Wilson School of Public and International Affairs at Princeton University, Centenary Professor at the London School of Economics, and an op-ed columnist for The New York Times. “Keynes was Right” New York times, December 29, 2011, <http://www.nytimes.com/2011/12/30/opinion/keynes-was-right.html>, RS)

“The boom, not the slump, is the right time for austerity at the Treasury.” So declared John Maynard Keynes in 1937, even as F.D.R. was about to prove him right by trying to balance the budget too soon, sending the United States economy — which had been steadily recovering up to that point — into a severe recession. Slashing government spending in a depressed economy depresses the economy further; austerity should wait until a strong recovery is well under way. Unfortunately, in late 2010 and early 2011, politicians and policy makers in much of the Western world believed that they knew better, that we should focus on deficits, not jobs, even though our economies had barely begun to recover from the slump that followed the financial crisis. And by acting on that anti-Keynesian belief, they ended up proving Keynes right all over again. In declaring Keynesian economics vindicated I am, of course, at odds with conventional wisdom. In Washington, in particular, the failure of the Obama stimulus package to produce an employment boom is generally seen as having proved that government spending can’t create jobs. But those of us who did the math realized, right from the beginning, that the Recovery and Reinvestment Act of 2009 (more than a third of which, by the way, took the relatively ineffective form of tax cuts) was much too small given the depth of the slump. And we also predicted the resulting political backlash. So the real test of Keynesian economics hasn’t come from the half-hearted efforts of the U.S. federal government to boost the economy, which were largely offset by cuts at the state and local levels. It has, instead, come from European nations like Greece and Ireland that had to impose savage fiscal austerity as a condition for receiving emergency loans — and have suffered Depression-level economic slumps, with real G.D.P. in both countries down by double digits. This wasn’t supposed to happen, according to the ideology that dominates much of our political discourse. In March 2011, the Republican staff of Congress’s Joint Economic Committee released a report titled “Spend Less, Owe Less, Grow the Economy.” It ridiculed concerns that cutting spending in a slump would worsen that slump, arguing that spending cuts would improve consumer and business confidence, and that this might well lead to faster, not slower, growth. They should have known better even at the time: the alleged historical examples of “expansionary austerity” they used to make their case had already been thoroughly debunked. And there was also the embarrassing fact that many on the right had prematurely declared Ireland a success story, demonstrating the virtues of spending cuts, in mid-2010, only to see the Irish slump deepen and whatever confidence investors might have felt evaporate. Amazingly, by the way, it happened all over again this year. There were widespread proclamations that Ireland had turned the corner, proving that austerity works — and then the numbers came in, and they were as dismal as before. Yet the insistence on immediate spending cuts continued to dominate the political landscape, with malign effects on the U.S. economy. True, there weren’t major new austerity measures at the federal level, but there was a lot of “passive” austerity as the Obama stimulus faded out and cash-strapped state and local governments continued to cut. Now, you could argue that Greece and Ireland had no choice about imposing austerity, or, at any rate, no choices other than defaulting on their debts and leaving the euro. But another lesson of 2011 was that America did and does have a choice; Washington may be obsessed with the deficit, but financial markets are, if anything, signaling that we should borrow more. Again, this wasn’t supposed to happen. We entered 2011 amid dire warnings about a Greek-style debt crisis that would happen as soon as the Federal Reserve stopped buying bonds, or the rating agencies ended our triple-A status, or the superdupercommittee failed to reach a deal, or something. But the Fed ended its bond-purchase program in June; Standard & Poor’s downgraded America in August; the supercommittee deadlocked in November; and U.S. borrowing costs just kept falling. In fact, at this point, inflation-protected U.S. bonds pay negative interest: investors are willing to pay America to hold their money. The bottom line is that 2011 was a year in which our political elite obsessed over short-term deficits that aren’t actually a problem and, in the process, made the real problem — a depressed economy and mass unemployment — worse. The good news, such as it is, is that President Obama has finally gone back to fighting against premature austerity — and he seems to be winning the political battle. And one of these years we might actually end up taking Keynes’s advice, which is every bit as valid now as it was 75 years ago.

#### Models prove

Krugman 11 (Paul Krugman, is an American economist, Professor of Economics and International Affairs at the Woodrow Wilson School of Public and International Affairs at Princeton University, Centenary Professor at the London School of Economics, and an op-ed columnist for The New York Times. “Why Believe In Keynesian Models?” New York Times, October 11, 2011. <http://krugman.blogs.nytimes.com/2011/10/11/why-believe-in-keynesian-models/>, RS)

A correspondent asks a good question: what evidence makes me believe that Keynesian economics is broadly right, given the relative absence of experience with large fiscal stimulus programs? I’d answer that question with several points. First, we’re talking about a model, not just a prediction about the impact of spending increases. So you can ask about the ancillary predictions of that model as opposed to rival models. Anti-Keynesians assured us that budget deficits would send interest rates soaring; Keynesian analysis said they’d stay low as long as the economy remained far from full employment. Guess who was right? Also, there are some features of the approach that can be tested separately. Keynesianism isn’t just about sticky prices, but it does generally assume sticky prices — and there is overwhelming evidence, from a variety of sources, that prices are indeed sticky. Also also: there’s plenty of evidence that monetary policy can move output and employment — and it’s very hard to devise a model in which that is true that doesn’t also say that fiscal policy can be effective, especially when you’re up against the zero lower bound. Second, while we don’t have a lot of postwar experience with fiscal stimulus, we do have a lot of experience with anti-stimulus, that is, austerity — and that turns out to be reliably contractionary. Again, it’s hard to think of a model in which austerity is contractionary but stimulus isn’t expansionary. Finally, there is evidence from fiscal expansions in the 1930s, which actually did lead to economic expansion too. Mainly I’d stress the first point. We have a model of the way the world works, and the world does indeed seem to work that way. And an implication of that model is that fiscal stimulus will work under conditions like those we face now. If interest rates had soared, if the rise in base money had led to rising GDP and/or soaring prices despite the zero lower bound, I would have sat down to reconsider what I thought I knew about macroeconomics. In fact, however, my preferred model has passed the test of events with flying colors, while the other guys’ models have been totally wrong.

#### Its vital to develop private savings

AUERBACK 2009 (MARSHALL a market analyst and commentator. He is a brainstruster for the Franklin and Eleanor Roosevelt Intitute. “Government Spending is the Solution–Not the Problem,” Counter Punch, <http://www.counterpunch.org/2009/09/15/government-spending-is-the-solution-not-the-problem/>) AS

President Obama himself has legitimized this line of thinking himself, committing himself to the goal of “fiscal sustainability” (whatever that means) as a medium term policy objective. He said as much last Wednesday again during his speech on health care. Having failed to understand what got us into the crisis, and equally having failed to appreciate the extent to which government spending actually prevented an economic catastrophe along the lines of the Great Depression, our policy makers who are championing this move toward neo-liberal fiscal orthodoxy are almost certain to drive us into the next recession if they take these demands to shrink government too aggressively. Deficit hawks fail to understand that not all debt is created equally. As James Galbraith, L. Randall Wray and Warren Mosler have argued, there is no legitimate analogy to be drawn about the budgets of the government, which issues the currency, and the budgets of the non-government sector (households, firms etc) which uses that currency. The former does not have a financial constraint and can spend freely whereas the latter has to “finance” all spending either through earning income, drawing down savings or liquidating assets. Although the global debt problem is very serious, the focus on growing government deficits and the need to rein in fiscal expenditures is profoundly misplaced, particularly in the U.S., where (relative to Europe and Japan), the government debt is low, relative to the size of the economy. Additionally, as a matter of national accounting, deleveraging in the private sector cannot happen without an increase in the government’s deficit (the government’s deficit equals by identity the non-government’s surplus. Consequently, if the US private sector is to rebuild its balance sheet by spending less than its income, the government will have to spend more than its tax revenue; the only other possibility is that the rest of the world begins to dis-save massively—letting the US run a current account surplus—but that is highly implausible). In addition, if the government deficit does not grow fast enough to meet the saving needs of the private domestic sector, national income will decline, and, given the size of the private sector’s debt problem, a full-blown debt-deflation process will emerge.

#### And empirics are on our side- the stimulus wasn’t a failure- more targeted job spending is key

COE 2011 (RICK a professor of economics at New College of Florida. “New College professor: The stimulus worked,” <http://www.heraldtribune.com/article/20110823/COLUMNIST/110829890/-1/news?template=printart> ) AS

It seems fashionable these days to label the American Economic Recovery and Reinvestment Act of 2009, more popularly known as the "stimulus program," a failure. The program has come and gone, economic growth continues to disappoint, and unemployment remains at unacceptably high levels, standing today at 9.3 percent — the same level as when the program was initiated. An obvious failure. However, the only obvious thing about this argument is that it is obviously wrong. Given the size and nature of the stimulus program, it did what it could — it ended the Great Recession and kept unemployment from rising to double-digit levels. Too small in size and too heavily tilted toward tax cuts rather than direct job-creating spending, it was simply not capable of returning the economy to full employment. But given the limitations placed on it, it was as successful as could reasonably be expected. Let's start with economic growth. Prior to the implementation of the stimulus program, the economy was in a sharp downward spiral, culminating in a shocking 8.9 percent decline in real gross domestic product in the fourth quarter of 2008 and an equally disastrous decline of 6.7 percent in the first quarter of 2009. Once the stimulus program kicked in, the turnabout was immediate. Real GDP increased by 1.7 percent in the third quarter of 2009, followed by impressive increases of 3.8 percent in each of the next three quarters. The Great Recession was officially over, as determined by the National Bureau of Economic Research. (The "official" end of the recession should not, however, be confused with a return to full-employment.) The flip side of the coin is equally telling. As the stimulus program faded, the once-promising recovery stalled — real GDP growth fell to a pathetic 0.4 percent in the first quarter of this year, and second quarter growth appears to be only slightly higher. Economy would have been worse The fact that economic growth increased as the stimulus program was implemented and decreased as it ended is clear evidence of the positive effect the program had on the economy. But what about unemployment? Can one really characterize the stimulus program as successful when the unemployment rate never fell below 8.8 percent? One can when one asks the right question: What would have happened to unemployment if the stimulus program were not enacted? In a recent study, the Congressional Budget Office estimated that, without the stimulus, the unemployment rate in 2010 would have averaged between 0.7 and 1.8 percentage points higher, which would have pushed the annual unemployment rate into double-digits for the first time since 1940! Between 1.3 and 3.3 million additional people were employed as a result of the stimulus program, and GDP growth was between 1.5 and 4.1 percent higher. The bottom line is that the stimulus program provided a much-needed boost to the economy, but it could not return us to full employment. It was like asking a compact car to win the Indy 500. It was too small by half, and not optimally designed, containing too little government spending and too much in tax cuts, which are not as effective in stimulating the economy in the short run. Debt isn't hurting Can one seriously argue that the stimulus program should have been much larger, thereby increasing the government deficit and debt in the short run? Absolutely. One of the greatest fallacies advanced by the anti-stimulus crowd is that the current level of national debt is "hurting" the national economy. Economists fear large government deficits and the resulting debt because they might raise interest rates, thus crowding out private investment, or they might ignite inflation. But interest rates remain at historically low levels, and core inflation, the best measure of general inflationary pressures, remains below 2 percent. If one is concerned that the current level of the government deficit and debt is too large, then the best cure is a rapidly growing economy, which won't be achieved if we cut government spending. But what about the kids? How can we in good faith pass along to future generations the "burden" of the national debt? This is perhaps the most insidious, feckless argument advanced by the stimulus opponents. As the stimulus spending comes to an end, educational budgets are being disemboweled across the country, resulting in shortened school years, larger class sizes, the elimination of support teachers to address specific needs, the discontinuation of "non-critical" programs (e.g., foreign languages), and on and on — all done in the name of protecting future generations! Add in reductions to nutritional and health-care programs for children and the full extent of the damage inflicted on the next generation by the anti-stimulus camp begins to emerge. When eliminating spending that benefits future generations is justified on the grounds of protecting future generations, the policy discourse enters Alice in Wonderland territory. Unfortunately, that is where we are today. The stimulus did what it could. It stopped the downward spiral of the economy and kept the unemployment rate from entering double-digit territory. More stimulus is needed now to move a sputtering economy toward full employment and to provide our children with the education and health care that they deserve.

## ----Ext. Key to Econ Growth- Consumption

#### Stimulus encourages private spending- boosts the economy

Cochrane 09 (Feb 27, John H., Myron S. Scholes Professor of Finance “Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?” <http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm>) BH

“Fiscal stimulus” is the proposition that by borrowing money and spending it, the government can raise the overall state of the economy, raising output and lowering unemployment. Can it work? Do the arguments for it make any sense? If so, does the economy suffer from the ailments that fiscal stimulus can cure? One form of “fiscal stimulus” clearly can increase aggregate demand. If the government prints up money and drops it from helicopters, this action counts as fiscal stimulus, since the money counts as a transfer payment. In practice, our Treasury would borrow the money, and use it for tax rebates, subsidies, bailouts, or any of the many ways that our government sends people checks. Then the Federal Reserve would buy up the debt with newly created money. The result is the same: A trillion dollars more money in private hands, just as if it had been printed and dropped by helicopters. People naturally don’t want to sit on a trillion dollars of extra cash. They spend it, first creating demand for goods and services, and ultimately inflation. This is perhaps the only prediction that is utterly uncontroversial among economists. It is a standard last-resort economic prescription to avoid a deflation. Conventional monetary policy just exchanges treasury debt for money, without increasing the overall supply of money and debt. Whatever arguments there are that this action might affect overall demand for goods and services vanish when interest rates are near zero as they are now. Now, Treasury debt and money are nearly perfect substitutes. To inflate, the government needs to increase the overall quantity of government debt, not alter its composition. To inflate, the government also has to make it clear that it will not pay back new debt. If we expect that debt or money will be retired with future taxes, then there is no great incentive to go out and spend to get rid of either. Only if it’s clear the debt or money will soon be inflated away does it make sense for people to try to get rid of money or debt now, and go out and buy. Is that the “fiscal stimulus” that the Obama economic team is arguing for? It’s quite possible. The Obama economic team has not announced a clear schedule of future spending controls or tax increases that can pay off the new debt, and the Federal Reserve has already more than doubled the money supply and is widely announcing its intention to do much more. (We don’t need to see higher tax rates, we need to see higher revenues or lower spending. A plan for higher rates can choke off growth implying lower revenues.) On the other hand, they have not announced the opposite, a determined intention to inflate rather than pay off the debt, which would give the maximum inflationary demand punch.

## ----Ext. Key to Econ Growth- Jobs

#### Keynesian spending decreases unemployment and spurs the economy

Madrick 12(Jeff Madrick, Roosevelt Institute Senior Fellow and the Director of the Roosevelt Institute’s Rediscovering Government initiative and author of Age of Greed. “Defending Krugman: The Importance Of Keynesian Economics” The National Memo. May 29, 2012. <http://www.nationalmemo.com/defending-krugman-the-importance-of-keynesian-economics/2/>, RS)

Keynes was right: increased government spending in the U.S. is necessary to decrease unemployment and raise demand in the near-term. Paul Krugman hardly needs defending, but his views about the need for Keynesian stimulus in the U.S. right now are coming under considerable fire from centrist and left-of-center economists. I find this disturbing because Krugman’s view abides by basic Keynesian principles that seem to have been discarded by many who profess themselves Keynesians. Is there a wide misunderstanding of Keynes? What seems to upset people is that Krugman argues the government must spend more money now, almost regardless of what it spends it on. The Keynesian thesis is that economies can settle at a high level of unemployment rather than re-adjust to the optimum unemployment level—or level of economic activity—on their own. This was a response to the classical, pre-Depression view that the beauty of free markets was a self-adjustment process based on falling prices in downturns. But ultimately the problem is a lack of demand, and Keynes advocated budget deficits to support an increase in demand. The lack of demand in the economy now is palpable. Krugman’s contention is that in the near-term, we can solve this problem if we have the will to do so. The economy can reduce its rate of unemployment fairly rapidly with adequate Keynesian stimulus. It is clear that monetary stimulus at this point is not enough. This view is not incompatible with longer-term concerns about the economy — inadequate education for too many, infrastructure decay, old energy technologies, and so on. Many seem to criticize Krugman for not acknowledging “structural” changes in the economy, and they implicitly agree with classical conservative observers that the unemployment rate really can’t fall much below 7 percent. I can’t speak for Krugman, but he seems to be saying that we should not mix up longer-term structural issues with near-term demand inadequacy. It’s very likely the unemployment rate can fall much farther without igniting inflation. I can’t see how he is wrong about this; indeed, he is urgently right about it. We are facing a year or two when the federal government will likely contract spending and will certainly not increase stimulus markedly. Of even greater concern is the refusal in Europe to recognize that austerity—the opposite of Keynesian advice right now—will lead to further recession, which in turn could spill over to the U.S., jeopardizing Obama’s candidacy. When so many commentators criticize Krugman’s view, insisting that any new spending must be investment in infrastructure, must not go to the military, or that there should be no new spending at all, they are ignoring the Keynesian process. Krugman will not advocate against military spending cuts (and I certainly wouldn’t myself). But priorities are important here. Let’s keep them clear. In sum, let’s understand that more aggregate demand now will reduce the unemployment rate. There is a near-term solution, not to America’s long-term issues, but to an economy that is sputtering and may lead to a political environment in which those who plan to do more damage win office. One of the true advances in contemporary thinking is that both a power and a duty of government is to use fiscal and monetary policy to ameliorate downturns and create economic expansions. This is the legacy of Keynes, well supported by empirical research.

#### Stimulus spending key to job creation and overall GDP growth – prefer our evidence, its reverse causal

Bernstein 2011 (Jared, Special to CNN, Look at the evidence: The stimulus worked, August 31th, <http://articles.cnn.com/2011-08-31/opinion/bernstein.obama.recovery_1_job-growth-unemployment-rate-gdp-growth?_s=PM:OPINION> AS)

We see GDP growth, which was almost unprecedentedly negative -- down almost 9% in the quarter before the stimulus was passed -- immediately falling less quickly, and turning positive by mid-2009. Similarly, we see the same pattern in job growth, which also reversed course soon after passage, and broke zero -- net job growth -- in March 2010. The addition and subtraction of census workers that year distort the picture somewhat, but they're not included in the private sector data, which presents a clearer view of what happened. http://articles.cnn.com/images/pixel.gif http://articles.cnn.com/images/pixel.gif The unemployment rate always lags growth by at least six months, but a few months after ARRA kicked in, it stopped growing. The unemployment rate always lags growth by at least six months, and it continued to rise until peaking at 10.1% in October of 2009. Since then, it has come down a point, remaining far too high, but not growing. But that's only half of what these simple graphs show. The other piece of information they yield is perhaps even more convincing. As the stimulus fades, the positive trends begin to falter: Both GDP and job growth slow significantly. Again, there are lots of moving parts out there. But the fact that GDP and jobs almost immediately improve when the stimulus is coming on and then begin to slow when its measures are fading should lead objective readers to soundly reject the Republican talking point of "discredited stimulus measures."

## ----Ext. Key to Econ Growth- Tax Revenues

#### Cutting federal spending decreases tax revenue- short circuits any benefit to austerity

Denes et al. 12 – The Wharton School of Business @ University of Pennsylvania (Matthew, February 1, 2012, “Deficits, Public Debt Dynamics, and Tax and Spending Multipliers”, Federal Reserve Bank Staff Reports, <http://www.newyorkfed.org/research/staff_reports/sr551.pdf> pp. 16-17) MG

After laying out and parameterizing the model (Section 2) we first confront it (Section 3) with the following thought experiment: Suppose there are economic conditions such that the nominal interest rate is close to zero and the central bank wants to cut rates further, but 1 cannot. Suppose sale and labor tax rates are held constant. How does the budget deficit react if the government tries to balance the budget by cutting government spending, i.e. via "austerity measures" popular in many countries in reaction to the budget deficits stemming from crisis of 2008? The model suggests that under reasonable parameters, the budget deficit increases rather than decreases. This occurs because the cut in government spending leads to a reduction in aggregate output, thus reducing the tax base and subsequently reducing tax revenues. Our result is thus akin to being on the "wrong" side of the famous "Laffer curve" where cutting tax rates increases revenues by increasing the tax base. Here we see, instead, that cutting government expenditures can increase the deficit due to the shrinking of the tax base, so that even if the government is now spending less, the amount of money it collects via taxes drops by even more. We derive simple analytical conditions under which this applies. Conducting the same experiment with sales taxes we obtain a similar result: There is also a simple condition under which increasing sales taxes reduces tax revenues and we show that this is particularly likely to happen once there are shocks that make the zero bound binding. To the keen observer of the current economic turmoil, then, it may seem somewhat disturbing that expenditure cuts and sale tax increases were two quite popular policies in response to the deficits following the crisis of 2008.

## ----Ext. Key to Econ Growth- Confidence

#### Cutting spending destroys confidence in the economy- this destroys growth

Denes et al. 12 – The Wharton School of Business @ University of Pennsylvania (Matthew, February 1, 2012, “Deficits, Public Debt Dynamics, and Tax and Spending Multipliers”, Federal Reserve Bank Staff Reports, <http://www.newyorkfed.org/research/staff_reports/sr551.pdf> pp. 16-17) MG

While the first set of results points against the popular call for "austerity," we have a second set of results that puts these calls, perhaps, in a bit more sympathetic light. We next consider (Section 4) the following question: How does demand in the short-run react to expectations about long-run taxes, long-run productivity and the long-run size of the government? One motivation for this question is that we often hear discussion about the importance of "confidence" in the current economic environment and this is given as one rationale for reducing deficits. Thus, for example, Jean-Claude Trichet, then President of the European Central Bank said in June 2010, "everything that helps to increase the confidence of households, firms and investors in the sustainability of public finances is good for the consolidation of growth and job creation. I firmly believe that in the current circumstances confidence-inspiring policies will foster and not hamper economic recovery, because confidence is the key factor today." The first result of the paper is not necessary inconsistent with this claim. It simply suggests that cutting government spending or increasing sales taxes is not a very good way to improve the economic conditions. But how does current demand, via "confidence," then depend on future long-run policy? To be clear, here we interpret "confidence" as referring to effects on current demand that comes about due to expectations about the long-run.

## ----Ext. History Proves

#### History proves that the stimulus prevented a bad situation from getting worse

Bernstein 2011 (Jared, Special to CNN, Look at the evidence: The stimulus worked, August 31th, <http://articles.cnn.com/2011-08-31/opinion/bernstein.obama.recovery_1_job-growth-unemployment-rate-gdp-growth?_s=PM:OPINION> AS)

As others have, and more will as the presidential election heats up, David Frum went after the Recovery Act on these pages. I'll address his critiques in a moment, but first let's just get this right out there: Though we can never know alternative histories -- in this case, how the economy would have performed absent the stimulus -- the weight of the evidence is that the Recovery Act did what we expected it to do. It created a few million jobs and shaved a few percentage points off the unemployment rate. But most important, it kept a bad situation from getting a lot worse. Lots of academic, nonpartisan evidence reveals the Recovery Act created or saved millions of jobs. The Congressional Budget Office, for example, just released a report finding that at its height about a year ago, the act created (taking the midrange of their estimates) around 2.5 million jobs, and shaved around 1.5 points off of the unemployment rate. Again, that's what we expected in terms of unemployment reduction, though we clearly were too optimistic about the level of the jobless rate, in large part because we had not yet seen data on just how deep the unfolding downturn was. One scholarly study by economists Alan Blinder and Mark Zandi that looked at the full spate of anti-recession initiatives -- not just the Recovery Act -- found that "the effects of the fiscal stimulus alone appear very substantial, raising 2010 real GDP by about 3.4%, holding the unemployment rate about 1.5 percentage points lower, and adding almost 2.7 million jobs to U.S. payrolls."

#### History proves the stimulus was successful- positive multiplier

Auerbach 12 ( Alan J., Burch Professor of Economics and Law Director, Robert D. Burch Center for Tax Policy and Public Finance, University of California, Berkeley May 2012, “The Fall and Rise of Keynesian Fiscal Policy, <http://elsa.berkeley.edu/~auerbach/TheFallandRiseofKeynesianFiscalPolicy.2>)AS

How well-targeted the package was, and the size of the resulting policy multipliers, remains an area of controversy. Even before the stimulus package was adopted in February 2009, the Obama administration released a document written by Bernstein and Romer (2009) estimating the effect of a potential stimulus plan on employment. These projections were based on estimates of multipliers for government purchases and tax cuts averaged over those from the Federal Reserve’s FRB/US model and a private forecasting model. The resulting multiplier for a permanent change in government purchases was about 1.5, reached after about one year; the corresponding multiplier for tax cuts (other than investment incentives) was about 1.0, with about three-fourths of the impact reached after one year and the full effect reached after two years. These multipliers are consistent with those assumed by the Congressional Budget Office (2009, Table 1) in making its projections, in that both the government-spending multiplier and the tax-cut multiplier fall roughly midway between the upper and lower bounds CBO lists for its high-multiplier and low-multiplier scenarios.

#### The New Deal proves that stimulus is critical to growth

Woolner 12 — David Woolner, Senior Fellow and Hyde Park Resident Historian for the Roosevelt Institute, 2012 (“FDR's New Deal Shattered the Austerity Myth,” Next New Deal—the blog of the Roosevelt Institute, May 7th, Available Online at http://www.nextnewdeal.net/fdrs-new-deal-shattered-austerity-myth, Accessed 06-12-2012)

Conservative commentators today are fond of arguing that the New Deal did not work, that it was the war, rather than New Deal spending, which finally got the United States out of the Great Depression. What they fail to mention, of course, is that New Deal spending did work, just not enough to pull us out of the deep trough we were in. For that we needed much more spending, the kind of spending—and borrowing—that occurred in World War II. According to the logic of today’s budget hawks, such a massive level of deficit and debt should have brought the U.S. economy to a screeching halt once the war was over. But that did not happen. On the contrary, the period of economic growth that occurred in the United States after the war was the largest and longest the world had ever seen. Much like the 1930s, our slow climb out of the Great Recession has been made all the more difficult and painful thanks in large part to the unwillingness of austerity hawks in Congress to pass the president’s ill-fated jobs bill and other pieces of stimulus legislation. Sadly, they seem far more interested in promoting the myth of austerity and the evils of short-term deficit spending than they do in confronting the overwhelming evidence from Europe and our own history that now is the time not to cut the federal budget, but to expand it.

## Infrastructure Spending Good Frontline

#### TII is different from any other spending-

#### a) Generates tax revenue critical for reducing the deficit

Cohen et al 2012 (Isabelle, Research assistant for Project-Level Aid (PLAID) Database project and Research Associate, Duke University, Thomas Freiling, and Eric Robinson, The William & Mary Policy Review is a student-run, peer-reviewed academic journal at The College of William & Mary's Thomas Jefferson Program in Public Policy. The Review's purpose is to showcase the research of scholars, practitioners, and students from around the nation on current topics and debates in public policy, ASSOCIATED EQUIPMENT DISTRIBUTORS (AED), THE ECONOMIC IMPACT AND FINANCING OF INFRASTRUCTURE SPENDING, 2012 <http://www.aednet.org/government/pdf-2012/infrastructure_report.pdf>) AS

Public concern about budget issues has surged along with annual federal deficits and the national debt. As fiscal themes have dominated the political debate in Washington, D.C., government spending has been painted with a broad and negative brush. Unfortunately, the political rhetoric often fails to distinguish between government spending with short-term impact and investments that yield long-term benefits. Additionally, while advocates often proffer economic impact data to support their positions and the costs of proposed programs are scored by government numbercrunchers, lawmakers rarely consider the long-term, positive effects of policies on the federal budget. The current debate over the federal highway program is a case in point. SAFETEA-LU, the last multi-year surface transportation authorization law, expired in late 2009. Since then, money has continued to flow to highway and transit construction programs thanks to a series of short-term extensions. However, despite a broad consensus that the nation is facing an infrastructure investment crisis, Congress and the president have failed to enact a new long-term transportation law. The holdup is a lack of resources. The gas tax and other user fee revenues to the Highway Trust Fund (HTF) are inadequate to support current transportation investment levels, let alone to expand the nation’s transportation capacity. The revenue shortfall has necessitated tens of billions of dollars in transfers from the general fund to the HTF in recent years. Thus, to successfully complete reauthorization and stabilize long-term investment, policymakers must do one (or more) of three things: increase user fee revenues, institutionalize the use of general budget resources for transportation, or come up with new mechanisms to pay for infrastructure. Unfortunately, Congress and the president have made little progress in any of these directions in part because of skepticism about any new government spending and lack of political will to increase transportation user fees. We have long argued that this is short-sighted and that infrastructure investment is a unique because it facilitates economic activity which in turn generates tax revenues for years to come. Unfortunately, we have not had any data to back up our case … until now. In late 2011, Associated Equipment Distributors commissioned an economic research team at the College of William and Mary to examine aspects of federal infrastructure policy not previously considered. Specifically, we asked the Thomas Jefferson Public Policy Program (TJPPP) researchers to answer a simple question: What tax revenues does infrastructure investment generate? The results of the research demonstrate that infrastructure investment has important benefits beyond the well-known and positive economic, public health, social, national security, and environmental impacts. Infrastructure investment is different than other types of government spending. Building a new road, bridge, sewer, or runway is more akin to buying a business asset that generates economic activity and returns revenues to the investor. For example, our researchers determined that over a 20-year period, generalized public investment generates an accumulated $3.21 of economic activity per dollar spent, which yields $.96 in tax revenues.

#### b) Its key to Job Growth

AASHTO 2009 (American Association of State Highways and Transportation Officials, “Transportation are where there yet?” Creating America's Future Transportation System - continued... <http://www.transportation1.org/policy_future/PageII.html>) AS

Investing in transportation is unlike any other federal government spending. Transportation dollars are converted to physical assets that will last 50 to 100 years to provide future generations with a modern, globally competitive system. At the same time, such investments create and maintain well-paying “Made-in-America” jobs. There are compelling reasons to increase transportation investment right now. In the short-term, enactment of an economic recovery bill can use transportation infrastructure investment to create and sustain thousands of family-wage jobs, in every part of the country, building “Made-in-America” infrastructure. According to FHWA, every $1 billion of federal investment in highways supports 35,000 jobs. For the long-term, increased transportation investment can help sustain economic recovery, keep the U.S. globally competitive, reduce congestion, and save lives.

#### c) Multiplier Effect

Cohen et al 2012 (Isabelle, Research assistant for Project-Level Aid (PLAID) Database project and Research Associate, Duke University, Thomas Freiling, and Eric Robinson, The William & Mary Policy Review is a student-run, peer-reviewed academic journal at The College of William & Mary's Thomas Jefferson Program in Public Policy. The Review's purpose is to showcase the research of scholars, practitioners, and students from around the nation on current topics and debates in public policy, ASSOCIATED EQUIPMENT DISTRIBUTORS (AED), THE ECONOMIC IMPACT AND FINANCING OF INFRASTRUCTURE SPENDING, 2012 <http://www.aednet.org/government/pdf-2012/infrastructure_report.pdf>) AS

To effectively gauge the short-run economic impact of different types of public infrastructure investment, we rely upon an input-output model using national data from the Bureau of Economic Analysis. The basic premise of an input-output model is to gauge the short-run impact of some initial amount of direct spending in one sector of the economy, and diagram how that money then ripples through other sectors as businesses purchase inputs and sell outputs. For instance, one dollar spent on road construction is distributed to asphalt producers, laborers, and providers of heavy construction equipment among other places. These respective recipients then spend money on purchasing inputs, which stimulates further indirect effects on the manufacturing sector, the retail sector, and various other businesses.1 In the end, one dollar spent in most sectors spreads through the whole economy, indirectly affecting other sectors, and generates greater than one dollar of ultimate economic impact.

#### Prefer our evidence- we use the most comprehensive studies

Cohen et al 2012 (Isabelle, Research assistant for Project-Level Aid (PLAID) Database project and Research Associate, Duke University, Thomas Freiling, and Eric Robinson, The William & Mary Policy Review is a student-run, peer-reviewed academic journal at The College of William & Mary's Thomas Jefferson Program in Public Policy. The Review's purpose is to showcase the research of scholars, practitioners, and students from around the nation on current topics and debates in public policy, ASSOCIATED EQUIPMENT DISTRIBUTORS (AED), THE ECONOMIC IMPACT AND FINANCING OF INFRASTRUCTURE SPENDING, 2012 <http://www.aednet.org/government/pdf-2012/infrastructure_report.pdf>) AS

In the long-run, our estimates suggest that investment in infrastructure continues to generate beneficial returns to the economy as a whole. To calculate the long-run effects of government investment in public infrastructure, we begin by taking into account the long-term relationship between types of infrastructure spending and overall economic output (GDP), as well as fluctuations in the value and depreciation of the current stock of infrastructure. This long-term relationship is based on the sensitivity of GDP to different types of public investment. After an exhaustive review of the relevant academic and professional literature which has previously sought to estimate this structural relationship between economic activity and public infrastructure investment, we use the vector autoregression (VAR) method explicated in Alfredo Pereira’s (2000) paper, Is All Public Capital Created Equal?, published in the Review of Economics and Statistics. This method produces an econometric determination of the long-run sensitivity of GDP to investment, a numerical value which captures the dynamic effects that GDP and investment spending each have on the other. We then adjust this natural sensitivity (or “elasticity”) for recent changes in the stock of different types of infrastructure. These processes allow us to calculate the long-run permanent effect of investment on GDP. Primarily, the econometric approach used by Pereira (2000) offers the most sophisticated and consistent means through which these long-run effects can be calculated. This method also allows for analysis of five different types of public infrastructure which are of interest to this study – highways and streets; transportation and power; sewer and water; health, educational, office, and public safety buildings; and conservation, development and nonmilitary equipment.5 The VAR method allows us to isolate the effect of changes in investment on GDP from the effects that GPD growth has on investment. This method of calculating long-run effects relies upon a relatively simple story: if there are already one hundred quality roads in an area, the hundred and first road will likely provide only a small additional economic benefit to that area economy. However, if there are only two roads in an area, or the roads are of poor quality, a third road will result in substantial economic benefit.

## ----Ext. Key to Econ Growth- Generic

#### Infrastructure spending key to economic growth

Heintz, Pollin, and Garrett-Peltier 2009 (James, Associate Research Professor and Associate Director at the Political Economy Research Institute at the University of Massachusetts Amherst, Robert Professor and Co-Direction at the Political Economy Research Institute at the University of Massachusetts Amherst and Heidi Research assistant at the Political Economy Research Institute at the University of Massachusetts Amherst, “How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth,” Alliance for American Manufacturing, January <http://americanmanufacturing.org/files/peri_aam_finaljan16_new.pdf> AS)

After this generation of neglect, the project of rebuilding our infrastructure now needs to be embraced as a first-tier economic policy priority, and not simply to prevent repetitions of the disasters in New Orleans and Minneapolis. The more general point is that infrastructure investments are essential for the functioning of the U.S. economy. According to the U.S. Bureau of Economic Analysis, total public assets, excluding defense, were valued at $8.2 trillion in 2007. This represents approximately 50 percent of the stock of all non-residential private assets—a formidable asset base which underpins the national economy. Core economic infrastructure—in the areas of energy, transportation, and water and sewerage—is particularly important in maintaining economic performance. However, the rate of public investment in these core areas began falling in the 1970s and has not returned to its previous levels since then. As an average since 1980, the growth of infrastructure investment has lagged behind overall economic growth. The result has been a worsening infrastructure deficit and mounting investment needs. With the rapid deterioration of economic conditions in recent months and rising unemployment, public investment is back on the policy agenda—as a job-creation program linked to the need to revitalize the nation’s crumbling infrastructure. In November 2008, President-elect Obama announced his intention of creating 2.5 million jobs by introducing a large-scale public investment program during his first two years in office. Since this initial announcement, the proposed size of the stimulus package and the job-creation targets have varied. Nevertheless, public investment remains at the center of thinking about the ‘new New Deal’—the set of policies that are needed to address the ongoing crisis.

#### And Infrastructure projects are the ideal place to spend

Kavoussi, 9-28-11**,** Bonnie, economics reporter at The Huffington Post. Harvard graduate who studied economics, international economic history, and the history of economic thought. “Paul Krugman: U.S. Economy Needs 'The Financial Equivalent Of War',” <http://www.huffingtonpost.com/2011/09/28/paul-krugman-spending_n_984921.html>, KHaze

Paul Krugman, the Nobel Prize-winning Princeton economist and New York Times columnist, said Tuesday that the United States needs to spend on a scale similar to World War II in order to escape an extended economic slump. "What we need is actually the financial equivalent of war," he said during a talk at the 92nd Street Y in Manhattan. "What actually brought the Great Depression to an end was the enormous public spending program otherwise known as World War II." World War II boosted government spending to 42 percent of total U.S. output, according to the Congressional Budget Office. Krugman said that while a fiscal stimulus program does not have to be on the scale of World War II, ideally it would involve "useful" infrastructure projects such as repairing bridges and sewer systems and building a railway tunnel between New Jersey and New York. He said that the wars in Iraq and Afghanistan, though expensive, have not stimulated the economy because in comparison to the country's total output, "this is not big spending." The cost of the wars in Iraq and Afghanistan peaked at just 1.2 percent of GDP, while the Vietnam war was nearly twice as expensive, at 2.3 percent of U.S output, according to Bloomberg. "We have not had the kind of aggressive policies either from the Fed or from the federal government that the depth of the crisis really calls for," Krugman said. Krugman said he believes that the Federal Reserve should print more money to spur "above-average" inflation for five years, raising prices to bring down both unemployment and debt. The overhang of household debt has largely caused and prolonged the economic downturn, he said. The Fed's response so far has been "marginal," such as its recent decision to reshuffle $400 billion of its portfolio from short-term to long-term securities, Krugman said, since $400 billion would only make a dent in the multi-trillion-dollar U.S. bond market. Krugman is not the only economist to advocate for inflation from the Federal Reserve to spur economic growth. Harvard economist Kenneth Rogoff has said that moderate inflation could help save the United States from a lost decade by getting rid of some household debt. Rogoff told the Boston Globe that while it would be ideal for banks to forgive the debt of some homebuyers and renegotiate the debt of others, so far largescale renegotiation has not occurred, so inflation would be the next best option to enable consumers to reemerge from a mountain of debt and start spending again.

#### TII boosts econ growth

Cohen et al 2012 (Isabelle, Research assistant for Project-Level Aid (PLAID) Database project and Research Associate, Duke University, Thomas Freiling, and Eric Robinson, The William & Mary Policy Review is a student-run, peer-reviewed academic journal at The College of William & Mary's Thomas Jefferson Program in Public Policy. The Review's purpose is to showcase the research of scholars, practitioners, and students from around the nation on current topics and debates in public policy, ASSOCIATED EQUIPMENT DISTRIBUTORS (AED), THE ECONOMIC IMPACT AND FINANCING OF INFRASTRUCTURE SPENDING, 2012 <http://www.aednet.org/government/pdf-2012/infrastructure_report.pdf>) AS

In the short-run, spending on infrastructure produces twice as much economic activity as the level of initial spending. These effects are most heavily concentrated in the manufacturing and professional and business services sectors, but also accrue to smaller sectors like agriculture. In the long-run, spending on all types of infrastructure generates substantial permanent positive effects across the economy as a whole. Money spent now will produce significant tax revenue returns to the government’s budget over twenty years. Given the substantial economic benefit of infrastructure spending, current budget deficits, and concerns regarding the future economic growth of the economy, it is crucially important that the United States invest in infrastructure like road networks, power stations, sewer systems, public safety buildings, and airfields. We must find innovative new ways to fund infrastructure construction and maintenance, and we can be secure in the knowledge that our economy will grow and strengthen as a result.

#### Transportation stimulus creates sustained growth – tax incentives fail

Nelson et al, 09(Arthur C. Nelson, Geoffrey Anderson, Keith Bartholomew, Pamela Perlich, Thomas W., Sanchez, Reid Ewing, researchers and economists for the University of utah, The best stimulus for the money, <http://www.smartgrowthamerica.org/documents/thebeststimulus.pdf>) AS

Economic impacts and job creation occurs when net new demand or spending is directed towards our nation’s goods‐ and services‐producing industries. The federal government can accomplish this directly by purchasing from industries, or indirectly by reducing taxes (or providing payments) to individuals or firms. The magnitude and timing of total economic impacts varies significantly depending upon the specific composition of the spending. If the policy goal is to create the maximum possible number of jobs as soon as possible, then direct spending is most effective. Tax rebates may or may not be spent, being used to pay down debt or increase savings instead. If the timing and composition of spending is uncertain this will delay and decrease the potential impact. Because of globalization, there is no guarantee that purchases resulting from tax cuts or rebates will necessarily be from domestic producers. In the case of import purchases, the stimulus would effectively add to the trade deficit rather than create jobs in the U.S. Purchases from firms operating in the U.S. will, in contrast, directly create or sustain jobs and the timing of these impacts is much more certain. In the case of transit or road construction projects, the first round of economic impacts, termed direct effects, is composed of the jobs and income of people designing and building the transit lines and roads. The second round, or indirect impacts are generated by purchases made by construction firms to acquire the materials, equipment, and services that are required to complete their projects. These second round purchases set off a sequence of purchases from all the backward linked industries. Input‐output models are routinely used by economists to estimate the cumulative supply chain purchases and the associated cumulative employment and income impacts. The greater the domestic content of the supply chain purchases, the larger the indirect economic impacts. Finally, there are the induced effects, consisting of the cumulative household spending made possible by incomes of workers at the construction site and at all of the firms in the supply chain. As in the case of increasing disposable income via tax rebates, not all additional income will result in consumption of domestic production. Improving the balance sheet position of the household sector (by decreasing debt obligations) certainly has long run aggregate economic effects, but does not contribute to the direct goal of employment creation.15 Another consideration in the evaluation of the impact of stimulus spending is the degree of excess capacity in the economy. If labor markets are tight and industrial sectors are operating at near capacity, the additional demand will introduce bottlenecks and inflationary pressures. This is surely not the case in the current circumstance, especially in the construction sector, which has borne much of the brunt of job losses in the current economic downturn. In the current economic environment, transportation infrastructure projects will reduce unemployment, not contribute to inflation.

#### Infrastructure investment necessarily creates growth- empirics and china prove

Sahoo et al 10 (Pravakar sahoo, Ranjan kumar dash, geethanjali nataraj, \*prof at the institute of economic growth, \*\*fellow at the indian council for international economic relations, \*\*\* senior economist for the national council for applied economic research, Infrastructure development and economic growth in china, October,http://www.ide.go.jp/English/Publish/Download/Dp/pdf/261.pdf) MB

The role of infrastructure for economic development has been well documented in the literature. Infrastructure development, both economic and social, is one of the major determinants of economic growth, particularly in developing countries. Direct investment on infrastructure creates (i) production facilities and stimulates economic activities; (ii) reduces transaction costs and trade costs improving competitiveness and (iii) provides employment opportunities to the poor. In contrast, lack of infrastructure creates bottlenecks for sustainable growth and poverty reduction. China is the fastest growing country in the world for the last few decades and accounts for nearly one fifth of the world population. Economic growth in china increased from 7.5% from 1970 to 1999 to over 10% per annum between 1999 to 2008 mainly driven by sustained increase in gross domestic capital formation. China has undergone a remarkable transformation and China’s population living at less the $1 aday drastically reduced to 13.4% in 2003 and further to 8%in 2009 from 60% in 1980. Over the past two decades, one of the defining features of China’s growth has been investment led growth supported by domestic savings. China’s sustained high economic growth and increased competitiveness has been underpinned by a massive development of physical infrastructure. However, China needs to maintain its growth momentum in a sustainable manner to improve the overall standard of living of poor people and reduce regional inequality.

#### Transportation investment is necessary for economic growth

Rendell and smith, 11 (Ed and scott, \*ex governor of Pennsylvania, \*ex mayor of mesa, AZ, Transportation Spending Is the Right Stimulus <http://online.wsj.com/article/SB10001424053111904140604576496430721692282.html>) MB

During this time of economic uncertainty and record federal deficits, many question why America should invest aggressively in infrastructure. The answer is simple: Whether it involves highways, railways, ports, aviation or any other sector, infrastructure is an economic driver that is essential for the long-term creation of quality American jobs. Unfortunately, our position as the world leader in infrastructure has begun to erode after years of misdirected federal priorities. When it comes to transportation, Washington has been on autopilot for the last half-century. Instead of tackling the hard choices facing our nation and embracing innovations, federal transportation policy still largely adheres to an agenda set by President Eisenhower. As a result, American citizens and businesses are wasting time, money and fuel. According to the Texas Transportation Institute, in 2009 Americans wasted 4.8 billion hours sitting in traffic at a cost of $115 billion and 3.9 billion wasted gallons of gas. Meanwhile, nations around the world are investing in cutting-edge infrastructure to make their transportation networks more efficient, more sustainable and more competitive than ours. These investments have put them on a cycle of economic growth that will improve their standard of living and improve their citizens' quality of life. Building America's Future Educational Fund, a national and bipartisan coalition of state and local elected officials, of which we are members, recently issued a report on the subject, "Falling Apart and Falling Behind." It offers a sobering assessment of transportation-infrastructure investments in the U.S. as compared to the visionary investments being made by our global economic competitors. As recently as 2005, the World Economic Forum ranked the U.S. No. 1 in infrastructure economic competitiveness. Today, the U.S. is ranked 15th. This is not a surprise considering that the U.S. spends only 1.7% of its gross domestic product on transportation infrastructure while Canada spends 4% and China spends 9%. Even as the global recession has forced cutbacks in government spending, other countries continue to invest significantly more than the U.S. to expand and update their transportation networks. China has invested $3.3 trillion since 2000, for example, and recently announced another $105.2 billion for 23 new infrastructure projects. Brazil has invested $240 billion since 2008, with another $340 billion committed for the next three years. The result? China is now home to six of the world's 10 busiest ports—while the U.S. isn't home to one. Brazil's Açu Superport is larger than the island of Manhattan, with state-of-the-art highway, pipeline and conveyor-belt capacity to ease the transfer of raw materials onto ships heading to China. To get our nation's economy back on track, we must develop a national infrastructure strategy for the next decade. This policy should be based on economics, not politics. Washington must finally pass a reauthorized multiyear transportation bill; target federal dollars toward economically strategic freight gateways and corridors; and refocus highway investment on projects of national economic significance, such as New York's Tappan Zee Bridge across the Hudson, where capacity restraints impose real congestion and safety costs in an economically critical region. It is also time we create new infrastructure financing options, including a National Infrastructure Bank. Many of these new programs, using Build America Bonds, for instance, can be paid for with a minimal impact on the federal deficit. The government's continued neglect of infrastructure will consign our nation and our children to economic decline. Rebuilding America's future cannot be a Democratic or Republican political cause. It must be a national undertaking. And if it is, there will be no stopping us. Let's get to work.

#### Highway infrastructure spending is particularly good for the economy- decreases costs, boosts access to markets and varies goods provided to the consumer

Shatz et al. 11 – Ph. D in public policy from Harvard University (Howard J., “Highway Infrastructure and the Economy”, RAND Corporation, 2011, <http://www.rand.org/pubs/monographs/2011/RAND_MG1049.pdf>, accessed June 22, 2012) MG

Highway infrastructure can affect the economy in a number of ways, nearly all of them related to increasing mobility. It can enable producers to reach markets more cheaply, to increase the size of their market area, and to have a broader choice of input suppliers. It can increase the speed with which producers can reach markets or inputs, allowing them to hold lower inventories and carry out just-in-time production. Highway infrastructure can enable workers to choose among a wider array of employment opportunities and to live farther from their workplaces. It can enable consumers to have a more varied choice of goods, services, and prices. Not all highway infrastructure produces these outcomes in the same way. Some transportation infrastructure serves purely local needs, whereas other infrastructure enables connections to national and international markets. Besides the longer-run effects, highway infrastructure also can boost economic activity through immediate construction activity that results from new highway infrastructure investment. We focused the literature review on studies that used statistical methods to seek relationships between existing highway investment, highway capital, or some other measure of highways, and economic outcomes. We conducted this review two ways. First, we carried out a qualitative review describing key findings in the literature. Second, we conducted a formal meta-analysis using statistical methods to help us gain a better understanding of how study characteristics influenced study results.

## ----Ext. Key to Econ Growth- Multiplier Effect

#### There is nearly a 14 times multipler effect on TII

Cohen et al 2012 (Isabelle, Research assistant for Project-Level Aid (PLAID) Database project and Research Associate, Duke University, Thomas Freiling, and Eric Robinson, The William & Mary Policy Review is a student-run, peer-reviewed academic journal at The College of William & Mary's Thomas Jefferson Program in Public Policy. The Review's purpose is to showcase the research of scholars, practitioners, and students from around the nation on current topics and debates in public policy, ASSOCIATED EQUIPMENT DISTRIBUTORS (AED), THE ECONOMIC IMPACT AND FINANCING OF INFRASTRUCTURE SPENDING, 2012 <http://www.aednet.org/government/pdf-2012/infrastructure_report.pdf>) AS

As seen in Table Three, aggregate public investment in these five types of infrastructure is estimated to result in a marginal product of $3.21. This indicates that $1.00 in aggregate public infrastructure spending leads to $3.21 in economic output (GDP) over a twenty-year period. Transportation and power provides the largest economic gain, where spending $1.00 results in over $14.00 of output for a twenty-year period. Highways and streets investment is calculated to produce $1.15 of economic output in the long-run. Each of the other types of public infrastructure produces economic returns of size between these magnitudes. These marginal products represent a significant update of previous findings in this field. Relative to Pereira (2000)’s calculated marginal products for these same infrastructure categories, we see that the overall economic benefit of spending in highways and streets, transportation and power, and public buildings has fallen by varying degrees. This is likely a product of declining relative scarcity of these types of infrastructure, meaning that increased spending relative to GDP has led to overall increases in the intensity net capital stock in our study compared to the 1988-1997 time period used in Pereira (2000)

#### We’ll double our investment in all sectors

Cohen et al 2012 (Isabelle, Research assistant for Project-Level Aid (PLAID) Database project and Research Associate, Duke University, Thomas Freiling, and Eric Robinson, The William & Mary Policy Review is a student-run, peer-reviewed academic journal at The College of William & Mary's Thomas Jefferson Program in Public Policy. The Review's purpose is to showcase the research of scholars, practitioners, and students from around the nation on current topics and debates in public policy, ASSOCIATED EQUIPMENT DISTRIBUTORS (AED), THE ECONOMIC IMPACT AND FINANCING OF INFRASTRUCTURE SPENDING, 2012 <http://www.aednet.org/government/pdf-2012/infrastructure_report.pdf>) AS

We begin our analysis by aggregating these 2002 benchmark estimates to identify the appropriate multiplicative short-run effects of public infrastructure spending. To do so, we compile reported multipliers to isolate the effect of spending solely on new nonresidential construction, which most closely approximates the types of major public infrastructure spending generally undertaken by governmental entities in the United States. Aggregated estimates are reported below in Table One. Overall, the multiplicative effect of new nonresidential construction totals $1.92 from every $1.00 initially spent. It is important to understand that the economic impact of every dollar of spending in the construction sector is nearly doubled by the indirect economic impact in other sectors of the economy. Thus public infrastructure spending does not simply increase economic activity solely in construction; it leads to increased economic activity in the whole economy. This includes roughly $0.35 on every $1.00 spent in indirect effects generated in the manufacturing sector. This is likely a product of the many manufactured goods that are required to both produce and properly equip major public infrastructure projects like roads and sewers. Indirect effects of new nonresidential construction are highest in manufacturing, but are also high in the professional and business services sector, and finance and real estate.2

#### Highway Spending good, multiplier proves it boosts the economy

Wilson 2012 (DANIEL J. Senior Economist Microeconomic Research at the Federal Reserve Bank of San Francisco, Government Spending: An Economic Boost? February 6, 2012, <http://www.cato.org/publications/commentary/keynesian-policies-have-failed>) AS

The economic analysis of the effects of fiscal policy typically focuses on what is called the fiscal multiplier. The most common definition of it is the magnitude of the change in economic activity caused by a change in fiscal policy. For example, a GDP fiscal spending multiplier of 1.5 means that a $1 increase in government spending leads to a $1.50 increase in GDP. The term multiplier refers to the broad effects of government spending and taxes on overall economic activity, not just on those households or businesses directly targeted by fiscal policy. For instance, increased government spending on highways may affect not only highway construction companies, but also the retailers frequented by newly employed highway workers, local asphalt providers, and nonlocal steel and equipment producers. Moreover, the current or future financing of the increased government spending may affect the savings and investment decisions of households and businesses throughout the economy. Similarly, a tax cut affects not only those who pay the tax, but also all areas of the economy that depend on the spending of those taxpayers or are influenced by future policy changes required to pay for the tax cut.

## ----Ext. Key to Econ Growth- Jobs

#### Austerity fails – infrastructure investment creates jobs

Lin and Doemland 12 – January 2012 (Justin Yifu, Chinese economist and Chief Economist and Senior Vice President of the World Bank, MS. Doerte, senior economist at the World Bank, “Beyong Keynesianism – Global Infrastructure Investments in Times of Crisis”, Working paper at World Bank, pp. 1-30) MG

If this ―new normal‖ becomes entrenched, several advanced countries may face a lost decade 4—with negative consequences for the entire world. 2. What the world needs now is a growth lifting strategy. With a looming public debt crisis in Europe and high public debt levels in the U.S., the private sector should ideally become the driver of growth; however, as long as excess capacity persists and investment risks remain high, private sector investment is likely to remain subdued. In order to reduce debt levels, many governments have turned their attention to implementing austerity measures and structural reforms, but austerity measures bear the danger of further weakening growth and worsening unemployment. Structural reforms, while key to boosting growth in the medium term, will only gain traction once demand increases. This raises the question of how governments can support demand and employment without adding further to debt levels in the medium run. Investments in green technology, education, and infrastructure come to mind. Under current economic circumstances, however, investing in bottleneck-releasing infrastructure projects that are self financing may be the best option. Infrastructure investments create jobs in sectors such as construction and manufacturing, which have been hit hard by the crisis, while also enhancing countries’ future competitiveness and growth. In addition, countries could explore innovative financing mechanisms to bring in the private sector and minimize the impact of these investments on the public debt burden.

#### Infrastructure spending in particular boosts job growth- most efficient way of boosting jobs

Heintz, Pollin, and Garrett-Peltier 2009 (James, Associate Research Professor and Associate Director at the Political Economy Research Institute at the University of Massachusetts Amherst, Robert Professor and Co-Direction at the Political Economy Research Institute at the University of Massachusetts Amherst and Heidi Research assistant at the Political Economy Research Institute at the University of Massachusetts Amherst, “How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth,” Alliance for American Manufacturing, January <http://americanmanufacturing.org/files/peri_aam_finaljan16_new.pdf> AS)

The primary focus of this report is the number of jobs that would be created by improving the country’s infrastructure. However, we acknowledge at the outset that increasing domestic spending in any sector or project within the economy will produce an increase in jobs. But we focus on infrastructure investments for two reasons: First, investments in infrastructure are a relatively effective means of creating jobs. As we will see, the number of jobs generated for a given level of spending is high. But in addition, a program of accelerated investment in infrastructure would generate far greater benefits for the American population than would be reflected in the job numbers alone. Investments in infrastructure provide an indispensible resource for the U.S. economy. This includes the roads, highways, public transportation systems, accessible water supplies, water levee systems, electrical transmission systems, and school buildings which make fundamental contributions to the economy’s long-term productivity. Many of these investment areas—such as public transportation, freight rail, and enhanced smart grid electrical transmission systems—will also play central roles in building a clean energy economy in the U.S.

#### TII Key to job growth

Lin and Doemland 12 – January 2012 (Justin Yifu, Chinese economist and Chief Economist and Senior Vice President of the World Bank, MS. Doerte, senior economist at the World Bank, “Beyong Keynesianism – Global Infrastructure Investments in Times of Crisis”, Working paper at World Bank, pp. 1-30) MG

19. First, infrastructure investments can generate a significant number of jobs in the short term, and in sectors such as construction and manufacturing that have been hit hard by the crisis. Not only do infrastructure projects create jobs on site, but they also generate indirect employment in tangential industries. Since infrastructure projects use capital goods, such as turbines and excavators, they generate indirectly jobs in the manufacturing sector. This direct and indirect employment raises household incomes and consumption, which can create additional (induced) jobs. For the U.S., it has been estimated that infrastructure for energy, transportation, public schools, and water systems will create 18,000 total jobs for every US$1 billion in new investment spending, of which about 40 percent will be in the construction sector (Heintz, Pollin, and 8 Garrett-Peltier 2009). 6 The total impact of infrastructure investment on employment is likely to differ by the sector, 7 , the technology used, the percentage of imports (estimated around 12-22 percent of manufacturing supplies for energy, transportation, school building and water infrastructure), and the possible substitution effects. 8 Still, these estimates suggest that that the employment impact could be significant. 20. Second, manufacturing jobs are important for sustaining a strong middle class in advanced economies since the manufacturing sector provides employment opportunities in capital-intensive sectors where labor-productivity levels are consistent with the income levels of advanced countries. In many advanced economies, however, the manufacturing sector has been in a steady decline (Lin 2011c, Spence 2011). 21. Third, there is a significant infrastructure gap in some advanced economies. In London, over 20 percent of the main water pipes are more than 150 years old. In the United States, the median age of coal power stations exceeds 40 years (World Economic Forum 2010). The European Commission recently stressed the importance of continuing to invest in infrastructure (European Commission 2011). It estimates that the EU alone needs US$2.1 trillion to US$2.8 trillion in infrastructure investments over the next decade to remain competitive.

#### TII key to us growth, competitiveness and job growth

Lin and Doemland 12 – January 2012 (Justin Yifu, Chinese economist and Chief Economist and Senior Vice President of the World Bank, MS. Doerte, senior economist at the World Bank, “Beyong Keynesianism – Global Infrastructure Investments in Times of Crisis”, Working paper at World Bank, pp. 1-30) MG

The American Society of Civil Engineers (2009) estimates that the United States needs US$2.2 trillion of infrastructure spending during the next five years, of which US$1.18 trillion has not been budgeted. While this could be an upper bound estimate, many government agencies 10 confirm that there is a need for significant infrastructure repairs and upgrades. The recently released Global Competitiveness Report of the World Economic Forum (2011a) ranks the United States 16 th in the 6 Here, infrastructure investments refer to new investments and maintenance. The authors assume that for roads, for example, about 43 percent of public investment in roads went to expand the system and 57 percent toward maintenance. Estimates from the U.S. Highway Administration (2006) are even higher: they find that US$1billion in road construction generates a total of 27,840 jobs, of which are created 6,055 on site and 7,790 related to the manufacturing of equipment. This implies that about 14,000 jobs would be created through multiplier effects. 7 Heintz, Pollin, and Garrett-Peltier (2009) state that US$1 billion infrastructure investment in either energy, transportation, school buildings, or water creates 16,763, 18,930, 19,262 and 19,769 total jobs, respectively. They find that the highest direct and indirect employment impacts are associated with investments in mass transit systems.

## ----Ext. Key to Econ Growth- Tax Revenue

#### TII key to tax revenue

Cohen et al 2012 (Isabelle, Research assistant for Project-Level Aid (PLAID) Database project and Research Associate, Duke University, Thomas Freiling, and Eric Robinson, The William & Mary Policy Review is a student-run, peer-reviewed academic journal at The College of William & Mary's Thomas Jefferson Program in Public Policy. The Review's purpose is to showcase the research of scholars, practitioners, and students from around the nation on current topics and debates in public policy, ASSOCIATED EQUIPMENT DISTRIBUTORS (AED), THE ECONOMIC IMPACT AND FINANCING OF INFRASTRUCTURE SPENDING, 2012 <http://www.aednet.org/government/pdf-2012/infrastructure_report.pdf>) AS

Over twenty years, $1.00 of spending on aggregate public investment results in about $0.96 in total tax revenue. For transportation and power investment, one single dollar returns over $4.24 in total, while spending on highways and streets results in $0.35 of total tax revenue. Sewer and water spending has significant returns as well, producing $2.03 in revenue per $1.00 spent over the same twenty-year period. These values are also reported in Table Three in the previous section, along with a breakdown of expected revenue accrued to the federal government and state and local governments. For these types of infrastructure, Congress and state governments can expect to receive significant tax revenue returns to their initial spending. In many cases, particularly for transportation and power and sewers and water spending, public infrastructure investment will generate quadruple or double (respectively) the amount of tax revenue with which to finance future government spending.

## ----Ext. Key to Econ Growth- Private Sector

Spending- especially in the area of TII -- spurs private sector development

Lin and Doemland 12 – January 2012 (Justin Yifu, Chinese economist and Chief Economist and Senior Vice President of the World Bank, MS. Doerte, senior economist at the World Bank, “Beyong Keynesianism – Global Infrastructure Investments in Times of Crisis”, Working paper at World Bank, pp. 1-30)MG

17. High debt levels have turned fiscal consolidation into a political priority in several advanced countries. Fiscal consolidation, however, bears the danger of depressing growth. Guajardo, Leigh, and Pescatori (2011) find that a 1 percent of GDP fiscal consolidation reduces real private consumption over the next two years by 0.75 percent, while real GDP declines by 0.62 percent. The authors confirm that large-scale spending based fiscal consolidation is even contractionary in economies with a high perceived sovereign default risk. In turn, weaker growth will put upward pressures on debt levels. In addition, it can breed social unrest, as illustrated in Greece and perhaps to some extent during the recent street riots in the UK. 18. Increasing government spending could be one way to raise demand and reduce unemployment, but given concerns about high debt levels, increases in government spending would have to be compensated by higher fiscal revenues. This could be achieved if governments were to invest in areas with a significant growth impact that are ultimately self-financing and add little to governments’ debt service. Given current concerns about financial stability in some highincome countries, this investment scheme would ideally be embedded in a fiscal framework that also aims at tackling long-term fiscal pressures. Alternatively, governments could use existing public resources to leverage private sector investment, as discussed below. Potential areas to target this type of investment could be education, green technology, and infrastructure. But, under the current circumstances, investing in the right infrastructure projects may be particularly promising.

## ----Ext. Prefer Our Evidence

#### Best qualified estimates go aff- infrastructure investment key to economic growth

Lin and Doemland 12 – January 2012 (Justin Yifu, Chinese economist and Chief Economist and Senior Vice President of the World Bank, MS. Doerte, senior economist at the World Bank, “Beyong Keynesianism – Global Infrastructure Investments in Times of Crisis”, Working paper at World Bank, pp. 1-30)MG

26. There exists, however, strong empirical evidence that infrastructure enhances economic growth. Exhaustive reviews of the literature show that while some authors find negative or zero returns, many find a high impact of infrastructure on growth. 16 Romp and de Haan (2005) undertake a comprehensive review of studies analyzing the relation between public and economic growth, many of which focused on high-income countries. They find in general an elasticity of output with respect to public capital in the order of 0.1 to 0.2. These effects differ significantly across countries, regions, and sectors, however. Using a meta-analysis based on 49 studies on OECD countries, Ligthart and Martin Suarez (2011) report an output elasticity of public capital of 0.14. There exists also some empirical evidence that returns of infrastructure investments in advanced countries tend to be particularly high if these investments complete a network that is already sufficiently developed.

#### All studies demonstrate infrastructure investment is critical to growth

Lin and Doemland 12 – January 2012 (Justin Yifu, Chinese economist and Chief Economist and Senior Vice President of the World Bank, MS. Doerte, senior economist at the World Bank, “Beyong Keynesianism – Global Infrastructure Investments in Times of Crisis”, Working paper at World Bank, pp. 1-30) MG

They also improved health indicators as the number of visits to hospitals and health centers doubled during this time period (World Bank 1996). 34. Empirical cross-country studies confirm that infrastructure investment has a large effect on growth in developing countries. Calderón and Servén (2010a) estimate that as a result of infrastructure investments, annual growth among developing countries increased on average by 1.6 percent between the 1991-95 and 2001-05 periods. This effect was particularly large in South Asia, where it reached 2.7 percent per year. The authors shows that if Sub-Saharan African economies would cut the gap between their level of infrastructure and the average level of infrastructure in Pakistan or India by 50 percent, Central African low-income countries would 21 Using data from Uganda, Reinikka and Svensson (1999), for example, find that unreliable provision of electricity is a significant deterrent to investment. 22 Before road improvements, women had to spend an average of two hours per day collecting and carrying wood for fuel. Butane gas, used extensively in urban areas, did not reach the rural areas due to the high transport and distribution costs. Initially, a bottle of butane cost 20 Dh. Following improvement of the road, the price dropped considerably, to as low as 11 Dh, making it affordable for many families (World Bank 1996).15 grow on average by an additional 2.2 percentage points and East and West African countries by an additional 1.6 percentage points (Calderón and Servén 2010a). Similarly, if each Latin American country would match the average level of infrastructure observed among non-Latin American middle income countries (such as Turkey or Bulgaria), growth in Latin America would rise approximately by 2 percentage points per year (Calderón and Servén 2010b). 35. The Chinese experience illustrates the benefits of infrastructure investments. Between 1990 and 2005, China invested approximately US$600 billion to upgrade its road system. The centerpiece of this investment was the National Expressway Network, which, spanning 41,000 km, was designed to eventually connect all cities with more than 200,000 inhabitants. 23 Only the U.S. Interstate Highway System, with a length of 75,000 km, exceeds its length. Roberts, Deichmann, Fingleton, and Shi (2010) show that aggregate Chinese real income was approximately 6 percent higher than it would have been in 2007 if the expressway network had not been built. Using annual data for the period 1975 to 2007, Sahoo, Dash, and Nataraj (2010) estimate that the output elasticity of infrastructure investment in China is around 0.2 to 0.41 percent. The authors conclude that China’s infrastructure investment strategy was successful since it was embedded in an overall economic policy that focused not only on improving physical infrastructure, but also on enhancing private sector investment and human capital formation.

## ----AT: Crowds out Private Investment

#### TII doesn’t crowd out private spending

Lin and Doemland 12 – January 2012 (Justin Yifu, Chinese economist and Chief Economist and Senior Vice President of the World Bank, MS. Doerte, senior economist at the World Bank, “Beyong Keynesianism – Global Infrastructure Investments in Times of Crisis”, Working paper at World Bank, pp. 1-30)MG

27. Critics of fiscal stimulus spending will point to the ―Ricardian trap,‖ i.e. that government spending is crowding out private spending 18 and argue that scarce empirical evidence supports the fact that fiscal stimulus is likely to have larger economic benefits if it is spent on projects with high economic returns that lead to permanently higher productivity than on projects that consist of ―digging a hole and filling a hole.‖ This is not to say that Ricardian equivalence is a good approximation of reality in the first place. Ricardian equivalence states that households increase savings in anticipation of future higher taxes to pay for debt-financed government spending, offsetting the short-run benefits of fiscal expansionary policies. A considerable literature 15 See Ramey (2011) and Parker (2011) for an insightful and comprehensive discussion. 16 In general, studies using physical indicators of infrastructure stocks find a positive long-run effect of infrastructure on output, productivity, and growth rates, whereas results are more mixed among studies using measures of public capital stock or infrastructure spending flows (Straub 2008, Calderón and Servén 2010). 17 See Roller and Waverman (2001) for a discussion on telecommunications in 21 OECD countries and Fernald (1999) for a discussion on roads in the U.S.

## Inflation Good Frontline

#### Inflation good – citizens pay off debt/mortgages

Cass 07 [Sam Cass, October 9, 2007, Writer for Best Cash Now.com, “Is Inflation Good or Bad for You?” <http://www.bestcashcow.com/articles/is-inflation-good-or-bad-for-you-6211>].

There's been a bit of talk about inflation lately and how it might be rearing its ugly head. The conventional wisdom says that inflation is very bad. It makes everything we buy more expensive and decreases the value of our currency. But there are times when inflation is good for you. For example, if you purchase a home with a fixed rate mortgage, inflation will decrease the size of your payments in relative terms. Say you are paying $1,000 per month towards your mortgage. Now let's say that inflation increases at 5% per year. That means your mortgage payment shinks by 5% per year as your salary adjusts to inflation. That's why when you ask someone how much their payments were 40 years ago it seems like peanuts. Without inflation, that $1,000 per month would seem like $1,000 per month. A little inflation might actually help sub-prime borrowers by making the payments a bit more manageable. Generally, if you have a lot of debt, inflation works for you by decreasing the relative size of that debt.If you have a lot of assets, inflation works in the opposite by decreasing the value of those assets. $1,000,000 50 years ago is not the same as $1,000,000 today because of inflation.

#### Inflation Good – WWII proves

Krugman 11[Paul Krugman, an American economist, Professor of Economics and International Affairs at the Woodrow Wilson School of Public and International Affairs at Princeton University, September 19, 2011, Writer for the New York Times, “When Inflation Was Good,” < http://krugman.blogs.nytimes.com/2011/09/19/when-inflation-was-good/>].

**Inflation hawks**, including [Paul Volcker in today’s NYT](http://www.nytimes.com/2011/09/19/opinion/a-little-inflation-can-be-a-dangerous-thing.html?_r=1&ref=opinion), **often invoke the supposed lessons of history, to the effect that inflation is always harmful** and always gets out of control. **But that’s a selective reading of history, and it skips the most relevant examples.** Early on in this crisis, I began wondering why the US didn’t relapse into the Great Depression after World War II. And there’s a good case that this had something to do with it: The big rise in prices during and after WWII arguably did a lot to eliminate the debt overhang, making it possible for the economy to enter a sustained, non-inflationary boom. And this is the relevant history we should be looking at: this isn’t your father’s slump, it’s your grandfather’s slump. Volcker, I’m sorry to say, is worrying about refighting the 1970s when we’re actually refighting the 1930s. And fighting the wrong war is a good way to lose the one we’re in.

#### Inflation good, deflation bad

Rice 09 [Douglas Rice, May 28, 2009, Rice received his Doctorate in Business Administration concentrated in finance from Golden Gate University in San Francisco. He also holds both master's and bachelor's degrees in science an business administration, “Inflation: It’s A Good Thing”, < <http://www.investopedia.com/financial-edge/0509/Inflation-Its-A-Good-Thing.aspx#axzz1q4OVOEof>>]. MB  
The Department of Labor said the [Consumer Price Index](http://www.investopedia.com/terms/c/consumerpriceindex.asp) (CPI) rose from -0.1% in March to 0%, or basically flat, in April. While increasing prices may not be what strapped consumer want to hear, it is exactly what economists want to hear**,** at least right now. ([Learn more](http://www.investopedia.com/financial-edge/0509/Inflation-Its-A-Good-Thing.aspx) about how this information can help you out in [The Consumer Price Index: A Friend To Investors](http://www.investopedia.com/articles/04/102004.asp).) Prices are constantly changing. Most of the time up, sometimes down. Economists believe that an economy in which prices on average are increasing at a low rate of a bit less than 3% annually provides the best environment for [economic growth](http://www.investopedia.com/financial-edge/0509/Inflation-Its-A-Good-Thing.aspx).High [inflation](http://www.investopedia.com/terms/i/inflation.asp) lowers the value of our money so we can get fewer goods and services for each dollar. For example, when gas prices spiked, we all paid more for gas, but didn’t get any additional benefit in return. It just cost us more to drive the same amount of miles. So we are worse off. Butthe bigger concern with high inflation is the systematic increase that comes from what economists call an inflationary spiral.This happens when prices rise, so firms have more [profits](http://www.investopedia.com/financial-edge/0509/Inflation-Its-A-Good-Thing.aspx), so they hire more workers, this sends wages up, so people have more money to spend on higher priced goods, so demand increases, and the prices keep going up**.** (If you are dizzy, don’t be alarmed. That’s what happens to everyone when they are first exposed to economics.) Just think of it as an upward spiral where prices keep rising, but we never really get anything more for our money. How bad can this be? Good question. Currently, the official [rate](http://www.investopedia.com/financial-edge/0509/Inflation-Its-A-Good-Thing.aspx) of inflation in Zimbabwe is 231 million percent. Yes, you heard that right. What cost 1 [Zimbabwe dollar](http://www.investopedia.com/terms/forex/z/zwd-zimbabwe-dollar.asp) (ZWD) last year, costs 231 million ZWD this year. Basically, their money isn’t worth the paper it’s printed on. In fact, they just cut 12 zeros off the currency. While the dangers of high inflation seem obvious, the opposite of inflation, deflation, isalso dangerous. Some might say even more dangerous. Be forewarned, a deflationary spiral will also make you dizzy, but in the opposite direction.People get laid off, spend less, prices get cheaper, which leads to people waiting to make purchases as they think that prices will continue to fall, so firms cut costs and lay off workers to reduce prices further, but consumers have less money to spend so they still don’t buy, so more people get laid off, and so on.While falling prices ([deflation](http://www.investopedia.com/terms/d/deflation.asp)) may seem like a good thing to the average consumer, it can devastate an economy by turning into a deflationary spiral.

## AT: Hyper Inflation

#### The Fed will intervene to prevent hyperinflation

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“Why printing money makes sense,” Guardian, October 12th, Available Online at http://www.guardian.co.uk/commentisfree/cifamerica/2010/oct/11/useconomy-usemployment, Accessed 09-08-2011)

As is the case with the counterfeiter's illicit stash, the stimulus spending need not even create any long-term debt burden. The Fed could simply buy and hold the bonds issued to finance the spending. When the economy returns to more normal levels of employment, the Fed would raise interest rates, as it always does, to prevent inflation from posing a serious risk.

## AT: Stimulus Failed

#### Stimulus only failed because it wasn’t targeted nor kept on long enough

Bernstein 2011 (Jared, Special to CNN, Look at the evidence: The stimulus worked, August 31th, <http://articles.cnn.com/2011-08-31/opinion/bernstein.obama.recovery_1_job-growth-unemployment-rate-gdp-growth?_s=PM:OPINION> AS)

What they can't say, at least not without ignoring the evidence, is that the Recovery Act failed. It did what we expected it to do, creating jobs, lowering unemployment and preventing recession from morphing into depression. If anything, what the evidence shows is that it ended too soon. And that is why President Obama is, as we speak, crafting a smaller package of targeted jobs measures to build on the success of the Recovery Act. Partisans thus need to put aside their talking points, absorb this evidence and get those measures to work in the economy as soon as possible.

#### Stimulus was a success- boosted jobs

CT 10 – October 15, 2010 (Mikey Ivey, Staff Writer, “Federal stimulus dollars jump-start stalled infrastructure projects”, The Capital Times, OCTOBER 15, 2010, <http://host.madison.com/ct/business/article_9fd854e6-d7d4-11df-92fe-001cc4c03286.html>) AS

Construction company owner Dan Zignego describes himself as a fiscal conservative. But when it comes to the American Recovery and Reinvestment Act — aka the federal stimulus package — Zignego is on board. “It’s been a blessing,” he admits. “The last two or three years have been pretty tough and ARRA has saved a lot of our industry from having to lay even more people off.” The Waukesha-based Zignego Co. is the general contractor on the $43 million reconstruction of the I-94 Badger Interchange, the single most expensive stimulus project in Dane County and the second-largest in Wisconsin behind the expansion of I-94 from Milwaukee to the Illinois border. More than 200 private sector workers are drawing paychecks from the Badger Interchange project, including engineers, truck drivers and cement layers. Work involves expanding I-94 to six lanes from County N to where it connects to I-39, I-90 and Wisconsin 30. The Badger Interchange rebuild project has been in the state Department of Transportation pipeline since 2000 but was finally moved ahead by the $3.3 billion in stimulus dollars coming to Wisconsin. “This is one of the many projects around the country that was on hold because of lack of money and is now under way,” Federal Highway Administrator Victor Mendez said during a visit to the site last week. That was the idea behind the 2009 American Recovery and Reinvestment Act that’s pumping more than $800 billion into the U.S. economy through a mixture of tax incentives and spending programs. The bill included about $27 billion to help fix the nation’s roads. The money passed from the federal government to the states, which then decided which projects to fund.

#### Stimulus was a success – especially in the area of transportation

CT 10 – October 15, 2010 (Mikey Ivey, Staff Writer, “Federal stimulus dollars jump-start stalled infrastructure projects”, The Capital Times, OCTOBER 15, 2010, <http://host.madison.com/ct/business/article_9fd854e6-d7d4-11df-92fe-001cc4c03286.html>) MG

Of that, $62 million is going for transportation improvements such as the Badger Interchange. Other local transportation projects using stimulus funds include the extension of taxiway B at the Dane County Regional Airport ($3.69 million) and reconstruction of University Avenue ($3.6 million). The rest of the money is divided among the UW System and other government or nongovernmental agencies. “There’s no question that the Recovery Act helped prevent the recession from being even worse,” says Bob Jacobson of the Wisconsin Council on Children & Families, an advocacy group. “No, it didn’t cure the economy all by itself overnight; but the idea that the Recovery Act hasn’t worked is simply not supported by the facts.” The largest stimulus-backed project in Wisconsin is the expansion of I-94 to eight lanes between Milwaukee and the Illinois line. That project isn’t slated for completion until 2016 and carries a final price tag of $1.8 billion, although not all of that is covered by stimulus money. Closer to Madison, the work on the Badger Interchange is expected to be completed by November 2011. The improvements there are designed to meet growing traffic volumes and fix deteriorating pavement. The work has been planned since 2000 but had been on hold because of a lack of funds. The Department Of Transportation estimates the corridor carries 58,000 vehicles daily, a volume that typically demands three lanes in each direction. Officials are predicting 77,605 daily trips by 2030. “People in Madison will soon have more time to spend with friends and family because these improvements will reduce congestion,” Mendez says.

#### ARRA Stimulus was successful- multipliers prove

Lin and Doemland 12 – January 2012 (Justin Yifu, Chinese economist and Chief Economist and Senior Vice President of the World Bank, MS. Doerte, senior economist at the World Bank, “Beyong Keynesianism – Global Infrastructure Investments in Times of Crisis”, Working paper at World Bank, pp. 1-30) AS

Critics may argue that fiscal stimulus with an investment focus has been tried before, especially in the context of the current crisis, and has produced few results. Admittedly, empirical evidence on fiscal multipliers is mixed. Most studies ignore the state of the economy and do not distinguish between investment and consumption spending. Data on temporary, deficit-financed increases of government purchases in the U.S. yields estimates of multipliers ranging from 0.5 to 2.0 (Ramey 2011). However, multipliers are likely to be larger in recessions. Taking the state of the economy into account can lead to very different results (Parker 2011). Christiano, Eichenbaum, and Rebelo (2011), for example, show that the government spending multiplier can be in excess of three when the interest rate is held constant, such as at a zero lower bound in a model with sticky prices. Auerbach and Gorodnichenko (2010) use a nonlinear VAR structure, which allows the estimation of multipliers that differ in recession and in expansion. They find that the cumulative impact of multipliers over five years is higher during the recession, ranging from 1 to 1.5 (versus 0 to 0.5 during boom periods). 25. In addition, few empirical studies distinguish between types of government spending when estimating fiscal multipliers. Using a neoclassical model, Baxter and King (1993) find dramatic effects of public investment on output. If public capital raises the marginal product of 13 For more information, see http://govtrack.us/congress/bill.xpd?bill=112-3259. 14 http://www.whitehouse.gov/blog/2011/11/03/five-facts-about-national-infrastructure-bank.11 private inputs, the output multiplier ranges from 4 to 13 in the long run. Fishback and Kachanovskaya (2010) estimate the multiplier effects of different types of government spending during the New Deal and find that public works had the highest multiplier equal to 1.7. In general, studies of government spending multipliers in recessions and for different types of government spending are limited. Analyzing these questions could be a promising direction for future theoretical and empirical research.

## AT: Doesn’t Spur Employment Demand

#### Investment infrastructure key to effective employment demand

Pradhan and Bagchi 12 (Rudra P. Pradhan, Vinod Gupta School of Management, Indian Institute of Technology Kharagpur, India, and Tapan P. Bagchi, Narsee Monjee Institute of Management Studies (Mumbai), India, “Effect of transportation infrastructure on economic growth in India: The VECM

Approach” Elselvier publishing, June 8, 2012, <http://nmims.edu/wp-content/uploads/2012/04/RETREC_221-Rudra-KGP-Tapan-NMIMS-Accepted.pdf>, RS)

In discussing macroeconomic beneﬁts of infrastructural investment, Keynes pointed out that effective demand is the toll to be paid to stimulate employment and income. In order to increase the effective demand, the emphasis should be on infrastructure investment. This is because such action can accelerate economic development by both backward and forward effects. India has witnessed a marked increase in the transportation network in the three recent decades. However, this has been impressive only in the “post globalization” era (1991 onward) rather than in the “preliberalization” period for independent India. To be sure, in subsectors of transport, achievements are substantial. In short, growth of transport sector post globalization has well exceeded what was achieved over 40 prior years. Still, the level attained so far is quite low when compared with international norms. Rather importantly, in India one has noticed a gradual transition from rail dominated transport to a road-dominated one (see Table 1). Besides, the contribution of transport sector to GDP, as expected, has been rising. It rose from 3.8% in 1980e81 to 4.6% in 1990e91 and then to 5.5% in 2000e01. This is now visible in both road and rail infrastructure sectors (see Table 2).

## AT: Deficit Unsustainable

#### Deficits sustainable

Wray and Nersisyan 2010 (L. Randall and Yeva, New Economic Perspectives, Neoliberal Deficit Hysteria Strikes Again: ADVICE TO PRESIDENT OBAMA AND PRIME MINISTER BROWN: Tell the IMF, the European Commission, and the Ratings Agencies to Take a Hike, March 22nd <http://neweconomicperspectives.org/2010/03/neoliberal-deficit-hysteria-strikes.html> AS)

Governments across the world have inflicted so many self-imposed constraints on public spending that the relatively simple operational realities behind public spending have been obscured. Most people tend to think that a balanced budget, be it for a household or a government, is a good thing, failing to make a distinction between a currency issuer and a currency user. Indeed, one of the most common analogies used by politicians and the media is the claim that a government is like a household: the household cannot continue to spend more than its income, so neither can the government. See [here](http://www.newdeal20.org/2010/02/10/the-federal-budget-is-not-like-a-household-budget-heres-why-8230/) for more on the differences between a household and a government. Yet that comparison is completely fallacious. Most importantly, households do not have the power to levy taxes, and to give a name to—and issue–the currency that those taxes are paid in. Rather, households are users of the currency issued by the sovereign government. Here the same distinction applies to firms, which are also users of the currency. Operationally the sovereign government spends by crediting bank deposits (and simultaneously crediting the reserves of those banks) at its own central bank, in the case of the US, the Federal Reserve Bank. No household (or firm) is able to spend by crediting bank deposits and reserves, or by issuing currency. Households and firms can spend by going into debt if some entity will lend to them, which is something the national, sovereign government in no case requires when using its own currency. Unlike private debtors it can always make payments, including debt service payments, simply by changing numbers on its own spread sheet at its own central bank. This is a key to understanding why perpetual budget deficits are “sustainable” in the conventional sense of that term because government can always make any payments it desires on a timely basis.

#### And its not a question of sustainability- deficit spending leads to growth which will reduce the deficit- history proves

Wray and Nersisyan 2010 (L. Randall and Yeva, New Economic Perspectives, Neoliberal Deficit Hysteria Strikes Again: ADVICE TO PRESIDENT OBAMA AND PRIME MINISTER BROWN: Tell the IMF, the European Commission, and the Ratings Agencies to Take a Hike, March 22nd <http://neweconomicperspectives.org/2010/03/neoliberal-deficit-hysteria-strikes.html> AS)

Note that during WWII the government’s deficit (which reached 25% of GDP) raised the publicly held debt ratio above 100%– much higher than the ratio expected to be achieved by 2015 (just under 73%). Further, in spite of the warnings issued in the Reinhart and Rogoff study, US growth in the postwar period was robust— in fact it was the golden age of US economic growth. Ironically, this is even acknowledged in the report by the IMF’s Lipsky—who noted that the average ratio of government debt to GDP in the advanced countries will reach the postwar 1950 peak of somewhat more than 75%. Again, misfortune did not befall those big government spenders after WWII. Actually, debt ratios came down over the postwar period as relatively robust growth grew the denominator (GDP) relative to the numerator (government debt). Indeed, robust growth reduces budget deficits by raising tax revenue and reducing certain kinds of government spending such as unemployment compensation. That was exactly the US experience in the postwar period. The budget deficit is highly counter-cyclical, and will come down automatically when the economy recovers. The claim made by Moody’s that growth will not reduce debt ratios does not square with the facts of historical experience and must rely on the twin assumptions that growth in the future will be sluggish and that government spending will grow relative to GDP. However, such an outcome is inconsistent: if government spending grows fast it raises GDP growth and hence tax revenues, reducing the budget deficit. This is precisely what has happened in the US over the entire postwar period. It is only when government spending lags behind GDP growth by a considerable amount that it slows growth of GDP and tax revenues, causing the budget deficit to grow. What Rogoff and Reinhart do not sufficiently account for is the “reverse causation”: slow growth generates budget deficits. This goes a long way toward explaining the correlation they find between slow growth and deficits: as economists teach, correlation does not prove causation! Actually, there are always two ways to achieve the same budget deficit ratio: the ugly (Japanese) way and the virtuous way. If fiscal policy remains chronically too tight even in recession, economic growth is destroyed, tax revenues plummet, and a deficit opens up. So far, that is—unfortunately—the US path in this recession, a path already well-worn by two decades of Japanese experiments with belt-tightening. The alternative (let us call it the Chinese example) is that a downturn is met with an aggressive and appropriately-sized discretionary response. In that case, growth is quickly restored, tax revenue begins to grow, and the budget deficit is reduced.

## AT: Impedes the Free Market

#### Not true- government acts as a stabilizer to the Free Market

AUERBACK 2009 (MARSHALL a market analyst and commentator. He is a brainstruster for the Franklin and Eleanor Roosevelt Intitute. “Government Spending is the Solution–Not the Problem,” Counter Punch, <http://www.counterpunch.org/2009/09/15/government-spending-is-the-solution-not-the-problem/>) AS

Yet today we are still overwhelmed with a chorus of criticism against fiscal activism:  we hear constantly that governments are an impediment to the operation of a genuinely “free market” which alone can generate sustained growth and prosperity.  The reality is very different on a number of levels.  Based on current account and fiscal balance results through Q2, it appears the private sector as a whole is running a net saving position rivaled only once before in the 1973-5 deep recession. At 8 per cent of GDP, the private sector net saving position is probably very near its peak given the rebound in equity prices, stabilizing home prices, and a labor market limping its way back from the abyss. What most commentators fail to acknowledge (Paul Krugman being a conspicuous exception), is that without the automatic stabilizers of fiscal policy, and the turn in the trade balance, the attempt by businesses and households to spend less than they earn would have otherwise been thwarted by a depression sized drop in private income.

## AT: Destroys the Private Sector

#### Public spending key to private sector growth

Auerback 9 – market analyst and commentator for the Franklin and Eleanor Roosevelt Institute (Marshall, “All Debt is Not Created Equally: Government Spending is the Solution – Not the Problem”, counterpunch.com, September 15, 2009, <http://www.counterpunch.org/2009/09/15/government-spending-is-the-solution-not-the-problem/print>) AS

Yet today we are still overwhelmed with a chorus of criticism against fiscal activism: we hear constantly that governments are an impediment to the operation of a genuinely “free market” which alone can generate sustained growth and prosperity. The reality is very different on a number of levels. Based on current account and fiscal balance results through Q2, it appears the private sector as a whole is running a net saving position rivaled only once before in the 1973-5 deep recession. At 8 per cent of GDP, the private sector net saving position is probably very near its peak given the rebound in equity prices, stabilizing home prices, and a labor market limping its way back from the abyss. What most commentators fail to acknowledge (Paul Krugman being a conspicuous exception), is that without the automatic stabilizers of fiscal policy, and the turn in the trade balance, the attempt by businesses and households to spend less than they earn would have otherwise been thwarted by a depression sized drop in private income.

#### Federal deficits allows private sector to save- net increase in growth

Auerback 9 – market analyst and commentator for the Franklin and Eleanor Roosevelt Institute (Marshall, “All Debt is Not Created Equally: Government Spending is the Solution – Not the Problem”, counterpunch.com, September 15, 2009, <http://www.counterpunch.org/2009/09/15/government-spending-is-the-solution-not-the-problem/print>) AS

“In the real world, we observe that the federal government tends to run persistent deficits. This is matched by a persistent tendency of the nongovernment sector, which includes the foreign sector, to save. Its ‘net saving’ is equal (by identity) to the government’s deficits, and its net accumulation of financial assets (or ‘net financial wealth’) equals, exactly, the government’s total net issue of debt—from the inception of the nation. Debt issued between private parties cancels out, but that between the government and the private sector remains, with the private sector’s net financial wealth consisting of the government’s net debt.”

## AT: Models Prove

#### Your models are outdated and don’t take in to account the shift in multiplier during times of recessions

WILSON 2012 (DANIEL J., Senior economist in the Economic Research Department of the Federal Reserve Bank of San Francisco., “Government Spending: An Economic Boost?” [**http://www.frbsf.org/publications/economics/letter/2012/el2012-04.pdf**](http://www.frbsf.org/publications/economics/letter/2012/el2012-04.pdf) AS)

Over the past few decades, the standard approach to estimating the impact of fiscal policy has generally been to investigate correlations over time between government spending or taxes and economic performance at the national level. Beginning with the seminal paper of Blanchard and Perotti (2002), economists have increasingly used a statistical technique known as structural vector autoregression (SVAR) to estimate the relationships between government spending and other economic variables over time, while imposing certain assumptions suggested by economic theory. Blanchard and Perotti’s key assumption was that government spending responds to economic shocks with a lag. This assumption allows researchers to identify the movements in government spending that would not have been expected, given the usual way government spending responds to economic shocks, and then estimate how GDP and other economic variables react to those movements. Blanchard and Perotti and other researchers using the SVAR approach have tended to find multipliers that are near or less than one, both for government spending and for tax cuts. More recently, a number of time-series studies have sought to avoid the strong assumptions underlying Blanchard and Perotti’s approach by building models that incorporate evidence from contemporary forecasts, news media, and government reports on unexpected changes in government spending or taxes. Using this approach, Ramey (2011b) finds that the multiplier on government defense spending is between 0.6 and 1.2 at its peak. Auerbach and Gorodnichenko (2010) provide an interesting variant on this approach. They allow the multiplier to differ in recessions and expansions. They find the long-run effect to be positive and as high as 2.5 in recessions, but as low as near –1.0 in expansions.

## AT: The Government is a “household”

#### This analogy is non sensical- a government can levy taxes and can deficit spend

Wray and Nersisyan 2010 (L. Randall and Yeva, New Economic Perspectives, Neoliberal Deficit Hysteria Strikes Again: ADVICE TO PRESIDENT OBAMA AND PRIME MINISTER BROWN: Tell the IMF, the European Commission, and the Ratings Agencies to Take a Hike, March 22nd <http://neweconomicperspectives.org/2010/03/neoliberal-deficit-hysteria-strikes.html> AS)

Governments across the world have inflicted so many self-imposed constraints on public spending that the relatively simple operational realities behind public spending have been obscured. Most people tend to think that a balanced budget, be it for a household or a government, is a good thing, failing to make a distinction between a currency issuer and a currency user. Indeed, one of the most common analogies used by politicians and the media is the claim that a government is like a household: the household cannot continue to spend more than its income, so neither can the government. See [here](http://www.newdeal20.org/2010/02/10/the-federal-budget-is-not-like-a-household-budget-heres-why-8230/) for more on the differences between a household and a government. Yet that comparison is completely fallacious. Most importantly, households do not have the power to levy taxes, and to give a name to—and issue–the currency that those taxes are paid in. Rather, households are users of the currency issued by the sovereign government. Here the same distinction applies to firms, which are also users of the currency. Operationally the sovereign government spends by crediting bank deposits (and simultaneously crediting the reserves of those banks) at its own central bank, in the case of the US, the Federal Reserve Bank. No household (or firm) is able to spend by crediting bank deposits and reserves, or by issuing currency. Households and firms can spend by going into debt if some entity will lend to them, which is something the national, sovereign government in no case requires when using its own currency. Unlike private debtors it can always make payments, including debt service payments, simply by changing numbers on its own spread sheet at its own central bank. This is a key to understanding why perpetual budget deficits are “sustainable” in the conventional sense of that term because government can always make any payments it desires on a timely basis.

#### Functionally not a house hold- they can deficit spend without loans

AUERBACK 2009 (MARSHALL a market analyst and commentator. He is a brainstruster for the Franklin and Eleanor Roosevelt Intitute. “Government Spending is the Solution–Not the Problem,” Counter Punch, <http://www.counterpunch.org/2009/09/15/government-spending-is-the-solution-not-the-problem/>) AS

Even though private individual and firms face external constraints as they accumulate debt, “household budget” analogies do not hold true for government, as Galbraith, [Wray and Mosler](http://www.levy.org/pubs/hili_98a.pdf) argue: “[I]f we take households or firms as a whole, the situation is different. The private sector’s ability to spend more than its income depends on the willingness of another sector to spend less than its income. For one sector to run a deficit, another must run a surplus (saving). In principle, there is no reason why one sector cannot run perpetual deficits, so long as at least one other sector wants to run surpluses. “In the real world, we observe that the federal government tends to run persistent deficits. This is matched by a persistent tendency of the nongovernment sector, which includes the foreign sector, to save. Its ‘net saving’ is equal (by identity) to the government’s deficits, and its net accumulation of financial assets (or ‘net financial wealth’) equals, exactly, the government’s total net issue of debt—from the inception of the nation. Debt issued between private parties cancels out, but that between the government and the private sector remains, with the private sector’s net financial wealth consisting of the government’s net debt.” The reality is – and it is a tyranny of accounting, not a theoretical impediment, since the financial balances of the three sectors must sum to zero – the only way to return to a fiscal surplus, or even a fiscal balance, without taking the private sector back into a deficit spending position, is if the trade balance can be heroically improved. The failure to recognize this relationship is the major oversight of neo-liberal analysis. Beyond the benign neglect of the dollar depreciation, it is hard to see much in the way of policy measures to achieve either import replacement or export extension in the years ahead. If the fiscal balance is to return to surplus by 2013 – a more aggressive reversal than the CBO depicted in its August Outlook, but consistent with the political tone of returning to fiscal orthodoxy – one can trace out the implications for the private sector financial balance given various assumptions about the trajectory of the trade balance. To get both the fiscal and private sector financial balances to converge at a net saving position of 2 per cent of GDP, the trade balance will have to migrate to a 4 per cent of GDP surplus – something we have never seen before in the US during the post WWII period. That leaves the emergence of a foreign middle class, and the shift toward domestic demand -led growth abroad as the key elements that could support a better US trade trajectory, which are largely elements outside the control of US policy makers. All of this likely means the path of US fiscal deficit as a share of GDP is probably a better route to full employment and prosperity than the misguided sentiment to cut government expenditures precipitously in a return to financial orthodoxy.

## AT: Tax Cuts Solve

#### Tax cuts are ineffective at stimulating growth- your evidence assumes that the household would spend the whole tax cut- they won’t.

Heintz, Pollin, and Garrett-Peltier 2009 (James, Associate Research Professor and Associate Director at the Political Economy Research Institute at the University of Massachusetts Amherst, Robert Professor and Co-Direction at the Political Economy Research Institute at the University of Massachusetts Amherst and Heidi Research assistant at the Political Economy Research Institute at the University of Massachusetts Amherst, “How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth,” Alliance for American Manufacturing, January <http://americanmanufacturing.org/files/peri_aam_finaljan16_new.pdf> AS)

That said, it is illuminating to compare the employment effects of our four infrastructure spending categories with the impact that tax cuts would have on the number of jobs in the economy. For this illustration, we assume that households would spend the entire amount of the tax cut. This is an unrealistic assumption, since most households are likely to use some of their increased income for saving and paying off debt. By contrast, it is almost certain that government entities will spend all of the money they receive for public investment projects. Nevertheless, in assuming that households will indeed spend all of the additional income they receive from tax cuts, we obtain an upper-limit estimate of the jobs that would be created by reducing income taxes. The relevant figures are in Figure 3.1. As the figure shows, three of our four categories of infrastructure investment—water management, school buildings, and transportation investments— generate about 19,000 jobs or more per $1 billion in spending. The energy infrastructure investments are somewhat weaker in their job effects, creating about 16,700 jobs per $1 billion in spending. All of these categories are significantly more effective in generating employment than tax cuts. For each $1 billion in tax cuts, slightly more than 15,000 jobs would be created if households spend the entire amount of the tax break. Spending on infrastructure generates a minimum of 10 to 30 percent more jobs than an equivalent quantity of tax cuts. The reason for this is simple. Most of the spending on infrastructure investments goes towards purchasing domestically produced goods and services. Households spend a larger share of their income on imports, reducing the employment impact of tax cuts.

#### Tax breaks comparatively not as effective as Keynesian stimulus

Nelson et al, 09(Arthur C. Nelson, Geoffrey Anderson, Keith Bartholomew, Pamela Perlich, Thomas W., Sanchez, Reid Ewing, researchers and economists for the University of utah, The best stimulus for the money, <http://www.smartgrowthamerica.org/documents/thebeststimulus.pdf>) MB

Economic impacts and job creation occurs when net new demand or spending is directed towards our nation’s goods‐ and services‐producing industries. The federal government can accomplish this directly by purchasing from industries, or indirectly by reducing taxes (or providing payments) to individuals or firms. The magnitude and timing of total economic impacts varies significantly depending upon the specific composition of the spending. If the policy goal is to create the maximum possible number of jobs as soon as possible, then direct spending is most effective. Tax rebates may or may not be spent, being used to pay down debt or increase savings instead. If the timing and composition of spending is uncertain this will delay and decrease the potential impact. Because of globalization, there is no guarantee that purchases resulting from tax cuts or rebates will necessarily be from domestic producers. In the case of import purchases, the stimulus would effectively add to the trade deficit rather than create jobs in the U.S. Purchases from firms operating in the U.S. will, in contrast, directly create or sustain jobs and the timing of these impacts is much more certain.

#### Tax cuts fail- only continued stimulus investment solves- history proves

Kroeger 11 [James Kroeger, June 11, 2011, “Krugman: Bush Tax Cuts Failed To Stimulate As Promised,” Writer for Daily Kos, <http://www.dailykos.com/story/2011/06/11/984306/-Krugman-Bush-Tax-Cuts-Failed-To-Stimulate-As-Promised>].MB

In 1993, Bill Clinton and the Democrats increased the tax rates of rich people, launching several years of economic prosperity and job creation. Jobs were created at a torrid pace, eventually pulling the unemployment rate down to record lows. In 2001 & 2003, the Republicans cut the taxes of The Top 2% launching several years of mediocre economic growth that became known at the time as "The Jobless Recovery." The Republicans couldn't have asked for a better situation in which to test their theory. When they cut the tax rates of the richest 2%; they did so at a time when interest rates were being kept at historic lows by Ayln Rand Greenspan. The great experiment was conducted; the data is in: the Republican "belief" that lower tax rates for rich people creates jobs is a myth. There is nothing Republican myth-makers can point to that can excuse the failure of their 'prescription' to create more jobs than the economy experienced under Bill Clinton. The record shows that some job growth eventually did occur during the latter part of the Bush administration, but only after (A) the contractionary effects of the tax cuts began to wear off, and (B) some of the extra $$ circulating within their side of the economy finally began to 'trickle down' to Main Street in the form of high-risk loans extended by banks. And still, no recovery at all would have occurred if the Republicans had actually taken the kind of actions that they are now preaching to us. If they had cut government spending at the same time that they were cutting the tax rates of millionaires, The Republicans would have ignited a Great Depression II even without the financial earthquake that unfolded in 2008. The only thing that kept the economy from tanking in 2003 was the massive increase in the government's spending of borrowed money.

#### Tax cuts don’t encourage long term planning which is key to making them effective

Tanner 11 (September 13, 2011, Michael D. senior fellow at the Cato Institute, focus on fiscal policy, “Feeling Spent”, Cato.org, <http://www.cato.org/publications/commentary/feeling-spent?print>, accessed June 19, 2012) MG

The result: Three years and $1.5 trillion of spending later, we are back to the same gallimaufry of failed ideas. Among the worst: 1. Temporary Tax Cuts. The president wants to extend and expand the temporary reduction in the Social Security payroll tax that Congress enacted last December. The president also called for a grab-bag of tax credits for businesses that buy new equipment, hire veterans or even give workers a raise. There is obviously nothing wrong with letting workers keep a bit more of their money. And some of the tax breaks might encourage businesses to speed up otherwise planned hiring or purchases, providing a short-term economic boost. But neither people nor businesses tend to make the sort of long-term plans needed to boost production, generate growth and create jobs on the basis of temporary tax changes. This is especially true when businesses can look down the road and see tax hikes in their future.

## AT: Europe Proves Bad Model

#### Europe doesn’t answer the US situation – we have a sovereign currency which makes the US unique

Wray and Nersisyan 2010 (L. Randall and Yeva, New Economic Perspectives, Neoliberal Deficit Hysteria Strikes Again: ADVICE TO PRESIDENT OBAMA AND PRIME MINISTER BROWN: Tell the IMF, the European Commission, and the Ratings Agencies to Take a Hike, March 22nd <http://neweconomicperspectives.org/2010/03/neoliberal-deficit-hysteria-strikes.html> AS)

President Obama and PM Brown should “just say no” to the attempted intervention by these fundamentally misguided deficit hawks into their economic and political affairs. Not only would fiscal tightening now or even within the next several years be a monumental mistake, the notion that continued deficits threaten our economies is unsound. In the remainder of this piece we will briefly explain why. What these Neoliberals do not understand is that the UK and US operate with sovereign currencies—that is both of these nations issue their own non-convertible (floating exchange rate) currencies. For this reason the comparison with any nation that uses the Euro (such as Greece), or with a nation that pegs to precious metals or foreign currencies is invalid. In other words, there is no question of solvency or sustainability of deficits for the US and UK. Sovereign debt of these nations never carries default risk and hence cannot be rated below triple A. Further, budget deficits are largely endogenously determined by economic performance, so that even if the US and UK adopted the Neoliberal recommendations, the budgetary outcome is not discretionary—indeed, tight fiscal policy would probably increase budget deficits by killing nascent economic recovery. Again, this would not raise any questions about solvency, but it certainly would impose unnecessary pain and sacrifice on the populations of the countries. Since we find it very difficult to believe that the ratings agencies, the IMF and the EU do not understand this, it is equally hard to avoid the conclusion that their policy recommendations are designed to subvert the economies of the US and UK. To what end we can only wonder.

## AT: Economic Models

#### Don’t prefer economic models

Foster 9 – PH. D, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation (J.D., July 27, 2009, “Keynesian Fiscal Stimulus Policies Stimulate Debt – Not the Economy”, <http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>, accessed June 21, 2012) MG

The downside to all economic models is that they often provide uncertain illumination for policymakers because the models ultimately only report what their builders have designed into them. Economic models are inherently abstract representations of an economic phenomenon, dependent on the state of economic theory and the quality and availability of data. Given these limitations it can be difficult to discern whether an interesting result reflects the model or the economy the model is intended to represent.

## AT: Rogoff and Reinhart

#### Their models are flawed- don’t prefer their bad science

Wray and Nersisyan 2010 (L. Randall and Yeva, New Economic Perspectives, Neoliberal Deficit Hysteria Strikes Again: ADVICE TO PRESIDENT OBAMA AND PRIME MINISTER BROWN: Tell the IMF, the European Commission, and the Ratings Agencies to Take a Hike, March 22nd <http://neweconomicperspectives.org/2010/03/neoliberal-deficit-hysteria-strikes.html> AS)

Mr. Lipsky is certainly not alone in arguing that high debt levels will be detrimental for economic growth. A new and influential study by Kenneth Rogoff and Carmen Reinhart, heavily publicized by the media, purports to show that once the gross debt to GDP ratio crosses the threshold of 90%, economic growth slows dramatically—by at least one percentage point. But the findings reported in Rogoff and Reinhart cannot be applied to the situation of the US or to the case of many other nations today—those that are not pegging their currency to gold or any other currency. Indeed, the Rogoff and Reinhart study is fatally flawed precisely because it does not recognize the difference between sovereign debt—debt of a national government that issues its own nonconvertible currency—and private debt or the debt issued by nonsovereign government that pegs its currency to precious metal or foreign currency (or Euro nations that adopt the euro).

## AT: Heritage Foundation

#### The Heritage Foundation’s writing is based in ideology, not facts. They will write anything to boost the conservative agenda

Krugman 11 (April 17, Paul, an American economist, Professor of Economics and International Affairs at the Woodrow Wilson School of Public and International Affairs at Princeton University “Lets Not Be Civil” <http://www.nytimes.com/2011/04/18/opinion/18krugman.html>) BH

When the proposal was released, it was praised as a “wonk-approved” plan that had been run by the experts. But the “experts” in question, it turned out, were at the Heritage Foundation, and few people outside the hard right found their conclusions credible. In the words of the consulting firm Macroeconomic Advisers — which makes its living telling businesses what they need to know, not telling politicians what they want to hear — the Heritage analysis was “both flawed and contrived.” Basically, Heritage went all in on the much-refuted claim that cutting taxes on the wealthy produces miraculous economic results, including a surge in revenue that actually reduces the deficit. By the way, Heritage is always like this. Whenever there’s something the G.O.P. doesn’t like — say, environmental protection — Heritage can be counted on to produce a report, based on no economic model anyone else recognizes, claiming that this policy would cause huge job losses. Correspondingly, whenever there’s something Republicans want, like tax cuts for the wealthy or for corporations, Heritage can be counted on to claim that this policy would yield immense economic benefits.

#### Heritage foundation is swayed by corporate interests- reject their evidence

Tevelow 5 — Amos A. Tevelow, Ph.D. Candidate in the Department of Communication at the University of Pittsburgh, 2005 (“From Corporate Liberalism To Neoliberalism: A History Of American Think Tanks,” Thesis Submitted to the Graduate Faculty of Arts and Sciences in partial fulfillment of the requirements for the degree of Doctor of Philosophy, Available Online at http://etd.library.pitt.edu/ETD/available/etd-08192005-162045/unrestricted/FinalTevelowETD.pdf, Accessed 04-25-2010, p. 174-175)

Heritage is significant not only because of its real or perceived influence on public policy, but because it stood as a model for other explicitly ideological and aggressively marketed think tanks (Citizens for a Sound Economy, Competitive Enterprise Institute, Heartland Institute, and others). The New Right think tanks sloughed off the nonpartisan self-understanding of the proto-tanks as a useless anxiety, wearing their conservative ideology on their sleeves. The desire to be objective and perceived as such, an anxiety rife through much of think tank history, doesn’t vex advocacy tanks, except to the extent that they need to employ such rhetoric to maintain a non-profit, tax-exempt status. As self-conscious proponents of a neoliberal system, they are proud hired guns who know that their own viability depends on their ability represent the interests of their corporate benefactors as common interests, and have had no problem entering the fray of ideas with explicit agendas, offering the free market as a corrective to “creeping socialism” and “liberal elites” in America. While speaking of Great Britain, Stuart Hall’s pioneering Gramscian interpretation of “Thatcherism” applies just as well to this aspect of the American case518: [end page 174] Thatcherism...[is] not simply a worthy opponent of the Left, but in some deeper way its nemesis, the force that is capable in this historical moment of unhingeing it from below.519 Its sheer audacity as an ideological crusade marks conservatism as a hegemonic project.

## AT: CATO Institute

#### The Cato Institute is motivated my donations, and ignore key issues.

Brin 06 (MAY 23, David, a scientist, futurist, and bestselling author “The Cato Hypocrisy” <http://davidbrin.blogspot.com/2006/05/cato-hypocrisy.html>)BH

Alas, the paradox only gets worse, the higher your IQ! In every walk of life we are surrounded -- especially at all extremes of the hoary/insipid "political spectrum" -- by bright fools who wallow in sanctimonious just-so stories, blithely dismissing contrary evidence, always ignoring the suspiciously pat convenience of just-happening to be oh-so right. Take for example\* the erudite, "freedom-promoting" scholars of the Washington DC Cato Institute -- purported to be the key think tank for studying and propounding principles of libertarianism. Let me zero in on them, because right now they offer a marvelous case study illustrating our problem -- the mountain of rationalizing human nature that we must still overcome. Why pick on Cato? I mean, other than the fact that they wear they IQs on their sleeves. You see, these passionate and articulate champions of the free market have lately found themselves in a difficult situation. A real bind. Year after year, members and affiliates have maintained a marvelous high wire act, claiming surficially to be nonpartisan - to find equal fault between "Republicans who oppress freedom of the bedroom and Democrats who oppress freedom of the marketplace." And yet, as donations poured in from well-heeled private sources, a funny thing happened to the production line of scholarly documents and position papers. It veered right. Oh, occasionally (for credibility's sake) Cato fellows would fire a very general - and very soft - fusillade in favor of abortion rights or against Alaska's pork "Bridge to Nowhere." Still, as the propaganda wheels turned, there appeared to be one guiding principle behind almost every missive produced by the Cato Institute. We, who style ourselves as the defenders of a free market, shall obsessively and relentlessly ignore the market's greatest enemy. We will never mention or acknowledge the blatant fact that, for 5,000 years, the most deadly foe of free enterprise has always been conspiratorial aristocracy. Indeed, the Cato Institute has long promoted the worst social, economic and political conflation of modern times. A delusion that Adam Smith warned against. The notion that ownership of capital is the prime correlate with wise market capitalism. A very different concept, fundamentally, than saying that markets are themselves wise at allocating, rewarding or promoting innovative goods and services. Just scan Cato's sage and scholarly thinktank documents propounding upon the inherently superior wisdom of markets. Apparently, "pre-selecting outcomes" is a sin when it is done openly, by a nation's broadly-inclusive and constitutional deliberative process. Even (especially) when it is shown that intergenerational costs cannot be accounted-for without some regulated market tuning, this kind of accounting is dismissed as an impossibly utopian and unachievable, due to the limited knowledge and predictive power of governing bodies. Point taken. Score one for Hayek. And yet, "pre-selecting outcomes" is somehow portrayed as perfectly okay, when it is performed by much smaller clades of secretively collusive owners, scheming in small groups to allocate resources, labor and capital as capriciously as the feudal lords of any other era. Eras that, though less trammelled by well-meaning social tinkering, somehow managed to be far, far less successful than our own. Somehow, under those conditions, nobody speaks about "limited knowledge and predictive power." The secrecy that nearly all economists call poisonous to markets, is somehow portrayed as just fine when it is used by a few golf buddies to manipulate those same markets and squeeze out all players who aren't in-the-know. While the obsolete, ridiculous and long-discredited spectre of socialism continues drawing ire and alarm, the Cato and its allies keep on shrilly pointing at "government" as the sole and inherent foe of enterprise, never allowing attention to drift toward those who (increasingly) control government for their own enrichment. Aristocracies who exercise extreme influence over law and regulation, ensuring that government favors elites, in ways that Adam Smith cogently denounced during his own era. THE "FALL" OF THE GOP... WITH AN EXCUSE... Take the most recent "Cato's Letter," issued quarterly by the Institute, this time featuring an article by Tucker Carlson (host of MSNBC's The Situation) entitled - "The Decline and Fall of the Republican Party." Wow. With a title like that , you might think the Catoins have seen the light! That they've realized, at long last, how deeply one of our great parties - and through it, nearly all of our government institutions - is suborned by a narrow cabal of native and foreign elites. That most insatiable subset of aristocrats, imbued with a deep sense of righteous privilege, who have engaged in one of the most reckless campaigns of kleptocratic mismanagement in all of history. Have the Catoins decided - belatedly - to rise up and help us all deal with the cakocratic fecklessness. The rampant deceit, corruption, willful ignorance, indolence, violence, and anti-scientific dogmatism that has threatened civilization at all levels? Well... um... not quite. In fact, the Cato guys pretty much had to issue some kind of denunciation at this point in time. The national wave of revulsion toward today's GOP has risen toward tsunami proportions. The henchman defections that I have long called for are starting to trickle and stream from a myriad cracks in the neocon edifice. Soon, when whistleblowers start feeling safe to emerge, these cracks will grow so wide that Karl Rove will no longer be able to patch his coalition with liberal... oops... I mean generous... dollops of culture war. Under circumstances like these, it is not surprising to see Cato join in, if only to hold onto a little residual relevance. But the line they are pushing! Ah, that's where things get really cute. Hang on and watch closely. It is better than a streetcorner game of Three Card Monty! OFFERING EXCUSES FOR THE "LESSER OF EVILS"... For starters, it seems that the most dogmatic administration in living memory has failed because it was not dogmatic enough. Oh, but it gets even better. For, according to Tucker Carlson -- the great sin of the Republican Party is that (horrors!) it has sunk down almost to the dissolute, immoral, spendthrift, corrupt and despicable level of Democrats! Shudder. That low? Mea maxima culpa! If the far right does not renew itself soon, it is in serious danger of drifting down to the level of... liberals. Talk about blame shifting legerdemain! Didn't I say these guys were bright? Prepare to hear this line more and more, as the political season advances. Let me paraphrase some more. Yes, the neocons and their fellow travellers have proved to be disgusting, greedy and incompetent. But you must still rationalize holding your nose and continuing to vote for them, because democrats are inherently worse. Clever, for sure. Only there's a problem with this line. It doesn't match the facts at any level. Not even when you lean upon the insipid crutch of left right cliches. Because the neocons' long road into hell did NOT take them into Democratic territory. In fact, they did it by heading - at warp drive - in diametrically opposite directions. by massively increasing secrecy in government, rather than reducing it. (The unambiguous trend across the nineties.) by massively increasing deficit spending, rather than reducing it. (Ditto.) by massively increasing pork barrel graft, rather than reducing it. (In fairness, the decline of pork in the nineties may have resulted from divided government, with President Clinton forced to co-habitate with the very different (and somewhat lamented) neocons of Newt Gingrich's wave.) by undermining America's alliances and status in the world in favor of cowboy adventurism, rather than building worldwide consensus and acceptance of mature U.S. leadership. by rejecting all sources of objective evidence or criticism that might conflict with doctrine, relentlessly undermining both science and the autonomy of skilled professionals, demolishing or repressing advisory panels and suppressing independent thinking in the intelligence and military officer corps. by crippling the Border Patrol in a blatant effort to emphasize and promote illegal immigration, in preference over legal immigration (the democrats' preference.) by systematically demolishing government contract-vetting and purchasing procedures, finding every excuse to grant sole-source contracts on the basis of whim or crony connections. Will a Catoin ever do the correlation - that more actual deregulation of major industries took place during the Carter and Clinton administrations, than was ever proposed during the sum total of the Nixon, Reagan, Bush and Bush tenures? Never. Cognitive dissonance -- an inability to perceive that which conflicts with comfortable assumption -- will keep that from ever happening. This list could go on and on. But the core point is clear. Tucker Carlson and the other court savants -- nay, courtesans -- of Cato and the right never look to any of these factors. In calling up an image of today's fallen GOP as nearly as bad as democrats, their sole criterion is to wag a finger and make tsk-tsk noises at the hemorrhaging federal deficit, while propounding that these conservatives have failed us, by becoming -- in effect -- liberals.

# Spending Bad

## Spending Fails Frontline

#### History proves spending didn’t boost jobs or the economy

Riedl, 10-13-12**,** Brian, The Foundry, a subset of The Heritage Foundation, “[Updated] Yes, Paul Krugman, Spending Has Steeply Increased,” <http://blog.heritage.org/2010/10/13/yes-paul-krugman-spending-has-steeply-increased/>, KHaze

Yet for his talk about a “fact-free” disinformation campaign, Krugman curiously provides no data on total federal spending. This may be because all official budget data reveals a different story. According to President Obama’s own Office of Management and Budget—the keepers of the official data on government spending—federal spending has just finished its largest two-year surge in nearly 60 years, leaping from 20.7 percent of the economy to 25.4 percent (see Table 1.2 here), the highest spending level in American history outside of World War II. Overall, Washington is spending 23 percent more today than it did two years ago. Quite a stunning increase given the concern about deficits and fiscal austerity other nations are embarking on. The Congressional Budget Office and Treasury Department show similar figures. So where are the facts, one wonders, to support Krugman’s claim that the federal government has not significantly expanded? Krugman’s argument starts by stating that most spending increases have been concentrated in social spending and financial bailouts, rather than government employment, direct government purchases, or the creation of many new government programs. This is a non-sequitur. The composition of a federal spending increase—whether it goes towards Medicaid, direct purchases of fighter jets, state bailouts, new federal employees, or new government programs—isn’t the same as how much federal spending has increased. The broader purpose of Krugman’s column is to rehabilitate the outdated myth that government can spend its way to job growth and prosperity. Washington’s massive spending spree has, by any objective standard, failed to create jobs. So Krugman simply denies that this spending ever happened, despite reams of official evidence to the contrary. Furthermore, the type of spending that Krugman concedes jumped—unemployment and social spending—is among the most stimulative according to his Keynesian economic theories, yet the unemployment has not even responded minimally. This spending’s complete failure to create jobs should provide one more nail in the Keynesian coffin. Krugman can argue that the historic surge of spending and deficits since 2008 is too small for his taste. But his claim that “[t]here never was a big expansion of government spending” just doesn’t add up.

#### No net benefit to the stimulus-

#### a) High rates of government debt undermines

Auerbach 12 ( Alan J., Burch Professor of Economics and Law Director, Robert D. Burch Center for Tax Policy and Public Finance, University of California, Berkeley May 2012, “The Fall and Rise of Keynesian Fiscal Policy, <http://elsa.berkeley.edu/~auerbach/TheFallandRiseofKeynesianFiscalPolicy.2>)AS

As mentioned above, one concern accompanying evaluations of countercyclical fiscal interventions during the Great Recession has been the U.S. fiscal balance. Seeing budget deficits around 9 percent for several fiscal years and publicly held national debt rapidly increasing as a share of GDP, many have expressed concerns about the sustainability of US fiscal policy. If one looks at the longer run, the debt accumulation during the Great Recession is small relative to the impending flow of annual imbalances arising from the growth of old-age entitlement spending (Auerbach and Gale 2009b), and low current interest rates lessen the additional cost of recent debt accumulation. However, some still express concern that the chances of a fiscal crisis increase substantially as the debt-GDP ratio continues to grow, particularly as much of the additional debt is being held abroad (unlike in Japan). Moreover, those with this concern cite results in the literature suggesting that fiscal contractions may even be expansionary, if they are adopted at high levels of public debt and focus primarily on spending cuts, rather than tax increases.

#### b) for every dollar the government spends it must tax or borrow the same amount out of the economy

Ridel 2008 (Brian, is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation., Why Government Spending Does Not Stimulate Economic Growth, November 12 <http://www.heritage.org/research/reports/2008/11/why-government-spending-does-not-stimulate-economic-growth>) AS

Spending-stimulus advocates claim that government can "inject" new money into the economy, increasing demand and therefore production. This raises the obvious question: Where does the government acquire the money it pumps into the economy? 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 redistributed from one group of people to another.[[2]](http://www.heritage.org/research/reports/2008/11/why-government-spending-does-not-stimulate-economic-growth" \l "_ftn2) Spending-stimulus advocates typically respond that redistributing money from "savers" to "spenders" 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 collectibles, 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 spending 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.

#### c) Special interest groups means spending will occur in sectors which don’t produce growth

Piereson 2012 (James, is a Manhattan Institute senior fellow and director of the Institute’s Center for the American University. William E. Simon Foundation John Maynard Keynes and the Modern Revolution in Political Economy. March <http://www.springerlink.com/content/q4662768k2075837/fulltext.pdf>) AS

When an economy reaches a point at which distributional coalitions are omnipresent, it loses its flexibility to respond to shocks, recessions, or unanticipated changes in price levels. As Olson writes, “The economy that has a dense network of narrow special-interest organizations will be susceptible during periods of deflation or disinflation to depression or stagflation.”33 The reason for this is that an unexpected deflation will expose above market incomes and prices in the “fix-price sector,” forcing movement out of that sector and into the “flex-price” sector where incomes, wages, and prices are set by market competition. Many will resist such moves, or not know how to make them; queuing and searching costs will be high; the adjustments will force prices to fall further in the flex price sector, reducing overall demand in the economy. An extended period of stagnation will follow as the marketplace adjusts to the distortions caused by distributional coalitions. At this point one could say that the government should step in with the standard Keynesian remedy, borrowing money and incurring debt to arrest the deflation and to allocate funds to maintain the above market prices and incomes in the “fix-price” sector. This in fact looks very much like what the U.S. government tried to accomplish with its recent $800 billion stimulus package, which was allocated disproportionately to public employee unions, university research programs, energy companies that could not win loans from banks, and bankrupt auto companies and their labor unions.34 Olson’s reply might be that such remedies will have only temporary effects because they empower distributional coalitions that do not produce wealth and growth but seek to maintain advantages at the expense of the economy as a whole. Such policies run up debt that everyone is obliged to repay to underwrite above market incomes and prices for groups whose activities impede economic growth. In an economy in which distributional coalitions are numerous and powerful, Keynesian remedies (or at least spending remedies) may be ineffective in restoring consumer demand, private sector investment, and economic growth.

#### d) Spending won’t be targeted to achieve the most economic impact

CHIP 2012 (William W. Chip is an international lawyer in Washington, D.C., “ Why Stimulus Fails Keynesian illusions once fostered prosperity. Not anymore.,” T H E A M E R IC A N CON SE RVAT I V E, [**http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=2019041&http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=2019041**](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2019041&http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2019041), March AS)

Nearly three years after Congress enacted a $787 billion stimulus package, the U.S. unemployment rate at the end of January stood at 8.3 percent—exactly where it was the month the stimulus passed and only half a percent below where the Obama administration predicted it would be if there had been no stimulus. This “mother of all stimulus bills” failed to deliver as promised. Ominously, hardly anyone agrees on why it failed. Some Democrats have argued that $787 billion was not enough. Last fall the president called for a second stimulus package of $450 billion. Two days after the president’s speech, Christina Romer, former head of Obama’s Council of Economic Advisers, argued that a second stimulus should be “substantially larger.” The president would have proposed more in the first place, and would probably have gotten his way, had Republicans not taken control of the House of Representatives in 2010. Many Republicans have accepted that a fiscal stimulus was needed, but they argue that the money was spent on the wrong things and would have given a bigger boost to the economy had a larger portion taken the form of tax cuts. There is no shortage of anecdotal evidence about misdirected spending, such as a February 2009 report from the American University Investigative Reporting Workshop showing that 80 percent of renewable-energy stimulus funds had gone to foreign turbine manufacturers, creating about 6,000 manufacturing jobs overseas but only a few hundred in the United States. In a September 8, 2011 editorial, the Wall Street Journal, citing other evidence that stimulus spending was “poorly targeted,” argued that “the economy would have benefited far more if the government had instead improved the incentives for people and businesses to invest, produce and grow,” presumably through lower taxes and relaxed regulation.

#### Rational actors will respond to stimulus spending with caution because they understand it causes inflation

Brannon and Edwards 2009 (Ike, is the Director of Economic Policy as well as the Director of Congressional Relations for the American Action Forum. Chris, is the director of tax policy studies at Cato and editor of [www.DownsizingGovernment.org](http://www.downsizinggovernment.org). Barack Obama's Keynesian Mistake, <http://www.cato.org/publications/commentary/barack-obamas-keynesian-mistake>, ) AS

The end of simplistic Keynesianism in the 1970s created a void in macroeconomics that was filled by "rational expectations" theory developed by John Muth, Robert Lucas, Thomas Sargent, Robert Barro and others. By the 1980s, old-fashioned Keynesian was dead, at least among the new leaders of macroeconomics. Rational expectations theorists held that people make reasoned economic decisions based on their expectations of the future. They cannot be systematically fooled by the government into taking actions that leave them worse off. For example, people know that a Keynesian-style stimulus might lead to higher inflation, and so they will adjust their behaviour accordingly, which has the effect of nullifying the stimulus plan. A spending stimulus will put the government further into debt, but it will not increase real output or income on a sustained basis.

#### Even if the aff wins that plan = growth, No short term impact

Ridel 2008 (Brian, is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation., Why Government Spending Does Not Stimulate Economic Growth, November 12 <http://www.heritage.org/research/reports/2008/11/why-government-spending-does-not-stimulate-economic-growth>) AS

Even when government spending improves economic growth rates on balance, it is necessary to differentiate 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 productivity 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.

#### The econ is structurally deficient- any stimulus contributes to the problem not the solution

O'Hanlon 12 (5/28/12, Steve,chief investment officer for fixed income at ACPI Financial Times, “Western economies still feeling untold damage”, <http://www.ftadviser.com/2012/05/28/investments/global/western-economies-still-feeling-untold-damage-2LM2eSdZ2NA1OrcvgkWmYM/article-0.html>) AS

It can also be argued that banking bad debts, negative equity and misallocation of resources over an extended period corrupted our economies to such an extent that they can no longer respond to the traditional and even non-traditional medication that has been prescribed. Current analysis of this point is being discussed at the Fed. For example, they have discovered that there are actually jobs available in the US, but due to the lack of the appropriate skills it has been difficult for many employers to fill these positions. The US has many world-class universities, but a lousy broad-based education system. It has great technology but a crumbling infrastructure. The US has also got a great democratic history but rotten and self-interested politics. The negatives, for the first time in many generations of Americans, are starting to outweigh the positives. All the more concerning are the remedies being administered for these series of crises are starting to have massive side effects, to the point that they are becoming counter-productive. The second round of quantitative easing (QE2) was an obvious example of the costs outweighing the benefits: zero interest rate policy (Zirp) stimulates speculation - not savings and investment. This puts the US recovery in an invidious position. Given the US's output gap and inflation expectations, there is little scope left for miracles from the Fed - they never had any in the first place other than their ability to keep asset prices afloat. Fiscal policy is stretched to breaking point with debt ceiling debates becoming a regular occurrence and trillion dollar deficits as far as the eye can see. Clearly a new approach is required. Unfortunately, the 'vested' interests that have done so well out of the current policy mix will make it very difficult to change course. Just look to any major bank or investment house and you will see most of their economists baying for more QE but they have little or nothing to add about in changing course from our dysfunctional economies by real investment. Our inability to grow unassisted is at the core of the problem, not our ability to print money or have trillion dollar fiscal deficits. The structural legacy left behind from years of intellectual hubris in Europe and the US is at the centre of the real crisis we face, rather than the one we are attempting to solve today through Zirp and QE.

## Prefer our evidence

#### Prefer our evidence- best economists agree – academics only teach Keynesian economics to show its flaws

Brannon and Edwards 2009 (Ike, is the Director of Economic Policy as well as the Director of Congressional Relations for the American Action Forum. Chris, is the director of tax policy studies at Cato and editor of [www.DownsizingGovernment.org](http://www.downsizinggovernment.org). Barack Obama's Keynesian Mistake, <http://www.cato.org/publications/commentary/barack-obamas-keynesian-mistake>, ) AS

It is difficult to find a macroeconomics textbook these days that discusses Keynesian fiscal stimulus as a policy tool without serious flaws, which is why the current $800-billion proposal has taken many macroeconomists by surprise. John Cochrane of the University of Chicago recently noted that the idea of fiscal stimulus is "taught only for its fallacies" in university courses these days. Thomas Sargent of New York University noted that "the calculations that I have seen supporting the stimulus package are back-of-the-envelope ones that ignore what we have learned in the last 60 years of macroeconomic research." It is true that Keynesian theory has been updated in recent decades, and it now incorporates ideas from newer schools of thought. But the Obama administration's claim that its stimulus package will create up to four million jobs is outlandish. Certainly, many top macroeconomists are critical of the plan including Harvard University's Greg Mankiw and Stanford University's John Taylor, who have been leaders in reworking the Keynesian model. Taylor noted that "the theory that a short-run government spending stimulus will jump-start the economy is based on old-fashioned, largely static Keynesian theories." One result of the rational expectations revolution has been that many economists have changed their focus from studying how to manipulate short-run business cycles to researching the causes of long-run growth. It is on long-run growth that economists can provide the most useful advice to policymakers, on issues such as tax reform, regulation and trade.

#### And responsible policy makers should be extremely weary of the aff’s economic solutions

Brannon and Edwards 2009 (Ike, is the Director of Economic Policy as well as the Director of Congressional Relations for the American Action Forum. Chris, is the director of tax policy studies at Cato and editor of [www.DownsizingGovernment.org](http://www.downsizinggovernment.org). Barack Obama's Keynesian Mistake, <http://www.cato.org/publications/commentary/barack-obamas-keynesian-mistake>, ) AS

While many economists have turned their attention to long-run growth, politicians unfortunately have shorter time horizons. They often combine little knowledge of economics with a large appetite for providing quick fixes to crises and recessions. Their demand for solutions is often matched by the supply of dubious proposals by overeager economists. Many prominent economists pushed for the passage of the $170-billion stimulus act in early 2008, but that stimulus turned out to be a flop. The lesson is that politicians should be more skeptical of economists claiming to know how to solve recessions with various grand schemes. Economists know much more about the factors that generate long-run growth, and that should be the main policy focus for government reform efforts. The current stimulus plan would impose a large debt burden on young Americans, but would do little, if anything, to help the economy grow. Indeed, it could have similar effects as New Deal programs, which Milton Friedman concluded "hampered recovery from the contraction, prolonged and added to unemployment and set the stage for ever more intrusive and costly government." A precedent will be created with this plan, and policymakers need to decide whether they want to continue mortgaging the future or letting the economy adjust and return to growth by itself, as it has always done in the past. Unfortunately, President Obama has proposed no long-run fiscal reforms, and like his predecessor seems to have a short-run Keynesian outlook. The tax cuts of 2001 and 2003 were generally sold as temporary stimulus measures and President Bush hailed the 2008 tax rebates as providing a "booster shot" for the economy. It is not clear whether Keynesian beliefs or political factors are the main driver for the $800-billion stimulus plan. But as Harvard University's Robert Barro noted in disapproval of the stimulus plan, just because the economy is in crisis, it does "not invalidate everything we have learned about macroeconomics since 1936."

#### Prefer our evidence- We’ve got the best, most rigorously tested models

Beard et al, 11 (T. Randolph Beard, Ph.D. ,George S. Ford, Ph.D. ,Hyeongwoo Kim, Ph.D., Lawrence J. Spiwak, Esq., CAN GOVERNMENT SPENDING GET AMERICA WORKING AGAIN?, PHOENIX CENTER POLICY BULLETIN NO. 31, http://www.phoenix-center.org/PolicyBulletin/PCPB31Final.pdf)MB

II. Empirical Analysis Deciphering the relationship between government spending and macroeconomic outcomes has received considerable attention in the academic literature, both from the empirical and theoretical perspectives.20 Despite this volume of work, consensus has not emerged; researchers remain divided on this important question. In some models, increases in government spending (shocks) raise GDP and improve labor conditions (by, for example, increasing hours worked and/or the real wage).21 Other approaches, however, find the consequences of government spending to be less favorable, particularly when the spending is financed by government deficits. There does seem to be agreement on one important issue, however: real world macroeconomic data often does not conform very well to established economic models of the macroeconomy. Recent time series econometric research focuses on how the effects of various stimuli may differ under disparate economic conditions.22 Following this line of research, we will investigate here the effects of total government spending on final goods and services (i.e., consumption and investment only by state, local and federal governments) and private-sector investment, on the number of private-sector jobs. Using quarterly data on these variables over the years 1960 through mid-year 2011, we use a grid search method to divide the sample observations into two states: (1) low growth and (2) high growth. Thus, whether any given observation is regarded as arising during a high growth or low growth regime is endogenous. We then estimate the short-run response of private-sector employment growth to changes in government spending growth and private-sector investment growth. Using this two-regime threshold model, we can examine whether these effects differ between the low- and highgrowth regimes. Such differences, if they exist, are relevant for evaluating the proper response of government to economic conditions.

#### Policy makers have to take into account future impacts of the aff’s spending.

Khalid et al. 12 (March 21, 2012, Ahmed M., Ph. D (Economics) John Hopkins University, has taught at the Ph. D level on Monetary Theory and Policy and researches applied macroeconomics and monetary economics, with a recent emphasis on financial crises and financial sector reforms, “Regulatory Failure and the Global Financial Crisis: An Australian Perspective“ pp. 90-96- Google books) MG

While Keynes proposed a way of addressing depressions in the wake of banking crises, Fisher actually explained how banking crises can develop. However, Fisher’s most notable contribution was this theory of inter-temporal choice (Fisher, 1930), which related saving, investment and interest rates through time. In a nutshell, it proposes that spending decisions made in the present are central to our economic well-being in the future and therefore that economic decision-making always has to be undertaken with the future in mind. This theory also implies that short-term economic policies that foster consumption and unproductive public spending without regard to the future are detrimental to achieving higher long-term living standards. In a Fisherian world it’s quite rational to pass on a big night out because the hangover the next day is not worth it, just as it’s best not to run ill-advised budget deficits that unproductively add to public debt and prove to be a future drain on the economy.

#### Impossible to pinpoint the effects – multiple factors create doubt on effects of spending

Heintz, Pollin, and Garrett-Peltier 2009 (James, Associate Research Professor and Associate Director at the Political Economy Research Institute at the University of Massachusetts Amherst, Robert Professor and Co-Direction at the Political Economy Research Institute at the University of Massachusetts Amherst and Heidi Research assistant at the Political Economy Research Institute at the University of Massachusetts Amherst, “How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth,” Alliance for American Manufacturing, January <http://americanmanufacturing.org/files/peri_aam_finaljan16_new.pdf>) AS

It is more difficult to estimate the size of the induced employment effects—or what, within standard macroeconomic models, is commonly termed the consumption multiplier—than to estimate direct and indirect effects. The induced effects represent a somewhat different category of multiplier in that they capture the increase in employment that occurs when the income generated by the direct and indirect job creation is spent. There are aspects of the induced effects which we can estimate with a high degree of confidence. In particular, we have a good sense of what is termed the ‘consumption function’— what percentage of the additional money people receive from being newly employed will be spent. But we cannot know with an equivalent degree of confidence what the overall employment effects will always be of that extra spending. To begin with, the magnitude of the induced effect will depend on existing conditions in the economy. If unemployment is high, this will mean that there are a good number of people able and willing to take jobs if new job opportunities open up. But if unemployment is low, there will be less room for employment to expand, even if newly employed people have more money to spend. Similarly, if there is slack in the economy’s physical resources, the capacity to expand employment will be greater—and the induced effects larger. If the economy is operating at a high level of activity there is not likely to be a large employment gain beyond what resulted from the initial direct and indirect effects. Given the rapid deterioration of economic conditions over the past several months—including rapidly rising rates of unemployment— the U.S. economy is not likely to bump up against this kind of capacity constraint in the near future and we would expect the induced effects to be significant in the current climate. However, the uncertainty about the length and severity of the crisis makes it difficult to pinpoint the magnitude of induced effects with a high degree of accuracy.

## ----Ext. Spending Fails- Econ

#### Stimulus destabilizes financial markets, scare businesses from investing and impose crushing debts on future generations

Edwards 11 – director of tax policy studies at the Cato Institute (December 2, 2011, Chris, “Keynesian Policies Have Failed”, Cato.org, <http://www.cato.org/publications/commentary/keynesian-policies-have-failed>, accessed June 20, 2012) MG

Lawmakers are considering extending temporary payroll tax cuts. But the policy is based on faulty Keynesian theories and misplaced confidence in the government's ability to micromanage short-run growth. In textbook Keynesian terms, federal deficits stimulate growth by goosing "aggregate demand," or consumer spending. Since the recession began, we've had a lot of goosing— deficits were $459 billion in 2008, $1.4 trillion in 2009, $1.3 trillion in 2010, and $1.3 trillion in 2011. Despite that huge supposed stimulus, unemployment remains remarkably high and the recovery has been the slowest since World War II. Yet supporters of extending payroll tax cuts think that adding another $265 billion to the deficit next year will somehow spur growth. That "stimulus" would be on top of the $1 trillion in deficit spending that is already expected in 2012. Far from helping the economy, all this deficit spending is destabilizing financial markets, scaring businesses away from investing, and imposing crushing debt burdens on young people. For three years, policymakers have tried to manipulate short-run economic growth, and they have failed. They have put too much trust in macroeconomists, who are frankly lousy at modeling the complex workings of the short-run economy. In early 2008, the Congressional Budget Office projected that economic growth would strengthen in subsequent years, and thus completely missed the deep recession that had already begun. And then there was the infamously bad projection by Obama's macroeconomists that unemployment would peak at 8 percent and then fall steadily if the 2009 stimulus plan was passed. Some of the same Keynesian macroeconomists who got it wrong on the recession and stimulus are now claiming that a temporary payroll tax break would boost growth. But as Stanford University economist John Taylor has argued, the supposed benefits of government stimulus have been "built in" or predetermined by the underlying assumptions of the Keynesian models. Policymakers should ignore the Keynesians and their faulty models, and instead focus on reforms to aid long-run growth, which economists know a lot more about. Cutting the corporate tax rate, for example, is an overdue reform with bipartisan support that would enhance America's long-run productivity and competitiveness. If Congress is intent on cutting payroll taxes, it should do so within the context of long-run fiscal reforms. One idea is to allow workers to steer a portion of their payroll taxes into personal retirement accounts, as Chile and other nations have done. That reform would feel like a tax cut to workers because they would retain ownership of the funds, and it would begin solving the long-term budget crisis that l looms over the economy.

#### Increased government spending drove down interest rates and gave people false confidence, resulting in the recession. The plan will only repeats this fallacy.

Lawrence H. White and David C. Rose January 21, 2009 (\*economics prof at George mason university, prof of economics at university of Missouri, We Can't Spend Our Way out of This Quagmire, <http://www.cato.org/publications/commentary/we-cant-spend-our-way-out-quagmire-0>) MB

The cause of the economic crisis was not the collapse of the secondary mortgage market, policies aimed at increasing home ownership or the rise of exotic financial instruments. These factors affected the nature of the crisis, but the ultimate cause was the bursting of a real estate bubble made possible by excessive money growth. Abundant money and lower interest rates spur buying, pushing up prices. Since the supply of housing is relatively inflexible, housing prices rise quickly. Beginning in 2001, rising house prices and a rallying stock market increased homeowners' perceived net worth. People believed they didn't have to save as much for retirement or for their children's college education. And they could borrow more against their increased home equity, allowing them to buy more goods, services, stocks and real estate. Credit-fueled spending reinforced the rising prices of everything, but especially real estate and stocks. But the increase in real estate prices and the increased spending it supported were a fantasy. The economy's ability to produce real goods and services is determined by the amount of plant and equipment, the number of workers, the supply of raw materials, and so on. We inevitably moved into a period of general inflation, so the Fed eventually had to reign in its easy money policy. Borrowing became more expensive, so people scaled back their spending or began selling assets to sustain it. Either response puts downward pressure on the prices of real estate and stocks, so prices that everyone counted on to rise forever began falling. The bear stampede was on. In 2001, the Federal Reserve began expanding the money supply. Year-over-year growth rose briefly above 10 percent and remained above 8 percent into the second half of 2003. The effect on interest rates was immediate; the Fed funds rate that began 2001 at 6.25 percent ended that same year at 1.75 percent. It fell further in 2002 and 2003, reaching a record low of 1 percent in mid-2003. But if the Fed hadn't increased the money supply from 2002 to 2006, increased demand for credit resulting from deficit spending and the increased demand for real estate would have pushed up interest rates. This would have discouraged borrowing. Rising interest rates would have thwarted the process by which an increase in borrowing by the government and by the public artificially inflates asset prices, begetting even more borrowing. Most economists, government officials and politicians continue to believe the standard Keynesian explanation for recessions: Recessions are caused by consumers and firms becoming "spooked" for no meaningful reason, so consumption and investment spending falls below normal levels. This reduces demand for goods and services, which reduces employment, which reduces spending even further, and so on. Since the level of spending before the "spooking" was presumed to be sustainable, the solution to the problem is simple: Increase spending to where it had been during the boom .In reality, excessive money growth drove asset prices up and drove interest rates down, making people feel richer than they really were and lowering the cost of borrowing money to facilitate more spending. Since the level of spending before the period of excessive money growth was just sustainable, the resulting level of consumption and business investment spending was unsustainable. The solution is to allow asset prices to fall to levels that accurately reflect what our economy can produce. This will make it clear to people that they are not as rich as they thought two years ago and thereby return spending to sustainable levels. Still, virtually everyone agrees that we need to further stimulate the economy even though current attempts to solve our crisis by increasing spending is exactly the wrong thing to do. No one wants to bear the political cost for appearing to be uncaring by favoring a policy of "doing nothing." Out of political cowardice, the federal government is attempting to produce a solution that is penny-wise and pound foolish. You can't solve an excessive spending problem by spending more. We are making the crisis worse. We have been down this road before. Most recessions start with the bursting of bubbles that grew large because of excessive money growth. But again and again, we presume a Keynesian cause and a Keynesian cure. Our recent stock market and housing market crashes can prove to be the start of a sound and rapid recovery — if we will have the courage to let it be so.

#### Keynesian analysis fails- tax and spending cuts are more effective

Jefferey A. Miron February 18, 2010 (is a senior lecturer and director of undergraduate studies at Harvard University and a senior fellow at the Cato Institute, CATO, Slash Expenditure to Balance the Budget, <http://www.cato.org/publications/commentary/slash-expenditure-balance-budget>) AS

The daily headlines are about jobs, the markets, property values. But underpinning all of those, the fundamental economic issue facing the United States is whether and how to reduce government spending. Under current policy, federal expenditure will remain at unprecedented peacetime highs for the foreseeable future, yet political opposition to spending cuts is strong. Many advocates believe this high spending is both beneficial in its own right and necessary to end the recession. If this view is correct, the U.S. faces higher taxes or sustained deficits for decades. Neither option is attractive. We need to re-examine the case for big government before the U.S. goes further down the high-spending path. The first defense of government spending is that private markets do not supply key goods and services, so government should fill the gap. Private markets, for example, might under-supply national defense, education, infrastructure, scientific research, or anti-poverty programs. In this case government spending improves economic welfare by making up for deficiencies of private markets. The "market failure" argument is reasonable in some cases, but it justifies some spending, not unlimited spending. Even productive programs hit a point at which their costs outweigh their benefits, rendering expenditure beyond this point wasteful. Fielding an army provides national security, but does not make every war or weapons system a good idea. Education subsidies for poor children are defensible, but that does not mean government should fund a college degree for everyone. Some government roads enhance private productivity, but "bridges to nowhere" are just pork. The political process, alas, does not lend itself to objective balancing of costs and benefits. Most programs benefit well-defined interest groups (the elderly, teachers unions, environmentalists, defense contractors) while imposing relatively small costs per person on everyone else. Thus the winners from excess spending fight harder than the losers, and spending far exceeds the level suggested by cost-benefit considerations. That brings us to the second argument for higher spending: the Keynesian claim that spending stimulates the economy. If this is accurate, it might seem the U.S. should continue its high-spending ways until the recession is over. But the Keynesian argument for spending is also problematic. To begin with, the Keynesian view implies that any spending — whether for vital infrastructure or bridges to nowhere — is equally good at stimulating the economy. This might be true in the short term (emphasis on might), but it cannot be true over the long haul, and many "temporary" programs last for decades. So stimulus spending should be for good projects, not "digging ditches," yet the number of good projects is small given how much is already being spent. More broadly, the Keynesian model of the economy relies on strong assumptions, so we should not embrace it without empirical confirmation. In fact, economists find weak or contradictory evidence that higher government spending spurs the economy. Substantial research, however, does find that tax cuts stimulate the economy and that fiscal adjustments — attempts to reduce deficits by raising taxes or lowering expenditure — work better when they focus on tax cuts. This does not fit the Keynesian view, but it makes perfect sense given that high taxes and ill-justified spending make the economy less productive. The implication is that the U.S. may not face a tradeoff between shrinking the deficit and fighting the recession: it can do both by cutting wasteful spending (Medicare, Social Security, and the wars in Iraq and Afghanistan, for starters) and by cutting taxes. The reduced spending will make the economy more productive by scaling government back to appropriate levels. Lower tax rates will stimulate in the short run by improving consumer and firm liquidity, and they will enhance economic growth in the long run by improving the incentives to work, save, and invest. Deficits will therefore shrink and the economy will boom. The rest of the world will gladly hold our debt. The U.S. will re-emerge as a beacon of small government and robust capitalism, so foreign investment (and talented people, if immigration policy allows) will come flooding in. A happy ending all around.

#### Stimulus spending causes inflation, crowds out private sector job growth and results in net neutral growth.

Cochrane 09 (Feb 27, John H., Myron S. Scholes Professor of Finance “Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?” <http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm>) BH

In any case, let us hope this is not the plan. Just because a little demand goose followed by inflation is possible doesn’t mean it’s a good idea. The inflation that will result from a trillion dollars of money permanently dropped on the economy, and the real economic dislocation of such a major inflation, is frightful to contemplate. So let’s ask the harder question. Let’s think of a “fiscal stimulus” in which the government borrows money and spends it, but with the clear plan that the debt will eventually be repaid with future taxes, not just by printing money. Can this kind of stimulus work, and if so how? Fallacies Most fiscal stimulus arguments are based on fallacies, because they ignore three basic facts. First, if money is not going to be printed, it has to come from somewhere. If the government borrows a dollar from you, that is a dollar that you do not spend, or that you do not lend to a company to spend on new investment. Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal stimulus can’t help us to build more of both . This form of “crowding out” is just accounting, and doesn't rest on any perceptions or behavioral assumptions.

## ----Ext. Spending Fails- History Proves

#### Government fails at stimulus- inefficient allocation and implementation

Farr 2011 – (a partner at French Wolf & Farr, an Atlanta-based investment advisory firm (Dorsey D., “ Can U.S. government grow sustainable jobs? No” <http://www.ajc.com/opinion/can-u-s-government-1180478.html> September 13th AS)

No. Increased spending isn’t an elixir for economic troubles. The Great Recession and subsequent Not-So-Great Recovery have generated renewed interest in government policies intended to stimulate economy activity. These policies take on a variety of forms, but most emphasize increased levels of government spending as proposed by British economist John Maynard Keynes in the 1930s. Advocates of these policies hope such expenditures have multiplier effects on the economy, in which a $1 increase in government purchases has a greater than $1 impact on the overall economy. Theory and empirical evidence suggest these multipliers are significantly smaller than advertised. Recent experience offers additional confirmation of the weakness of this approach, as nearly 14 million Americans are unemployed and economic growth has stalled. While it is true that government could employ workers digging ditches and building bridges to nowhere, these jobs generally do not promote sustainable economic growth, and usually come at great cost relative to the value provided. Government tends to be a poor allocator of capital and an inefficient operator. When evaluating these proposals, one must recognize that resources employed by government necessarily come from the private sector. For government to spend more, it must either borrow money or take money from the private sector via taxation. Higher tax rates reduce incentives for work and investment, weakening economic activity. Even with today’s low interest rates, borrowing may retard economic activity as businesses and individuals expect higher future tax rates will be necessary to repay the debt. The United States is suffering partly from structural unemployment caused by the severity of the housing bust and the beginning of a protracted period of deleveraging, following nearly three decades of declining savings. The metro Atlanta economy has been particularly hard hit by these forces, with a large number of [foreclosures](http://g.ajc.com/r/DC/), bank failures and an overhang resulting from excessive building in residential and commercial real estate. Only time will heal these wounds. While infrastructure projects financed by the federal government could potentially benefit the metro area, those benefits would be narrowly focused and slow to materialize. Moreover, given the tendency of such projects to experience enormous costs beyond budgeted estimates, states and municipalities must be wary of the budgetary impact of any cost-sharing implications associated with this federal free lunch. Having just attempted a great Keynesian experiment that is now widely viewed as a failure, another half-hearted effort is especially misguided at this stage when confidence in the efficacy of such plans is so low. What the U.S. economy needs today is not Keynesian policy but Keynesian animal spirits — the psychological forces driving individuals’ willingness to embrace risk. Unfortunately, animal spirits today are in hibernation, largely because the private sector lacks confidence and trust in government. Clarity and assurance that government will institute policies that promote growth, reduce regulatory burdens, and rein in entitlement programs is desperately needed.

#### Stimulus Failed- we enacted the largest longest lasting stimulus ever with negative effects

O'Hanlon 12 (5/28/12, Steve,chief investment officer for fixed income at ACPI Financial Times, “Western economies still feeling untold damage”, <http://www.ftadviser.com/2012/05/28/investments/global/western-economies-still-feeling-untold-damage-2LM2eSdZ2NA1OrcvgkWmYM/article-0.html>) AS

Are the current policies going to solve this crisis or 'extend and pretend' the issues that western economies are facing? The current market volatility around Europe should come as no surprise. The supposed magic wand of the long term refinancing operation (LTRO) was nothing more than another 'kick the can' policy from our eminent political and monetary leaders. The LTRO billions were supposed to buy time for the politicians to deal with the crisis. However, this intermission did not even last 10 weeks before a Spanish banking crisis and European elections quickly overtook the politicians as they were busy celebrating the most recent of many 'successes' in solving the crisis. This leads directly to an important question for investors and asset managers alike: is our current policy mix going to solve this global crisis or only 'extend and pretend' the real issues before we get to another ugly end game? Looking at the hard evidence first, we have embarked on the greatest stimulus package the world has ever seen - or even contemplated. It is so significant that if one was to add all previous stimulus packages, fiscal and monetary, since the 1940s, the current policies are greater than the sum of all previous efforts put together. Furthermore, it will soon outweigh all bailouts including the Great Depression. The result of this stimulus has been one of the worst economic rebounds ever seen in the developed markets. The UK, without even reaching previous output levels, has fallen back into a double-dip recession and the US job recovery is the slowest and most protracted on record. As for Europe, with the exception of Germany, domestic economies have barely moved anywhere but down since the dark days of 2008. It is interesting to note that the scale of the recovery is not that closely related with the size of the fiscal stimulus in different western countries - extra spending has not correlated well with extra growth. Emerging markets (EMs) also participated in this massive stimulus. But unlike the low multiplier recoveries in the West, the EM countries boomed on the back of a massive credit explosion in their own economies. In Brazil and China the expansion of credit since the crisis has grown at a faster rate than it ever did in the west. The effects of this can be seen now in some of the Bric nations, such as China and India. The side effects of such rapid credit also has unintended inflationary consequences in the developed markets. The outcome of all this stimulus clearly indicates that this is not just a cyclical slowdown, but rather indicates something much more structural has gone wrong in developed market economies. Commentators can point to their deleveraging as a positive development, and they would probably have a point. However, given the scale of the fiscal spending and stimulus provided by governments, we have seen no real deleveraging at the aggregate level. Government intervention prescribed by Keynes is evidently not working. As with the previous decade, when adjusted for their debts our developed economies have no real momentum. This means that every time the central banks or treasuries pull their 'juice' our economies move back to a standstill. <span>Bad policy The evidence strongly suggests that the real issue we are facing is not necessarily the bust of the credit cycle, but more significantly the damage done to economies through successive bad economic policies since the late 1990s. Untold damage has been done to the core of the western economies. Both Alan Greenspan and Gordon Brown boasted of how the 'modern economy' was so well run and the central bankers had all the right tools (lower interest rates and massive credit expansion), such that we would never have to suffer a recession again. The political masters also had a leading role to play in this regard. The result of 'no more recession economics' or, as we prefer to call it 'economics of mass destruction', was that many western economies became disjointed and inefficient. The rise and further rise of the financial sector is a clear signal that western economies were becoming more concerned with speculation, paper trading and the misallocation of scarce resources as a result of parabolic credit expansion. We also took this opportunity of misallocation to continue to bloat our welfare states with more unfunded liabilities - this includes the US as well which has a staggering $120trn (GBP75.9trn) in current unfunded liabilities. This was all at the expense of investment in the core productive components of the economy. While GDP rates continued to impress over the decade so too did overall debt levels. The performance of this growth, on a debt-adjusted basis, indicates that the true productive return of real investment in the economy was collapsing, as was the real income. The first decade of the 21st century was the first since the 1930s of no US job growth and real wage growth, but this fact went unnoticed. Everyone was too busy marvelling at the magnificence of its backward looking 'value at risk' models. Meanwhile, Mr Greenspan continued to tell us how safe the over-leveraged, under-regulated global financial system was, thanks to these wondrous algorithms and unregulated over the counter derivatives. Nobel laureate Hyman Minsky could not explained this failure of 'modern economic' hubris better than when he wrote 'Stabilising an unstable economy' in 1986 with all of today's hindsight. Man's incorrigible belief in his own intellectual magnificence always ends with the greatest tail-risk in economic history.

#### Empirics prove stimulus fails

Brian M. Riedl 1-5-10 (a senior fellow in the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation.a senior fellow in the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation,The heritage foundation, Why Government Spending Does Not Stimulate Economic Growth: Answering the Criticshttp://s3.amazonaws.com/thf\_media/2010/pdf/bg\_2354.pdf) MB

Proponents of President Barack Obama’s $787 billion stimulus bill continue to insist that the massive government bailout played a decisive role in moving the economy out of the recession. Yet assuming no destructive government actions, the economy’s self correction mechanism was widely expected to move the economy out of recession in 2009 anyway. With a parade of “stimulus” bills the past two years (going back to President George W. Bush’s tax rebate in early 2008), it was entirely predictable that some would link the expected end of the recession to whichever stimulus bill happened to come last. Indeed, President Obama’s stimulus bill failed by its own standards. In a January 2009 report, White House economists predicted that the stimulus bill would create (not merely save) 3.3 million net jobs by 2010. Since then, 3.5 million more net jobs have been lost, pushing the unemployment rate above 10 percent.1 The fact that government failed to spend its way to prosperity is not an isolated incident: • During the 1930s, New Deal lawmakers doubled federal spending—yet unemployment remained above 20 percent until World War II.1 • Japan responded to a 1990 recession by passing 10 stimulus spending bills over 8 years (building the largest national debt in the industrialized world)—yet its economy remained stagnant. • In 2001, President Bush responded to a recession by “injecting” tax rebates into the economy. The economy did not respond until two years later, when tax rate reductions were implemented. • In 2008, President Bush tried to head off the current recession with another round of tax rebates. The recession continued to worsen. • Now, the most recent $787 billion stimulus bill was intended to keep the unemployment rate from exceeding 8 percent. In November, it topped 10 percent.2 Undeterred by these repeated stimulus failures, President Obama is calling for yet another stimulus bill.3 There is every reason to expect another round to fail as miserably as the past ones, and it would bury the nation deeper in debt.

#### **Keynesianism Fails - Empirics**

Foster 9 – PH. D, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation (J.D., July 27, 2009, “Keynesian Fiscal Stimulus Policies Stimulate Debt – Not the Economy”, <http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>, accessed June 21, 2012) MG

A stimulative fiscal policy in the newly revived Keynesian tradition increases the budget deficit from one year to the next to raise aggregate demand through either increased government spending or reductions in tax levels with the expectation that increases in output and income will follow. The federal government has twice applied Keynesian stimulus during the current recession with no evidence of improvement. There is good reason to believe that this brand of fiscal policy will not help the economy recover this time, or in the future. A History of Ineffectiveness The theory behind Keynesian stimulus is simple enough. The economy is underperforming; for whatever reason total demand from the private sector--consumption, investment, and the international sector--plus government demand is inadequate to allow the economy to operate at full employment. The proposed solution is to increase public-sector demand and let output rise to meet the higher level of demand. Expressed in these terms, the efficacy of fiscal stimulus would hardly seem debatable. That something must be seriously amiss with Keynesian theory is apparent in the simple observation that if fiscal policy were so readily effective at raising output and lowering unemployment, countries with persistently underperforming economies would have been doing it for years. Some have tried, but their economies continued to underperform stubbornly, nonetheless, while their government debt burdens continued to rise.

#### And any positive evidence from the ARRA is based on predictions not concrete evidence

Auerbach 12 ( Alan J., Burch Professor of Economics and Law Director, Robert D. Burch Center for Tax Policy and Public Finance, University of California, Berkeley May 2012, “The Fall and Rise of Keynesian Fiscal Policy, <http://elsa.berkeley.edu/~auerbach/TheFallandRiseofKeynesianFiscalPolicy.2>)AS

In summary, it is impossible to pin down the aggregate effects of ARRA because, as discussed above, the Great Recession is a brief period that cannot be evaluated using direct time series methods. Some studies interpreted as showing that ARRA had large effects are essentially predictions, not ex post evaluations. An examination of trends, based on the assumption that such trends would continue, suggests that ARRA may have been undercut by offsetting state and local reactions, although some cross-state analyses seem inconsistent with this conclusion. The recovery from the Great Recession has been weak in the United States, but this recession is by far the worst since the Great Depression, and caused by quite different factors than previous postwar recessions, so it is hard to know how much evidence against ARRA this weak recovery provides. Nevertheless, uneasiness about the growing level of national debt, combined with skepticism about the effects of ARRA, appear to have contributed to a reduced enthusiasm for fiscal activism in the United States, and one has seen a similar evolution in other countries, notably in Europe where many countries have adopted policies of fiscal contraction even as unemployment has remained high and output growth is still slow.

## ----Ext. Spending Fails- Jobs

#### Spending tanks job growth

Tcherneva 12 – May 2012 (Pavlina R., Ph. D at Levy Economics Institute at Bard College, “Reorienting Fiscal Policy after the Great Recession”, Working Paper No. 719, pp. 1) MG

The paper evaluates the fiscal policy initiatives during the Great Recession in the United States. It argues that, although the nonconventional fiscal policies targeted at the financial sector dwarfed the conventional countercyclical stabilization efforts directed toward the real sector, the relatively disappointing impact on employment was a result of misdirected funding priorities combined with an exclusive and ill-advised focus on the output gap rather than on the employment gap. The paper argues further that conventional pump-priming policies are incapable of closing this employment gap. In order to tackle the formidable labor market challenges observed in the United States over the last few decades, policy could benefit from a fundamental reorientation away from trickle-down Keynesianism and toward what is termed here a “bottom-up approach” to fiscal policy. This approach also reconsiders the nature of countercyclical government stabilizers.

#### Trickle-down Keynesianism fails – doesn’t grow employment rates

Tcherneva 12 – May 2012 (Pavlina R., Ph. D at Levy Economics Institute at Bard College, “Reorienting Fiscal Policy after the Great Recession”, Working Paper No. 719, pp. 1) MG

So what constitutes countercyclical government spending? Traditionally, the government budget has moved against the cycle due to automatic stabilizers like declining tax revenues and increasing income assistance. Note, however, that there is no component of government budgeting that deals with countercyclical changes in the labor market explicitly. What we have instead is a form of trickle-down Keynesianism, which stresses policies that provide contracts to firms with guaranteed profits, accelerated depreciation schedules, tax incentives, and direct investment subsidies. These policies have been very successful in stabilizing incomes, cash flows and profits to the firm sector (and indeed corporate profits only two years after the greatest financial collapse in postwar history are back to record highs), but they have been very unsuccessful in stabilizing employment, much less in producing or maintaining anything close to genuine full employment over the business cycle. The trickle-down mechanism of contemporary fiscal policy works via restoring firm incomes and cash flows first, leaving any increases in employment and household incomes to be secondary effects. Considering the modern compensation formulas for top management, it is no wonder that the improvement in aggregate incomes has gone largely to the top 10 percent (and more specifically to top 1 percent) of the income distribution (Saez 2012), whereas the absence of a solid pro-employment recovery has ensured that incomes of the bottom 90 percent have declined.

## ----Ext. Spending Fails- No Net Increase (Tax vs Spending)

#### Every dollar the government spends in stimulus must be taxed out of the econ – no net increase in growth- history proves

Ridel 2008 (Brian, is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation., Why Government Spending Does Not Stimulate Economic Growth, November 12 <http://www.heritage.org/research/reports/2008/11/why-government-spending-does-not-stimulate-economic-growth>) AS

In a throwback to the 1930s and 1970s, Democratic lawmakers are betting that America's economic ills can be cured by an extraordinary expansion of government. This tired approach has already failed repeatedly in the past year, in which Congress and the President: Increased total federal spending by 11 percent to nearly $3 trillion; Enacted $333 billion in "emergency" spending; Enacted $105 billion in tax rebates; and Pushed the budget deficit to $455 billion in the name of "stimulus." Every one of these policies failed to increase economic growth. Now, in addition to passing a $700 billion financial sector rescue package, lawmakers have decided to double down on these failed spending policies by proposing a $300 billion economic stimulus bill. Even though the last $455 billion in Keynesian deficit spending failed to help the economy, lawmakers seem to have convinced themselves that the next $300 billion will succeed. This is not the first time government expansions have failed to produce economic growth. Massive spending hikes in the 1930s, 1960s, and 1970s all failed to increase economic growth rates. Yet in the 1980s and 1990s-when the federal government shrank by one-fifth as a percentage of gross domestic product (GDP)-the U.S. economy enjoyed its greatest expansion to date. Cross-national comparisons yield the same result. The U.S. government spends significantly less than the 15 pre-2004 European Union nations, and yet enjoys 40 percent larger per capita GDP, 50 percent faster economic growth rates, and a substantially lower unemployment rate.[[1]](http://www.heritage.org/research/reports/2008/11/why-government-spending-does-not-stimulate-economic-growth" \l "_ftn1) When conventional economic wisdom repeatedly fails, it becomes necessary to revisit that conventional wisdom. Government spending fails to stimulate economic growth because every dollar Congress "injects" into the economy must first be taxed or borrowed out of the economy. Thus, government spending "stimulus" merely redistributes existing income, doing nothing to increase productivity or employment, and therefore nothing to create additional income. Even worse, many federal expenditures weaken the private sector by directing resources toward less productive uses and thus impede income growth.

#### Keynesian spending on the scale of the plan fails- taxation undoes any growth in the economy

Daniel j Mitchell, 2-1-10 (senior fellow at cato institute, Spending Our Way to Stagnation, CATO, <http://www.cato.org/publications/commentary/spending-our-way-stagnation>) MB

Many governments have responded to the economic downturn by increasing the size of the public sector. It was remarkable how quickly they resuscitated the theory that assumes more government spending can boost economic growth. Popularized by John Maynard Keynes in the 1930s, the theory is based on the notion that government can "prime the pump" by spending money, which then begins to circulate through the economy. Keynesian theory sounds good but it overlooks the fact that, in the real world, government can't inject money into the economy without first taking money out of the economy. Any money that the government puts in the economy's right pocket must be borrowed, which means the money comes out of the economy's left pocket. Keynesianism doesn't boost national income, it merely redistributes it. The Obama Administration claimed that spending more money would keep the unemployment rate below 8% in the United States, yet it climbed to 10%. The United Kingdom and Canada also suffered continued stagnation after adopting so-called stimulus packages. Ironically, statist nations such as France and Germany that resisted the siren song of Keynesianism better weathered the global economic storm. The recent trend toward bigger government is particularly worrisome because most nations have oversized public sectors. Government spending in industrialized nations now consumes, on average, nearly 45% of GDP with Canada and the United States slightly below average. Australia, Switzerland, South Korea, and Slovakia are the only nations where the public sector claims less than 40% of economic output. To put these numbers in context, government spending in the industrialized world consumed about 30% of economic output in the mid-1960s, less than 20% of GDP between the First and Second World Wars and only about 10% of GDP during the golden century between the end of the Napoleonic wars and the First World War. While many factors influence economic performance, the negative impact of government spending is one reason why small-government jurisdictions such as Hong Kong (where the burden of the public sector is below 20% of GDP) have higher growth rates than nations that have medium-sized government, such as Canada and the United States. The same principle explains in part why big-government countries such as France often suffer from economic stagnation. Interestingly, a large body of academic work attempts to measure the growth-optimizing level of government. This research is based on the notion there is not much prosperity in a state of anarchy. Governments solve this problem by imposing the rule of law (courts, police protection, etc). Those governmental functions cost money, but they yield big benefits. Moreover, government spending on "public goods" such as basic infrastructure also can facilitate the functioning of a market economy. That's the good news. The bad news is that most government spending today is devoted to programs for what is known as transfer spending and consumption spending. These outlays dampen economic growth, according to the research, largely because they displace private sector activity and also require punitive tax rates. Most studies using current economic data show that economic performance is maximized when the public sector is less than 20% of GDP. And if historical data is used, the evidence suggests that government should be even smaller. Ironically, John Maynard Keynes might not be a Keynesian if he was alive today. He certainly would not be a proponent of big government. In correspondence with another British economist, he agreed with the premise of "25% [of GDP] as the maximum tolerable proportion of taxation." Canada and the United States are already far above that level and the burden of government in both nations will climb above 50% of GDP in the future in the absence of real reform. Unfortunately, there is no way to have a European-size welfare state without also enduring European-style economic stagnation.

#### Every dollar spent must be taxed out of the private economy or imported abroad- no net positive effect of stimulus

Foster 9 – PH. D, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation (J.D., July 27, 2009, “Keynesian Fiscal Stimulus Policies Stimulate Debt – Not the Economy”, <http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>, accessed June 21, 2012) MG

Simple observation has its place, but how does the Keynesian stimulus approach break down in theory? Keynesian stimulus theory ignores the second half of the story: Deficit spending must still be financed, and financing carries budgetary consequences and economic costs. Proponents generally acknowledge the long-term budgetary costs, but ignore the offsetting near-term consequences that render Keynesian stimulus useless. In a closed economy, government borrowing reduces the pool of saving available for private spending, either investment or consumption. Government lacks a wand to create real purchasing power out of thin air (with the fleeting exception of monetary expansions, discussed below). Government spending or deficit-increasing tax cuts increase demand as advertised; and government borrowing reduces demand by the same amount, for no net change. The dynamics in an open economy are slightly more complicated, but the final outcome for output is unchanged. An open economy permits a government 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.

#### Stimulus spending has to be borrowed or taxed out of the economy- no net increase.

Foster 9 – PH. D, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation (J.D., July 27, 2009, “Keynesian Fiscal Stimulus Policies Stimulate Debt – Not the Economy”, <http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>, accessed June 21, 2012) MG

The Keynesian stimulus theory fails for the simple reason that it is only half a theory. It correctly describes how deficit spending can raise the level of demand in part of the economy, and ignores how government borrowing to finance deficit spending automatically reduces demand elsewhere. Exculpatory allusions to idle saving simply do not wash in a modern economy supported by a modern financial system. Deficit spending does not create real purchasing power and so it cannot increase total demand in the economy. Deficit spending can only shift the pattern of demand toward government-centric preferences. Empirical research rarely provides a simple, single answer to a policy question, and examinations of Keynesian stimulus are no exception. Yet the available results consistently indicate that, using a modern macroeconomic model and treating monetary policy carefully, Keynesian stimulus's short-term effects lie somewhere in the narrow range between slim and none. Keynesian stimulus produces debt, not jobs. Bad policy ideas rarely go away forever. Circumstances change, memories fade, political fashions come and go. The current global experiments with Keynesian fiscal stimulus will fail as they have failed before. Unfortunately, the price of learning this lesson yet again is an unnecessarily prolonged recession, a weaker recovery, and millions more lost jobs--and, of course, the massive increases in public debt.

## ----Ext. Spending Fails- Destroys Private Sector

#### Spending diverts investment in the private sector- this is the only internal link to sustainable growth

Khalid et al. 12 (March 21, 2012, Ahmed M., Ph. D (Economics) John Hopkins University, has taught at the Ph. D level on Monetary Theory and Policy and researches applied macroeconomics and monetary economics, with a recent emphasis on financial crises and financial sector reforms, “Regulatory Failure and the Global Financial Crisis: An Australian Perspective“ pp. 90-96- Google books) AS

6.5 Public Debt Sustainability Another factor that is usually ignored by advocates of fiscal stimulus is that the public debt incurred by governments as a percentage of GDP can take on a life of its own. Even when governments stop adding to it, public debt will grow on its own whenever the interest being paid on the debt exceeds the economy’s growth rate. This can occur for a number of reasons. First, interest rates will increase as governments around the world soak up funds to cover their huge budget deficits, with the unfortunate side-effect that this lessens the availability of funds for private investment. This means that future potential national income will be lower than it would otherwise have been because the nation’s productive capital stock will be lower. In other words, because the government borrowed money to spend on relatively unproductive investments, there will be relatively less investment by the private sector on productive investments. Second, in coming years the composition of foreign debt for international borrower economies like Australia will include a bigger share of public debt relative to private debt that is not backed by productive capital accumulation, as compared with the pre-crisis situation. Before government guarantees were introduced, foreign debt was predominantly the liability of the private sector, and while global finance was more freely available, not a cause for concern. Now, as the public component of foreign debt rises, entities borrowing from abroad can expect to pay a higher interest risk premium.

#### Funding Stimulus spending draws from the pool for private investment- acts as a net depressant to the economy

Foster 9 – PH. D, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation (J.D., July 27, 2009, “Keynesian Fiscal Stimulus Policies Stimulate Debt – Not the Economy”, <http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>, accessed June 21, 2012) MG

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 financial system entirely by stuffing cash into mattresses. Aside from the occasional mattress stuffer, even savings 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 happened 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.

## ----Ext. Spending Fails- Rational Actors Block

#### Lags in implementation and rational action from the public neutralizes any benefits to spending

Auerbach 12 ( Alan J., Burch Professor of Economics and Law Director, Robert D. Burch Center for Tax Policy and Public Finance, University of California, Berkeley May 2012, “The Fall and Rise of Keynesian Fiscal Policy, <http://elsa.berkeley.edu/~auerbach/TheFallandRiseofKeynesianFiscalPolicy.2>) AS

From its heyday several decades ago, discretionary fiscal policy had until relatively recently come to be viewed with considerable skepticism. Those studying economics would start with the classical argument against short-term policy interventions -- the lags in the making of economic policy and further lags in the implementation and effects after the policy is enacted, which make it difficult for policymakers to time fiscal policy actions to stabilize the economy. Added to the problem of policy lags are the difficulties posed by policy uncertainty (Brainard, 1967) and the devastating Lucas (1976) critique, which implies that a policy’s stabilizing effects can be undercut by the expectations and actions of rational agents who observe the government’s policy process. For example, investment might actually drop more during a recession in anticipation of a countercyclical investment incentive to be enacted in the near future; consumption might not respond much to a countercyclical reduction in income taxes, as the wealth effects of such tax reductions are small when the reductions are seen as temporary. 3 Indeed, even if such tax reductions are of longer duration, concerns about future generations could still neutralize wealth effects on consumption, as exposited by the notion of Ricardian equivalence (Barro, 1974). Finally, with the automatic stabilizers already built into the government’s tax and transfer systems, fiscal policy could be used even without active intervention. Moreover, the growing independence of central banks and advances in monetary theory and practice had strengthened confidence in the use of interest-rate interventions as tool not only for controlling inflation but also for the stabilization of economic fluctuations.

#### Can’t fool the public- they can’t do more with the same amount of money and will respond to government tricks

Cochrane 9 (September 16, 2009, John H., Distinguished Service Professor of Finance at University of Chicago Booth School of Business, writes on deficits and inflation, <http://faculty.chicagobooth.edu/john.cochrane/research/Papers/krugman_response.htm>, accessed June 20, 2012) AS

Most of all, Krugman likes fiscal stimulus. In this quest, he accuses us and the rest of the economics profession of “mistaking beauty for truth.” He’s not clear on what the “beauty” is that we all fell in love with, and why one should shun it, for good reason. The first siren of beauty is simple logical consistency. Paul’s Keynesian economics requires that people make logically inconsistent plans to consume more, invest more, and pay more taxes with the same income. The second siren is plausible assumptions about how people behave. Keynesian economics requires that the government is able to systematically fool people again and again. It presumes that people don’t think about the future in making decisions today. Logical consistency and plausible foundations are indeed “beautiful” but to me they are also basic preconditions for “truth.” In economics, stimulus spending ran aground on Robert Barro’s Ricardian equivalence theorem. This theorem says that debt-financed spending can’t have any more effect than spending financed by raising taxes. People, seeing the higher future taxes that must pay off the debt, will simply save more. They will buy the new government debt and leave all spending decisions unaltered. Is this theorem true? It’s a logical connection from a set of “if” to a set of “therefores.” Not even Paul can object to the connection.

#### Keynesian Economic predictions are doomed to failure- they focus on predicted behavioral outcomes and ignore rational decision making.

Wolff 12 (May 3,Robert Paul- a contemporary American political philosopher[2] and professor emeritus at the University of Massachusetts Amherst. “A CRITIQUE OF KEYNES CONCLUSION” <http://robertpaulwolff.blogspot.com/2012/05/critique-of-keynes-conclusion.html>) BH

There are two central problems with this mode of theoretical operation, and together they have brought economics to its present sad condition. The first problem is that there is no stable set of psychological propensities or motives about which reliable knowledge can be accumulated. As I pointed out when discussing Mill’s introduction of the factor of habit or custom, these labels or placeholders -- habit, custom, propensity to consume, liquidity preference, leisure/labour trade-off, and the rest -- are merely summary names given to whole congeries of heterogeneous and shifting motivations. Some consumers may be guided in their decisions about savings versus consumption by a consideration of present versus future pleasures; others may be influenced by the uncertainty of unemployment; still others may be reacting to the experience of seeing savings shrink in value under high rates of inflation. And some consumers may even have been influenced by the sorts of public service advertising that first surfaced during the Eisenhower years, when Americans were exhorted to buy on credit as a way of showing their faith in the American system Economists extrapolate from past behavior, only to find that the present deviates from the past. As they make mid-course corrections in their econometric estimates, reality continues to shift beneath them. The problem is not that modern economic reality is complex. Their formal models are more than adequate to handle a high level of complexity. The problem is that their theories are theories of appearances, surface manifestations, and hence give no genuine insight into the causes of the shifting shadows. The second problem, more serious even than the first, is that economics is a study of human choice and decision, not of inanimate nature or animal behavior. The consumers, investors, and entrepreneurs whose preferences and propensities are modeled by the econometricians are themselves self-conscious agents increasingly aware of and influenced by the descriptions, predictions, hopes, and anxieties of economists, public figures, and social commentators.

#### Spending now discourages growth- rational actors perceive as inflation

Lin and Doemland 12 – January 2012 (Justin Yifu, Chinese economist and Chief Economist and Senior Vice President of the World Bank, MS. Doerte, senior economist at the World Bank, “Beyong Keynesianism – Global Infrastructure Investments in Times of Crisis”, Working paper at World Bank, pp. 1-30)MG

Start of Great Recession6 14. At the same time, the growth outlook of advanced economies has weakened. Without strong growth, it will take a long time to reduce unemployment rates and debt levels. How can advanced economies boost growth without adding further to their already high public debt burden? As long as excess capacity persists and investment risks are high, however, private sector investment is likely to remain subdued. Household consumption is likely to remain depressed as long as unemployment rates are high and households are deleveraging. This raises the question: What can governments do to enhance growth 5 without adding to high debt levels and given that many macroeconomic tools are less effective in the presence of excess capacity? 15. Monetary policy has limited traction if countries are in a liquidity trap; that is, if aggregate demand falls short of productive capacity despite having already close-to-zero short-term nominal interest rates (Krugman 1999). In a liquidity trap, monetary expansion works mainly through affecting inflationary expectations. If people do not perceive the expansion as a change in policy that will persist even after the economy has recovered, however, then even big changes in the monetary base will have little effect on the real economy (Woodford 2011). To make things worse, fears of inflation may even prompt some high-income countries to tighten their monetary policy. This could lead to further financial stress as interest rates and re-financing costs could rise and both banks and firms may find their balance sheets under renewed pressure, bearing the danger that hidden vulnerabilities may be exposed (World Bank 2011a).

## ----Ext. Spending Fails- Interest Groups

#### And Political interest groups in the US means Keynesian theories are ineffective.

Piereson 2012 (James, is a Manhattan Institute senior fellow and director of the Institute’s Center for the American University. William E. Simon Foundation John Maynard Keynes and the Modern Revolution in Political Economy. March <http://www.springerlink.com/content/q4662768k2075837/fulltext.pdf>) AS

For a theory of such longstanding influence, this one has had decidedly mixed results when applied to real world economies.30 Given recent experiences in Japan and the United States, some have suggested that the growth effects of Keynesian policies are becoming weaker with the passage of time. Why might this be the case? The answer lies in the fact that political processes in Western democracies gradually produce an allocation of public resources that may impede economic growth. In that circumstance, Keynesian spending policies might slow down rather than speed up growth. If this is so, then the problem lies more with the political economy of Keynes than with the economics of Keynes. This case was first advanced in 1982 by the late Mancur Olson in The Rise and Decline of Nations, an insightful but somewhat speculative book in which he tried to account for the “stagflation” of the 1970s and the failure of Keynesian theories to explain it.31 Olson argued that democratic nations develop political rigidities over time that permit strategically placed interest groups to block breakthroughs in policy and to exploit political influence to seize shares of national income that they have neither earned nor produced. These rent-seeking groups, such as labor unions and trade associations, have strong incentives to organize around the state because the incomes of their members depend upon it. As these groups accumulate and multiply their influence over time, they win more rents for themselves but impose ever-greater burdens on the private economy, thereby blocking change or disinvestment in old industries, and producing an inefficient allocation of national income.

#### Keynesian analysis fails- tax and spending cuts are more effective

Jefferey A. Miron February 18, 2010 (is a senior lecturer and director of undergraduate studies at Harvard University and a senior fellow at the Cato Institute, CATO, Slash Expenditure to Balance the Budget, http://www.cato.org/publications/commentary/slash-expenditure-balance-budget)MB

The daily headlines are about jobs, the markets, property values. But underpinning all of those, the fundamental economic issue facing the United States is whether and how to reduce government spending. Under current policy, federal expenditure will remain at unprecedented peacetime highs for the foreseeable future, yet political opposition to spending cuts is strong. Many advocates believe this high spending is both beneficial in its own right and necessary to end the recession. If this view is correct, the U.S. faces higher taxes or sustained deficits for decades. Neither option is attractive. We need to re-examine the case for big government before the U.S. goes further down the high-spending path. The first defense of government spending is that private markets do not supply key goods and services, so government should fill the gap. Private markets, for example, might under-supply national defense, education, infrastructure, scientific research, or anti-poverty programs. In this case government spending improves economic welfare by making up for deficiencies of private markets. The "market failure" argument is reasonable in some cases, but it justifies some spending, not unlimited spending. Even productive programs hit a point at which their costs outweigh their benefits, rendering expenditure beyond this point wasteful. Fielding an army provides national security, but does not make every war or weapons system a good idea. Education subsidies for poor children are defensible, but that does not mean government should fund a college degree for everyone. Some government roads enhance private productivity, but "bridges to nowhere" are just pork. The political process, alas, does not lend itself to objective balancing of costs and benefits. Most programs benefit well-defined interest groups (the elderly, teachers unions, environmentalists, defense contractors) while imposing relatively small costs per person on everyone else. Thus the winners from excess spending fight harder than the losers, and spending far exceeds the level suggested by cost-benefit considerations. That brings us to the second argument for higher spending: the Keynesian claim that spending stimulates the economy. If this is accurate, it might seem the U.S. should continue its high-spending ways until the recession is over. But the Keynesian argument for spending is also problematic. To begin with, the Keynesian view implies that any spending — whether for vital infrastructure or bridges to nowhere — is equally good at stimulating the economy. This might be true in the short term (emphasis on might), but it cannot be true over the long haul, and many "temporary" programs last for decades. So stimulus spending should be for good projects, not "digging ditches," yet the number of good projects is small given how much is already being spent. More broadly, the Keynesian model of the economy relies on strong assumptions, so we should not embrace it without empirical confirmation. In fact, economists find weak or contradictory evidence that higher government spending spurs the economy. Substantial research, however, does find that tax cuts stimulate the economy and that fiscal adjustments — attempts to reduce deficits by raising taxes or lowering expenditure — work better when they focus on tax cuts. This does not fit the Keynesian view, but it makes perfect sense given that high taxes and ill-justified spending make the economy less productive. The implication is that the U.S. may not face a tradeoff between shrinking the deficit and fighting the recession: it can do both by cutting wasteful spending (Medicare, Social Security, and the wars in Iraq and Afghanistan, for starters) and by cutting taxes. The reduced spending will make the economy more productive by scaling government back to appropriate levels. Lower tax rates will stimulate in the short run by improving consumer and firm liquidity, and they will enhance economic growth in the long run by improving the incentives to work, save, and invest. Deficits will therefore shrink and the economy will boom. The rest of the world will gladly hold our debt. The U.S. will re-emerge as a beacon of small government and robust capitalism, so foreign investment (and talented people, if immigration policy allows) will come flooding in. A happy ending all around.

## ----Ext. Spending Fails- Long Term

#### And the government wont implement quick acting counter cyclical spending means your theories don’t apply to your aff

Brannon and Edwards 2009 (Ike, is the Director of Economic Policy as well as the Director of Congressional Relations for the American Action Forum. Chris, is the director of tax policy studies at Cato and editor of [www.DownsizingGovernment.org](http://www.downsizinggovernment.org). Barack Obama's Keynesian Mistake, <http://www.cato.org/publications/commentary/barack-obamas-keynesian-mistake>, ) AS

Even if a government stimulus were a good idea, policymakers probably wouldn't implement it the way Keynesian theory would suggest. To fix a downturn, policymakers would need to recognize the problem early and then enact a counter-cyclical strategy quickly and efficiently. But U.S. history reveals that past stimulus actions have been too ill-timed or ill-suited to have actually helped. Further, many policymakers are driven by motives at odds with the Keynesian assumption that they will diligently pursue the public interest.

#### Stimulus is only effective in short term- long term nature of plan’s spending negates any positive effect

De Rugy and Mitchell 11 (September 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget; Matthew - senior research fellow at the Mercatus Center at George Mason University. His primary research interests include economic freedom and economic growth, gove3rnment spending, state and local fiscal policy, public choice, and institutional economics, “Would more infrastructure spending stimulate the economy? No. 11-36, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>, accessed June 19, 2012) AS

Not temporary: Even in Keynesian models, stimulus is only effective as a short-run measure. In fact, Keynesians also call for surpluses during an upswing. 24 In reality, however, the political process prefers to implement the first Keynesian prescription (deficit-financed spending) but not the second (surpluses to pay off the debt). 25 The inevitable result is a persistent deficit that, year-in, year-out, adds to the national debt. 26 A review of historical stimulus efforts has shown that temporary stimulus spending tends to linger and that two years after an initial stimulus, 95 percent of the spending surge remains. 27  Ratchet-up effect: Evidence from World War II suggests that when spending spikes, as is the case during the current recession, it tends not to return to pre-spike levels. 28 This ―ratchet up‖ in spending is exacerbated when federal spending is channeled through state and local governments, as was the case in ARRA. Data from 50 states over a 13-year period show that temporary grants from the federal government to state and local governments cause the latter to increase their own future taxes by between 33 and 42 cents for every dollar in federal grants received. 29

#### Spending takes too long to take effect

Cochrane 09 (Feb 27, John H., Myron S. Scholes Professor of Finance “Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?” <http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm>) BH

This is not fancy economics. Most of my arguments come from simply asking where the money is going to come from, simple arithmetic. Why are so many economists said to support fiscal stimulus? Am I some sort of radical? No. In fact economics, as written in professional journals, taught to graduate students and summarized in their textbooks, abandoned fiscal stimulus long ago. Keynesians gave up by the 1970s. They saw that fiscal programs took too long to implement. They especially disparaged temporary measures, which would not stimulate the consumption that classic Keynesians thought was important to stimulus. Every undergraduate text has repeated these conclusions for at least 40 years. I learned this view from Dornbusch and Fisher’s undergraduate text, taught by Bob Solow, in the 1970s. Even the optimistic projections by the Obama economic team say that fiscal stimulus will not really kick in for two years, validating the durability of this view. The equilibrium tradition which took over professional academic economics in the mid-1970s has even less room for fiscal stimulus. Some “equilibrium” analyses do say fiscal stimulus can increase output – but by making us feel poorer, work harder at lower wages, and consume less.8 That’s not what advocates have in mind! A large fiscal program can affect prices, wages, and interest rates with all sorts of interesting general-equilibrium implications, but these analyses haven’t really converged on anything solid, much less the large “multipliers” necessary to make traditional fiscal stimulus attractive.

## ----Ext. Spending Fails- Econ Flawed

#### Consumption isn’t the problem the credit market it- stimulus fails if it first doesn’t address these issues

Cochrane 09 (Feb 27, John H., Myron S. Scholes Professor of Finance “Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?” <http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm>) BH

A much more plausible diagnosis of our current troubles is staring us in the face: credit markets. The institutions that channel your and my savings into consumer and business borrowing are not working. Banks are in trouble, and more importantly the much larger markets for securitized debt seem really broken. New issues of securitized debt have dropped to next to nothing, unless they are guaranteed by the Federal Government. Savings is going to low-interest Treasuries and guaranteed agency debt, yet consumers and businesses who need credit face a small supply at very high prices.3 Imagine by analogy that several major refineries had blown up. There would be tankers full of oil sitting in the harbor, and oil prices would be low, yet little gasoline would be available and gas prices would be high. Stimulating people to drive around would not revive gas sales. Borrowing gasoline and using it on infrastructure projects would be worse. The right policy action would obviously be to run whatever government or military refineries could be cobbled together on short notice at full speed, and focus on rebuilding the private ones. The former step is exactly what the Federal Reserve’s many charmingly acronymed facilities (TALF, etc.) are doing, to the tune of over a trillion and a half dollars. Together, the Treasury and Fed are issuing huge amounts of Government debt, and they are turning around and lending the proceeds to consumers and businesses. This basic idea makes sense, though there is plenty to worry about in the details. An unconventional potential defense of fiscal stimulus lurks in this story. If the Treasury borrows and the Government uses the proceeds for investment, then the government is in some sense acting as the missing intermediary. The focus on investment spending in the Obama plan reflects some of this thinking, though investment is anathema to the traditional Keynesian insistence that stimulus be channeled to consumption spending. However, this is a poor argument, since stimulus “investment” spending is on much different projects than the private sector would have funded. Fiscal stimulus investments make fuel oil, not gasoline. Moreover, the extra issues of Treasury debt will largely come from the few dollars that are flowing from savings to private investment, just what the “credit crunch” does not need. To “intermediate,” additional government borrowing would have to come out of consumption. People would have to be attracted to postponing a trillion dollars of consumption by slightly higher treasury yields. A monetary argument for fiscal stimulus, logically consistent but unpersuasive

## ----AT: Keynesian Spending Ends Special Interests

#### Keynesian spending encourages the growth of special interests

Piereson 2012 (James, is a Manhattan Institute senior fellow and director of the Institute’s Center for the American University. William E. Simon Foundation John Maynard Keynes and the Modern Revolution in Political Economy. March <http://www.springerlink.com/content/q4662768k2075837/fulltext.pdf>) AS

In fact, in a political sense, Keynesian spending policies may encourage over time the formation of distributional coalitions that eventually render those policies less effective. Olson has been criticized because he suggests that such rigidities are usually cleaned out by wars and revolutions, upheavals that are far worse than the problem they would solve. In the modern age, these are obviously off the table as cures for a sclerotic political process slow to adjust to new circumstances. Of course, the business cycle might operate in market economies to disperse at least some distributional coalitions by making above market prices and wages more expensive for others to bear. Yet the objective of Keynes’s approach was to “smooth out” the business cycle, thus allowing distributional coalitions to persist over the long run, even as new ones form in the process. The fact that some governments (like the U.S. government) can incur debt almost to infinity also means that this process of underwriting distributional coalitions by government spending can be extended well into the future, or at least until that borrowing capacity is called into question. But both—the distributional coalitions and the debt—are burdens on future growth.

## Infrastructure Spending Fails Frontline

#### Infrastructure spending fails- not targeted to the exactly locations of need, not timely, and not temporary.

De Rugy 11 (November 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget, “Federal Infrastructure Spending: Neither a Good Stimulus Nor a Good Investment”, Joint Economic Committee http://www.jec.senate.gov/republicans/public/?a=Files.Serve&File\_id=2af47009-be59-4556-b25a-4cc3c362b6af) AS

Today I would like to address three important issues. First, infrastructure spending is a particularly bad vehicle for stimulus. Second, while no one disputes the value of good infrastructure, public work projects typically suffer from massive cost overruns, waste, fraud, and abuse. Finally, some alternatives to a federal investment in infrastructure exist, such as public private partnerships, privatization, or simple devolution to the states. Section 1. Infrastructure spending can’t stimulate the economy According to Keynesian economic theory, a fall in demand causes a fall in spending. Since one person’s spending is someone else’s income, a fall in demand makes a nation poorer. When that poorer nation prudently cuts back on spending, it sets off yet another wave of falling income. So, a big shock to consumer spending or business confidence can set off waves of job losses and layoffs. Can anything stop this cycle? Keynesians say yes: government spending can take the place of private spending during a crisis. If the government increases its own spending, it will create new jobs. These new workers should consume more, and businesses should then buy more machines and equipment to meet the demands of government and the revitalized public. This increase in gross domestic product is what economists call the multiplier effect. It means that one dollar of government spending will end up creating more than a dollar of new national income. This spending can 1take a number of forms: public service employment, cash transfers, state revenue sharing, or infrastructure projects. As it turns out, as appealing as the Keynesian story sounds, there is little consensus among economists about its accuracy. Moreover, a survey of the economic literature on the impact of infrastructure spending on the economy reveals that economists are far from having reached a consensus about the actual returns on such spending. 3 In this paper, my colleague Matt Mitchell and I discover that some respected economists find large positive multipliers (every dollar in government spending means more than a dollar of economic growth) but others find negative multipliers (every dollar spend hurts the economy). 4 The range is wide, going from 3.7 to -2.88. 5 While this diversity of opinion could be explained in part by the wide range of circumstances in which stimulus might be applied (open or closed economy, fixed or flexible exchange rates, level of countries’ indebtedness, the level of interest rates, whether or not the stimulus spending is temporary or permanent, and whether or not it is a large or a small stimulus …), 6 nonetheless, as a recent International Monetary Fund (IMF) working paper puts it, “Economists have offered an embarrassingly wide range of estimated multipliers.” 7 However, the most important reasons to be skeptical about further stimulus—particularly infrastructure stimulus—have to do with the way it is implemented. 8 As a general rule, the studies that obtain large multipliers do so by assuming that stimulus funds will be distributed just as Keynesian theory says they ought to be. In the words of Keynesian economist and former presidential economic advisor Lawrence Summers, fiscal stimulus “can be counterproductive if it is not timely, targeted, and temporary.” 9 Infrastructure spending cannot fulfill these criteria. Infrastructure spending is not timely By nature, infrastructure spending is not timely. Even when the money is available, it can be months, if not years, before it is spent. This is because infrastructure projects involve planning, bidding, contracting, construction, and evaluation. 10 According to the GAO, as of June 2011, 95 percent of the $45 billion in Department of Transportation infrastructure stimulus money had been appropriated, but only 62 percent ($28 billion) had actually been spent. 11 Infrastructure spending is not targeted 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. -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. Therefore, 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. Infrastructure spending isn’t temporary Finally, even in Keynesian models, stimulus is only effective as a short-run measure. In fact, Keynesians also call for surpluses during an upswing. 15 In reality, however, the political process prefers to implement the first Keynesian prescription (deficit-financed spending) but not the second (surpluses to pay off the debt). 16 The inevitable result is a persistent deficit that, year-in, year-out, adds to the national debt. 17 A review of historical stimulus efforts has shown that temporary stimulus spending tends to linger and that two years after an initial stimulus, 95 percent of the spending surge remains. 18 To be sure, a certain amount of public spending on public works is necessary to perform essential government functions. But spending on roads, rails, and bridges as a means of providing employment or creating economic growth is unlikely to be effective.

#### And it only creates temporary growth not long term sustainability

Miron 2010 (Jeffrey A an American economist. He served as the chairman of the Department of Economics at Boston University from 1992 to 1998,[1] and currently teaches at Harvard University, serving as a Senior Lecturer and Director of Undergraduate Studies in Harvard's Economics Department., Slash Expenditure to Balance the Budget, Feb 18th CATO institute, <http://www.cato.org/publications/commentary/slash-expenditure-balance-budget>) AS

That brings us to the second argument for higher spending: the Keynesian claim that spending stimulates the economy. If this is accurate, it might seem the U.S. should continue its high-spending ways until the recession is over. But the Keynesian argument for spending is also problematic. To begin with, the Keynesian view implies that any spending — whether for vital infrastructure or bridges to nowhere — is equally good at stimulating the economy. This might be true in the short term (emphasis on might), but it cannot be true over the long haul, and many "temporary" programs last for decades. So stimulus spending should be for good projects, not "digging ditches," yet the number of good projects is small given how much is already being spent. More broadly, the Keynesian model of the economy relies on strong assumptions, so we should not embrace it without empirical confirmation. In fact, economists find weak or contradictory evidence that higher government spending spurs the economy.

#### TII trades off with other productive investments

Pisu et al 2012, (Mauro, Peter Hoeller and Isabelle Joumard, members of the Economics Department of the OECD., OPTIONS FOR BENCHMARKING INFRASTRUCTURE PERFORMANCE, OECD Economics Department Working Papers No. 956, 27th April <http://ssrn.com/abstract=2060099>) AS

The bulk of studies of infrastructure performance has concentrated on the impact of the infrastructure capital stock on growth. Recent OECD work (Sutherland et al., 2011 and Égert et al., 2009) on this subject came to the following main conclusions:3 • The impact of infrastructure on output is difficult to pin down and the direction of causality hard to determine. However, there is some evidence that infrastructure investment has positive effects that go beyond the impact to be expected from a larger overall capital stock. Moreover, the marginal benefits of additional investments in mature networks are often low, which implies that infrastructure projects need to be carefully evaluated. • Infrastructure investment appears to have a non-linear effect with a stronger long-term effect on growth at lower levels of provision. There is some evidence suggesting episodes of both under- and over-provision and of both efficient and inefficient use of investment. The positive effect of infrastructure on growth should not lead to the conclusion that additional infrastructure spending will always be optimal. Although infrastructure yields benefits it also entails large costs. Based on an opportunity-cost argument, Barro (1990) showed in an endogenous growth model that additional public infrastructure investment may reduce growth by diverting resources away from other more productive investments. Also, there can be a trade-off between investment in new infrastructure and maintenance spending (Hulten, 1996). If the existing infrastructure stock is not well maintained, additional infrastructure investment will divert resources away from maintenance and operation spending and impinge negatively on growth.

#### And wage requirements undercuts stimulus effects on job growth

De Rugy 11 (November 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget, “Federal Infrastructure Spending: Neither a Good Stimulus Nor a Good Investment”, Joint Economic Committee http://www.jec.senate.gov/republicans/public/?a=Files.Serve&File\_id=2af47009-be59-4556-b25a-4cc3c362b6af) AS

Finally, other factors contribute to increasing the costs of public infrastructure spending and making it harder to be profitable. For instance, federal “prevailing-wage” requirements (such as the ones imposed by the Davis Bacon Act) require that construction workers employed by private contractors on public projects be paid at least the wages and benefits that are “prevailing” for similar work in or near the locality in which the project is located. 28 To the extent that the prevailing-wage is above the market wage, the laws may impose financial costs both through increased wage bills for construction projects and an inefficient mix of capital and labor and of different types of workers. However, because public construction accounts for between one-fifth and onequarter of all construction, and because prevailing-wage laws cover a substantial number of private projects undertaken with public financing or assistance, prevailing-wage laws may also affect construction labor markets more broadly. In a paper called “Prevailing Wage Laws and Construction Labor Markets,” economists Daniel Kessler and Lawrence Katz examine the consequences of several states’ repeal of their prevailing-wage laws in the 1970s and 1980s. 29 By comparing trends in construction labor markets in “repeal” states to trends in labor markets in states that did not change their laws, they find that the average wages of construction workers (in repeal states) decline slightly after repeal—by about 2 to 4 percent. However, they also find that the small overall impact of repeal masks substantial differences in outcomes for different groups of construction workers. The negative effects of repeal on wages are more pronounced for unionized workers who tend to benefit the most from the higher compensation provided by the prevailingwage requirement. Kessler and Katz find, for instance, that repealing prevailing-wage laws leads to a decline of approximately 10 percentage points in the long-run union wage premium earned by construction workers, or almost half of the total union wage premium in construction. They point out, “Since union members account for approximately 25 percent of all construction workers, the 10-percentage-point decrease in the union wage premium explains almost all of the (approximately 2 to 4 percent) decline in construction workers’ wages.” 30 This has implications for the most recent stimulus bill, the American Recovery and Reinvestment Act. According to the GAO, $102 billion of ARRA’s $787 billion went toward programs covered by Davis-Bacon (40 programs in total, seven of which had never been subject to prevailing-wage laws). 31 According to Rothschild and Jones, suspending Davis-Bacon would have created perhaps 55,000 additional federally funded jobs, funded 6 percent more projects, and hired 6 percent more workers. 32 (The more one pays per worker, the fewer workers one can hire.) If ARRA had suspended Davis-Bacon, more roads could have been repaved, more houses insulated, and more levees repaired. 33 Rothschild and Jones conclude that if government jobs paid market wages, then a recession would be a great time to build roads and hospitals at a much lower cost than usual. Taxpayers could save money by hiring employees who were waiting for the private sector to improve. In fact, in their survey they found that among public and private organizations required to pay prevailingwages, 38.2 percent thought that they could have hired workers at wages below the Davis-Bacon prevailing 28 Davis Bacon applies to any federal contract over $2,000 for the construction, alteration, or repair of public buildings or public works. It sets the minimum wages to be paid to various classes of laborers and mechanics employed under these contracts. Under the provisions of the Act, contractors or their subcontractors are to pay workers employed directly upon the site of the work no less than the locally prevailing wages and fringe benefits paid on projects of a similar character. The Secretary of Labor determines local prevailing wage rates. In general, these wages are comprised of two parts: a per-hour base wage and a per-hour fringe benefit allocation wage while another 17 percent were unsure. The numbers were even higher for the private-sector and nonprofit organizations to which Davis-Bacon applied: 52 percent said they could have hired people at lower than the prevailing-wage. 34 Forcing organizations to hire at the prevailing-wage meant higher costs for the federal government and fewer jobs created. 35

#### Be weary of their evidence. TI investors underestimate the costs associated with investment and oversell the benefits

De Rugy 11 (November 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget, “Federal Infrastructure Spending: Neither a Good Stimulus Nor a Good Investment”, Joint Economic Committee http://www.jec.senate.gov/republicans/public/?a=Files.Serve&File\_id=2af47009-be59-4556-b25a-4cc3c362b6af) AS

Section 2. Federal infrastructure spending rarely makes for good investments If the federal government followed the full Keynesian prescription, then it would have run a primary deficit during most of the last 40 years. Instead, the federal government ran a primary deficit 66 percent of the time. When interest payments are counted as expenses, the government ran a deficit 95 percent of the time. 18 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.

## ----Ext. TII Spending Fails- Generic

#### Keynesian spending doesn’t stimulate the economy- specifically Keynesian analysis of transportation infrastructure is overstated and wrong

Brian M. Riedl 1-5-10 (a senior fellow in the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation.a senior fellow in the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation,The heritage foundation, Why Government Spending Does Not Stimulate Economic Growth: Answering the Criticshttp://s3.amazonaws.com/thf\_media/2010/pdf/bg\_2354.pdf) MB

The Stimulus Myth The economic theory behind the stimulus builds on the work of John Maynard Keynes eight decades ago. It begins with the idea that an economic shock has left demand persistently and significantly below potential supply. As people stop spending money, businesses pull back production, and the ensuing vicious circle of falling demand and production shrinks the economy. Keynesians believe that government spending can make up this shortfall in private demand. Their models assume that—in an underperforming economy— government spending adds money to the economy, taxes remove money from the economy, and so the increase in the budget deficit represents net new dollars injected. Therefore, it scarcely matters how the dollars are spent. Keynes is said to have famously asserted that a government program that pays people to dig and refill ditches would provide new income for those workers to spend and circulate through the economy, creating even more jobs and income. The Keynesian argument also assumes that consumption spending adds to immediate economic growth while savings do not. By this reasoning, unemployment benefits, food stamps, and lowincome tax rebates are among the most effective stimulus policies because of their likelihood to be consumed rather than saved. Taking this analysis to its logical extreme, Mark Zandi of Economy.com has boiled down the government’s influence on America’s broad and diverse$14 trillion economy into a simple menu of stimulus policy options, whereby Congress can decide how much economic growth it wants and then pull the appropriate levers. Zandi asserts that for each dollar of new government spending: temporary food stamps adds $1.73 to the economy, extended unemployment benefits adds $1.63, increased infrastructure spending adds $1.59, and aid to state and local governments adds $1.38.4 Jointly, these figures imply that, in a recession, a typical dollar in new deficit spending expands the economy by roughly $1.50. Over the past 40 years, this idea of government spending as stimulus has fallen out of favor among many economists. As this paper shows, it is contradicted both by empirical data and economic logic. The Evidence is In Economic data contradict Keynesian stimulus theory. If deficits represented “new dollars” in the economy, the record $1.2 trillion in FY 2009 deficit spending that began in October 2008—well before the stimulus added $200 billion more5—would have already overheated the economy. Yet despite the historic 7 percent increase in GDP deficit spending over the previous year, the economy shrank by 2.3 percent in FY 2009. To argue that deficits represent new money injected into the economy is to argue that the economy would have contracted by 9.3 percent without this “infusion” of added deficit spending (or even more, given the Keynesian multiplier effect that was supposed to further boost the impact). That is simply not plausible, and few if any economists have claimed otherwise. And if the original $1.2 trillion in deficit spending failed to slow the economy’s slide, there was no reason to believe that adding $200 billion more in 2009 deficit spending from the stimulus bill would suddenly do the trick. Proponents of yet another stimulus should answer the following questions: (1) If nearly $1.4 trillion budget deficits are not enough stimulus, how much is enough? (2) If Keynesian stimulus repeatedly fails, why still rely on the theory? This is no longer a theoretical exercise. The idea that increased deficit spending can cure recessions has been tested repeatedly, and it has failed repeatedly. The economic models that assert that every $1 of deficit spending grows the economy by $1.50 cannot explain why $1.4 trillion in deficit spending did not create a $2.1 trillion explosion of new economic activity. Why Government Spending Does Not End Recessions Moving forward, the important question is why government spending fails to end recessions. Spending-stimulus advocates claim that Congress can “inject” new money into the economy, increasing demand and therefore production. This raises the obvious question: From where does the government acquire the money it pumps into the economy? Congress does not have a vault of money waiting to be distributed. 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 redistributed from one group of people to another.7 Congress cannot create new purchasing power out of thin air. If it funds new spending with taxes, it is simply redistributing existing purchasing power (while decreasing incentives to produce income and output). 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 they borrow the money from foreigners, the balance of payments will adjust by equally raising net imports, leaving total demand and out-put unchanged. Every dollar Congress spends must first come from somewhere else. For example, many lawmakers claim that every $1 billion in highway stimulus can create 47,576 new construction jobs. But Congress must first borrow that $1 billion from the private economy, which will then lose at least as many jobs.8 Highway spending simply transfers jobs and income from one part of the economy to another. As Heritage Foundation economist 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.”9 This statement has been confirmed by the Department of Transportation10 and the General Accounting Office (since renamed the Government Accountability Office),11 yet lawmakers continue to base policy on this economic fallacy. Removing water from one end of a swimming pool and pouring it in the other end will not raise the overall water level. Similarly, taking dollars from one part of the economy and distributing it to another part of the economy will not expand the economy. University of Chicago economist John Cochrane adds that: First, if money is not going to be printed, it has to come from somewhere. If the government borrows a dollar from you, that is a dollar that you do not spend, or that you do not lend to a company to spend on new investment. Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal stimulus can’t help us to build more of both. This form of “crowding out” is just accounting, and doesn’t rest on any perceptions or behavioral assumptions. Second, investment is “spending” every bit as much as is consumption. Keynesian fiscal stimulus advocates want money spent on consumption, not saved. They evaluate past stimulus programs by whether people who got stimulus money spent it on consumption goods rather than save it. But the economy overall does not care if you buy a car, or if you lend money to a company that buys a forklift.12 Government spending can affect long-term economic growth, both up and down. Economic growth is based on the growth of labor productivity and labor supply, which can be affected by how governments directly and indirectly influence the use of an economy’s resources. However, increasing the economy’s productivity rate—which often requires the application of new technology and resources— can take many years or even decades to materialize. It is not short-term stimulus.13 In fact, large stimulus bills often reduce longterm productivity by transferring resources from the more productive private sector to the less productive government. The government rarely receives good value for the dollars it spends. However, stimulus bills provide politicians with the political justification to grant tax dollars to favored constituencies. By increasing the budget deficit, large stimulus bills eventually contribute to higher interest rates while dropping even more debt on future generations.

#### Infrastructure fails – no long term growth

CT 10 – October 15, 2010 (Mikey Ivey, Staff Writer, “Federal stimulus dollars jump-start stalled infrastructure projects”, The Capital Times, OCTOBER 15, 2010, <http://host.madison.com/ct/business/article_9fd854e6-d7d4-11df-92fe-001cc4c03286.html>) MG

“I’m a real skeptic that spending lots of money is a good economic recovery measure,” says Bob Poole, transportation director with the Reason Foundation, a Los Angeles-based free market think tank. Poole says he understands the urge to help the unemployed but says short-term construction jobs and other stimulus-backed efforts do little to generate long-term growth. “Things that are really good for the economy take a long time to create,” he says. “You’d be better off cutting taxes if you want to stimulate investment and create jobs that last.” According to the state’s economic recovery website — www.recovery.wisconsin.gov — Dane County has been awarded more than $352 million in Recovery Act funding, a figure that includes aid for school districts and local units of government.

#### Federal funding stifle innovation, have lags in implementation and involve complicated bureaucracy.

Shatz et al. 11 – Ph. D in public policy from Harvard University (Howard J., “Highway Infrastructure and the Economy”, RAND Corporation, 2011, <http://www.rand.org/pubs/monographs/2011/RAND_MG1049.pdf>, accessed June 22, 2012) MG

The processes by which federal funds are disbursed suggest one of the main weaknesses of national transportation policy and are symptomatic of how federal highway investments may be only loosely linked to ensuring large economic benefits. Programs and formulas have become complex and change substantially from one transportation bill to the next. Although programs proliferated to create balanced attention to many competing interests, the current mix of programs constitutes “stovepipes” that stymie innovation and prevent rational, integrated, comprehensive planning. That is, although a region may need a mix of maintenance, public transit, and highway investments, these federal programs are funded separately using different formulas, and decision making is dominated by cleverly navigating the funding structures rather than by adhering to logical regional or metropolitan plans. The proliferation of programs and the stove piping make it difficult to fashion investments that clearly meet any federal transportation goals, let alone increasing national economic performance. xiv

#### Government funding fails- lack of effective planning

O’Toole 7 (Randal O’Toole, a senior fellow with the Cato Institute, is the author of The Best-Laid Plans: How Government Planning Harms Your Quality of Life, Your Pocketbook, and Your Future., “When Government Plans, It Usually Fails” CATO Institute, December 27, 2007, <http://www.cato.org/publications/commentary/when-government-plans-it-usually-fails>, RS)

After more than 30 years of reviewing government plans, including forest plans, park plans, watershed plans, wildlife plans, energy plans, urban plans and transportation plans, I've concluded that government planning almost always does more harm than good. Most government plans are so full of fabrications and unsupportable assumptions that they aren't worth the paper they are printed on, much less the millions of tax dollars spent to have them written. Federal, state and local governments should repeal planning laws and shut down planning offices. Everybody plans. But private plans are flexible, and we happily change them when new information arises. In contrast, special-interest groups ensure that the government plans benefiting them do not change -- no matter how costly. Like any other organization, government agencies need to plan their budgets and short-term projects. But they fail when they write comprehensive plans (which try to account for all side effects), long-range plans or plans that attempt to control other people's land and resources. Many plans try to do all three. Comprehensive plans fail because forests, watersheds and cities are simply too complicated for anyone to understand. Chaos science reveals that very tiny differences in initial conditions can lead to huge differences in outcomes -- that's why mega-projects such as Boston's Big Dig go so far over budget. Long-range plans fail because planners have no better insight into the future than anyone else, so their plans will be as wrong as their predictions are. Planning for other people's land and resources fails because planners will not pay the costs they impose on other people, so they have no incentive to find the best answers. Most of the nation's 32,000 professional planners graduated from schools that are closely affiliated with colleges of architecture, giving them an undue faith in design. This means many plans put enormous efforts into trying to control urban design while they neglect other tools that could solve social problems at a much lower cost. For example, planners propose to reduce automotive air pollution by increasing population densities to reduce driving. Yet the nation's densest urban area, Los Angeles, has only 8 percent less commuting by auto than the least dense areas. Meanwhile, technological improvements over the past 40 years, which planners often ignore, have reduced the pollution caused by some cars by 99 percent. Some of the worst plans today are so-called growth management plans prepared by states and metropolitan areas. They try to control who gets to develop their land and exactly what those developments should look like, including their population densities and mixtures of residential, retail, commercial and other uses. About a dozen states require or encourage urban areas to write such plans. Those states have some of the nation's least-affordable housing, while most states and regions that haven't written such plans mostly have very affordable housing. The reason is simple: Planning limits the supply of new housing, which drives up the price of all housing. In states with growth management laws, median housing prices in 2006 were typically four to eight times median family incomes. In most states without such laws, median home prices are only two to three times median family incomes. Few people realize that the recent housing bubble, which affected mainly regions with growth management planning, was caused by planners trying to socially engineer cities. Yet it has done little to protect open space, reduce driving or do any of the other things promised. Politicians use government planning to allocate scarce resources on a large scale. Instead, they should make sure that markets - based on prices, incentives and property rights -- work. Variably priced toll roads have helped reduce congestion. Pollution markets do far more to clean the air than exhortations to drive less. Giving people freedom to use their property, and ensuring only that their use does not harm others, will keep housing affordable. Unlike planners, markets can cope with complexity. Futures markets cushion the results of unexpected changes. Markets do not preclude government ownership, but the best-managed government programs are funded out of user fees that effectively make government managers act like private owners. Rather than passing the buck by turning sticky problems over to government planners, policymakers should make sure markets give people what they want.

## ----Ext. TII Spending Fails- Not Targeted

#### TII Stimulus fails- not targeted to areas that make it most effective

De Rugy and Mitchell 11 (September 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget; Matthew - senior research fellow at the Mercatus Center at George Mason University. His primary research interests include economic freedom and economic growth, government spending, state and local fiscal policy, public choice, and institutional economics, “Would more infrastructure spending stimulate the economy? No. 11-36, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>, accessed June 19, 2012) AS

20 Un-targeted: Effective targeting means that stimulus money should be spent in those areas that have been hardest hit by the recession. The goal is to make the most use of ―idle resources‖ (as Keynesian theory terms them). For instance, depressed areas like Detroit have a considerable number of unemployed resources (people, firms, equipment, etc.). So theoretically, government stimulus should be able to put these idle resources to work. A number of studies, however, have shown that stimulus funding tends not to go to those areas that have been hardest hit by a recession. 21  Even targeted stimulus may fail: Many of the areas that were hardest hit by the recession are in decline because they have been producing goods and services that are not, and will never be, in great demand. Therefore, 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 do have great demand for more roads, schools, and other types of long-term infrastructure. 22

## ----Ext. TII Spending Fails- Delayed Implementation

#### Infrastructure Stimulus fails- delays

De Rugy and Mitchell 11 (September 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget; Matthew - senior research fellow at the Mercatus Center at George Mason University. His primary research interests include economic freedom and economic growth, government spending, state and local fiscal policy, public choice, and institutional economics, “Would more infrastructure spending stimulate the economy? No. 11-36, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>, accessed June 19, 2012) MG

Diminishing marginal returns to stimulus: New research also suggests that there are diminishing marginal returns to stimulus. 15 This makes new stimulus even less helpful than what has already been undertaken. The Federal Government has already spent over $1 trillion in legislated stimulus. Beyond this, unlegislated ―automatic stabilizers‖ in the budget have helped to push the primary deficit well over $1 trillion. 16 The problems with infrastructure stimulus: There are unique problems with infrastructure stimulus that tend to diminish its chances of success. Chief among these are long implementation delays. The Congressional Budget Office reports that: [F]or major infrastructure projects supported by the federal government, such as highway construction and activities of the Army Corps of Engineers, initial outlays usually total less than 25 percent of the funding provided in a given year. For large projects, the initial rate of spending can be significantly lower than 25 percent. 17 Economists from the IMF studied the impact of implementation delays on the multiplier and found that, ―Implementation delays can postpone the intended economic stimulus and may even worsen the downturn in the short run.‖

#### Implementation of TII means no stimulus effect

De Rugy and Mitchell 11 (September 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget; Matthew - senior research fellow at the Mercatus Center at George Mason University. His primary research interests include economic freedom and economic growth, government spending, state and local fiscal policy, public choice, and institutional economics, “Would more infrastructure spending stimulate the economy? No. 11-36, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>, accessed June 19, 2012) MG

Implementation Perhaps the most important reasons to be skeptical about further stimulus—particularly infrastructure stimulus—have to do with the way it is implemented. As a general rule, the studies that obtain large multipliers do so by assuming that stimulus funds will be distributed just as Keynesian theory says they ought to be. Keynesian economist and former presidential economic advisor Lawrence Summers has offered a widely accepted summary of how—ideally—fiscal stimulus ought to be applied. 18 He argues that fiscal stimulus ―can be counterproductive if it is not timely, targeted, and temporary.‖ In reality, however, infrastructure spending cannot fulfill these criteria. There is no such thing as a “shovel ready” project: By nature, infrastructure spending fails to be timely. Even when the money is available, it can be months, if not years, before it is spent. This is because infrastructure projects involve planning, bidding, contracting, construction, and evaluation. According to the GAO, as of June 2011, 95 percent of the $45 billion in Department of Transportation infrastructure money had been appropriated, but only 62 percent ($28 billion) had actually been spent.

#### Delayed Implementation kills short term growth prospects

Lin and Doemland 12 – January 2012 (Justin Yifu, Chinese economist and Chief Economist and Senior Vice President of the World Bank, MS. Doerte, senior economist at the World Bank, “Beyong Keynesianism – Global Infrastructure Investments in Times of Crisis”, Working paper at World Bank, pp. 1-30) MG

Governments in advanced economies opting for supporting growth through infrastructure investments in the presence of high debt levels will face the challenge of doing more with less. 11 First, they would need to carefully identify bottleneck-releasing infrastructure projects with a maximum economic impact. These types of investments are not necessarily shovel-ready, requiring the government to make tough choices between speedy disbursements of funds and a more medium-term investment horizon aimed at optimizing the impact of the infrastructure projects. Japan’s lost decade tells a cautionary tale. The burst of the Japanese financial and real estate bubbles at the beginning of the 1990s was followed by a decade of sluggish growth. The Japanese government implemented a series of stimulus packages to build roads and bridges and cut interest rates to near zero by 1995. But many of these programs did not produce large economic returns, investment multipliers were low, and growth remained subdued (Krugman 2009) due to the near saturation of many types of infrastructure in Japan. Maximizing the economic impact may also require combining infrastructure investments with investment in other types of capital, such as human capital, to increase the impact on productivity growth. In addition, since many infrastructure projects are financed and implemented at the sub-national government level, a successful implementation strategy would need to be coordinated across different levels of government (OECD 2011).

## ----Ext. TII Spending Fails- Spending Permanent

#### Permanent nature of the plan means their spending creates a negative multiplier

De Rugy and Mitchell 11 (September 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget; Matthew - senior research fellow at the Mercatus Center at George Mason University. His primary research interests include economic freedom and economic growth, government spending, state and local fiscal policy, public choice, and institutional economics, “Would more infrastructure spending stimulate the economy? No. 11-36, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>, accessed June 19, 2012) MG

4 Therefore, the key question is whether this increase in public sector GDP enhances (―multiplies‖) private sector GDP or displaces (―crowds out‖) private sector GDP. If the multiplier is smaller than 0, stimulus displaces enough private sector activity to offset any increase in public sector activity, i.e., stimulus actually shrinks the entire economy. However, if the multiplier is between 0 and 1, then stimulus displaces private-sector economic activity, but not by enough to counteract the increase in public sector economic activity. If the multiplier is larger than 1, then stimulus spending not only increases public-sector economic activity, it also increases private-sector economic activity. Notwithstanding the confidence of stimulus advocates, there is no academic consensus regarding the size or even the sign of the multiplier. As a recent International Monetary Fund (IMF) working paper puts it, ―Economists have offered an embarrassingly wide range of estimated multipliers.‖ 5 The largest recent estimate is by Northwestern University economists Lawrence Christiano, Martin Eichenbaum, and Sergio Rebelo. They estimate that the multiplier may be as large as 3.7, implying that $1.00 in government purchases stimulates another $2.7 in private sector economic activity. 6 On the other end of the spectrum is an estimate by University of Chicago economists Andrew Mountford and Harald Uhlig. They find that the multiplier may be as small as -2.88, implying that $1.00 in government purchases displaces $3.88 in private sector economic activity. 7 A wide range of estimates exists, in part, because there is a wide range of circumstances in which stimulus might be applied. We now turn to the particular circumstances of the United States to see how infrastructure stimulus might impact the current economic situation. Stimulus with low interest rates and distortionary taxation: Some studies obtain larger multipliers than others because they assume that stimulus will be applied when interest rates are at or near zero percent. 8 Theoretically, low interest rates make stimulus more potent because the government is able to employ idle resources by borrowing funds at a low cost. At least for the time being, interest rates are indeed historically low, so this may be a reasonable assumption. Unfortunately, if temporary stimulus spending turns into permanent spending, then when interest rates eventually return to normal, the government will have to finance its spending at a higher cost. This will make the actual multiplier significantly smaller than these studies suggest.

## ----Ext. TII Spending Fails- Job Growth

#### TII steals workers from productive areas of the economy- means no net job growth

De Rugy and Mitchell 11 (September 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget; Matthew - senior research fellow at the Mercatus Center at George Mason University. His primary research interests include economic freedom and economic growth, gove3rnment spending, state and local fiscal policy, public choice, and institutional economics, “Would more infrastructure spending stimulate the economy? No. 11-36, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>, accessed June 19, 2012) AS

Job poaching, not creating: Unemployment rates among specialists, such as those with the skills to build roads or schools, are often relatively low. Moreover, 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 from the unemployment lines. This is what economists call ―crowding out.‖ Except that in this case, labor, not capital, is being crowded out. In fact, new data confirm that a plurality of workers hired with ARRA money were poached from other organizations rather than from the unemployment lines. 23

## ----Ext. TII Spending Fails- Cost of Spending

#### And spending estimates don’t take into account external impacts- no net increase in welfare

Pisu et al 2012, (Mauro, Peter Hoeller and Isabelle Joumard, members of the Economics Department of the OECD., OPTIONS FOR BENCHMARKING INFRASTRUCTURE PERFORMANCE, OECD Economics Department Working Papers No. 956, 27th April <http://ssrn.com/abstract=2060099>) AS

The contribution of infrastructure to the economy is large. One indication is provided by the value added of entire network industries. They account for a considerable share of GDP. On average in the OECD, the share of transport and storage in GDP is 4.5%, that of electricity, gas and water supply 2.5% and that of post and telecommunications 2.2%.2 Network industries account for between one tenth and one quarter of economy-wide investment. However, more spending should not be confused with better outcomes as the size of network industries says little about their impacts on welfare. Infrastructure and their associated services generate multiple outcomes, such as time saved, improved connectivity or network effects, but also congestion, pollution and other environmental impacts, many of which are not included in the National Accounts as they are difficult to measure. Outputs are often taken as proxies for outcomes. Taking energy as an example, a reliable supply of energy to firms and households can be deemed a desirable outcome, but energy consumption also generates pollution, unsustainable use of natural resources and other undesirable environmental effects impinging negatively on welfare. Thus, any comprehensive performance measure must take into account the different outcomes whether desirable or undesirable and relate them to the various inputs.

#### Infrastructure spending fails -- forces up taxes in order to cover the cost

Tanner 11 (September 13, 2011, Michael D. senior fellow at the Cato Institute, focus on fiscal policy, “Feeling Spent”, Cato.org, <http://www.cato.org/publications/commentary/feeling-spent?print>, accessed June 19, 2012) MG

4. More Infrastructure Spending. Like all the stimulus bills before it, the president's latest proposal calls for still more pork barrelspending for "infrastructure." One begins to wonder why we haven't paved over the entire country by now. No doubt there are roads and bridges in need of repair, but the ability of the federal government to sort out good projects from bad is debatable at best. And the president is once again planning to plow money into such dubious projects as high-speed rail. 5. More Tax Hikes. Worst of all, the president plans to pay for all this new spending by— you guessed it — raising taxes on businesses and high-income Americans. The president, once again, referred to "millionaires and billionaires" in his speech, but his actual proposal calls for raising taxes on families earning as little as $250,000 per year. In places like New York, that's not the "super rich." In addition, many of these tax hikes would fall on small businesses. The president's jobs plan, then, is to tax exactly those people and businesses that create jobs. And all this is on top of the new taxes and regulations that the Obama administration has already pushed through. It's not just the details of the president's proposal that are wrongheaded, it's the basic concept. The real drags on our economy have nothing to do with the failure of government to spend enough. The federal government is now spending roughly 24% of GDP. State and local governments are spending another 10% to 15%, meaning government at all levels is spending roughly 40 cents out of every dollar produced in this country. If government spending brought about prosperity, we should be experiencing a golden age. The president's plan is a bit like having someone break your leg then give you a crutch and call it a stimulus. Might it not be better to avoid breaking your leg in the first place? It's time to stop spending, cut taxes, reduce our debt, and rollback burdensome regulation. That will generate far more jobs than any government jobs program. When it comes to stimulus, the seventh time is not the charm

#### Cost overruns doom the projects

De Rugy and Mitchell 11 (September 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget; Matthew - senior research fellow at the Mercatus Center at George Mason University. His primary research interests include economic freedom and economic growth, gove3rnment spending, state and local fiscal policy, public choice, and institutional economics, “Would more infrastructure spending stimulate the economy? No. 11-36, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>, accessed June 19, 2012) AS

Cost overruns are the rule rather than the exception: The most comprehensive study of cost overruns examines 20 nations spanning five continents. The authors find that nine out of 10 public works projects come in over budget. 30 Cost overruns dramatically increase infrastructure spending: Overruns routinely range from 50 to 100 percent of the original estimate. 31 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. 32 On average, U.S. cost-overruns reached $55 billion per year. 33 Even if they lead to localized job growth, these investments are usually inefficient uses of public resources.

#### Federal infrastructure spending fails- Hidden costs destroy benefits

Edward 11 (Chris Edwards is the director of tax policy studies at the Cato Institute and the editor of [www.downsizinggovernment.org](http://www.downsizinggovernment.org)., “Infrastructure Projects to Fix the Economy? Don't Bank on It.” CATO Institute, October 21, 2011, <http://www.cato.org/publications/commentary/infrastructure-projects-fix-economy-dont-bank-it>, RS)

In a recent television ad for her network, MSNBC host Rachel Maddow stands below the Hoover Dam and asks whether we are still a country that can "think this big" — Hoover Dam big. The commercial is built on the assumption that American greatness is advanced by federal spending on major infrastructure projects. If I had my own television commercial, I'd stand in front of the wreckage of Idaho's Teton Dam,which, like the Hoover Dam, was built by the federal Bureau of Reclamation. The Teton Dam was based on shoddy engineering and a flawed economic analysis. It collapsed catastrophically in 1976, just a year after it was built. Increased infrastructure spending has bipartisan support in Washington these days. President Obama wants a new federal infrastructure bank, and members of both parties want to pass big highway and air-traffic-control funding bills. The politicians think these bills will create desperately needed jobs, but the cost of that perceived benefit is too high: Federal infrastructure spending has a long and painful history of pork-barrel politics and bureaucratic bungling, with money often going to wasteful and environmentally damaging projects. When the federal government 'thinks big,' it often makes big mistakes. For plenty of examples of the downside of federal infrastructure, look at the two oldest infrastructure agencies — the Army Corps of Engineers and the Bureau of Reclamation. Their histories show that the federal government shouldn't be in the infrastructure business. Rather, state governments and the private sector are best equipped to provide it. The Corps of Engineers has been building levees, canals and other civilian water infrastructure for more than 200 years — and it has made missteps the entire time. In the post-Civil War era, for example, there were widespread complaints about the Corps' wastefulness and mismanagement. A 1971 book by Arthur Morgan, a distinguished engineer and former chairman of the Tennessee Valley Authority, concluded: "There have been over the past 100 years consistent and disastrous failures by the Corps in public works areas ... resulting in enormous and unnecessary costs to ecology [and] the taxpayer." Some of the highest-profile failures include the Great Mississippi Flood of 1927. That disaster dramatically proved the shortcomings of the Corps' approach to flood control, which it had stubbornly defended despite outside criticism. Hurricane Katrina in 2005 was like a dreadful repeat. The flooding was in large part a man-made disaster stemming from poor engineering by the Corps and misdirected funding by Congress. Meanwhile, the Bureau of Reclamation has been building economically dubious and environmentally harmful dams since 1902. Right from the start, "every Senator ... wanted a project in his state; every Congressman wanted one in his district; they didn't care whether they made economic sense or not," concluded Marc Reisner in his classic history of the agency, Cadillac Desert. The dam-building pork barrel went on for decades, until the agency ran out of rivers into which it could pour concrete. Looking at the Corps and Reclamation, the first lesson about federal infrastructure projects is that you can't trust the cost-benefit analyses. Both agencies have a history of fudging their studies to make proposed projects look better, understating the costs and overstating the benefits. And we've known it, too. In the 1950s, Sen. Paul Douglas (D-Ill.), lambasted the distorted analyses of the Corps and Reclamation. According to Reisner, Reclamation's chief analyst admitted that in the 1960s he had to "jerk around" the numbers to make one major project look sound and that others were "pure trash" from an economics perspective. In the 1970s, Jimmy Carter ripped into the "computational manipulation" of the Corps. And in 2006, the Government Accountability Office found that the Corps' analyses were "fraught with errors, mistakes, and miscalculations, and used invalid assumptions and outdated data." Even if federal agencies calculate the numbers properly, members of Congress often push ahead with "trash" projects anyway. Then-senator Christopher Bond of Missouri vowed to make sure that the Corps' projects in his state were funded, no matter what the economic studies concluded, according to extensive Washington Post reporting on the Corps in 2000. And the onetime head of the Senate committee overseeing the Corps, George Voinovich of Ohio, blurted out at a hearing: "We don't care what the Corps cost-benefit is. We're going to build it anyhow because Congress says it's going to be built." As Morgan noted in his 1971 book, these big projects have often damaged both taxpayers and ecology. The Corps, Reisner argues, has "ruined more wetlands than anyone in history" with its infrastructure. Meanwhile, Reclamation killed wetlands and salmon fisheries as it built dams to provide high-cost irrigation water to farmers in the West — so they could grow crops that often compete with more efficiently grown crops in the East. Taxpayers are double losers from all this infrastructure. They paid to build it, and now they are paying to clean up the environmental damage. In Florida, for example, the Corps' projects, along with federal sugar subsidies, have damaged the Everglades. So the government is helping to fund a multibillion-dollar restoration plan. In the West, federal irrigation has increased salinity levels in rivers, necessitating desalination efforts such as a $245 millionplant in Yuma, Ariz. And in a large area of California's San Joaquin Valley, federal irrigation has created such toxic runoff that the government is considering spending up to $2 billion to fix the damage, according to some estimates. When the federal government "thinks big," it often makes big mistakes. And when Washington follows bad policies, such as destroying wetlands or overbuilding dams, it replicates the mistakes across the nation. Today, for instance, Reclamation's huge underpricing of irrigation water is contributing to a water crisis across much of the West. Similar distortions occur in other areas of infrastructure, such as transportation. The federal government subsidizes the construction of urban light-rail systems, for example, which has caused these systems to spring up across the country. But urban rail systems are generally less efficient and flexible than bus systems, and they saddle cities with higher operating and maintenance costs down the road. Similar misallocation of investment occurs with Amtrak; lawmakers make demands for their districts, and funding is sprinkled across the country, even to rural areas where passenger rail makes no economic sense because of low population densities. When the federal government is paying for infrastructure, state officials and members of Congress fight for their shares of the funding, without worrying too much about efficiency, environmental issues or other longer-term factors. The solution is to move as much infrastructure funding as we can to the state, local and private levels. That would limit the misallocation of projects by Congress, while encouraging states to experiment with lower-cost solutions. It's true that the states make infrastructure mistakes as well, as California appears to be doing by subsidizing high-speed rail. But at least state-level mistakes aren't automatically repeated across the country. The states should be the laboratories for infrastructure. We should further encourage their experiments by bringing in private-sector financing. If we need more highway investment, we should take notes from Virginia, which raised a significant amount of private money to widen the Beltway. If we need to upgrade our air-traffic-control system, we should copy the Canadian approach and privatize it so that upgrades are paid for by fees on aviation users. If Amtrak were privatized, it would focus its investment where it is most needed — the densely populated Northeast. As for Reclamation and the Corps, many of their infrastructure projects would be better managed if they were handed over to the states. Reclamation's massive Central Valley irrigation project, for example, should be transferred to the state of California, which is better positioned to make cost and environmental trade-offs regarding contentious state water issues. Other activities of these two agencies could be privatized, such as hydropower generation and the dredging of seaports. The recent infrastructure debate has focused on job creation, and whether projects are "shovel ready." The more important question is who is holding the shovel. When it's the federal government, we've found that it digs in the wrong places and leaves taxpayers with big holes in their pockets. So let's give the shovels to state governments and private companies. They will create just as many jobs while providing more innovative and less costly infrastructure to the public. They're ready.

## Highway Spending Fails

#### Highway spending fails- spending not targeted to areas where stimulus is needed or effective

Wilson 2012 (DANIEL J. Senior Economist Microeconomic Research at the Federal Reserve Bank of San Francisco, Government Spending: An Economic Boost? February 6, 2012, <http://www.cato.org/publications/commentary/keynesian-policies-have-failed>) AS

Several recent papers have used variations in government spending across regions, such as states or counties, to identify the effects of fiscal policy. These studies take advantage of the fact that large portions of federal spending are often allocated to regions for reasons unrelated to regional economic performance or needs. For example, federal highway grants are distributed to states based primarily on legislated formulas that rely on noneconomic factors, such as the layout of the interstate highway system. Such variations can be used to identify the effects of federal spending on a local economy. How these local effects relate to the national effects of federal spending depends on whether there are spillover effects to other regions, which could be positive or negative depending on patterns of trade and labor mobility, and the ways local governments may influence how the money is spent.

#### Federal funding for highways stifle innovation and have lags in implementation – destroys any stimulus effect

Shatz et al. 11 – Ph. D in public policy from Harvard University (Howard J., “Highway Infrastructure and the Economy”, RAND Corporation, 2011, <http://www.rand.org/pubs/monographs/2011/RAND_MG1049.pdf>, accessed June 22, 2012) MG

The processes by which federal funds are disbursed suggest one of the main weaknesses of national transportation policy and are symptomatic of how federal highway investments may be only loosely linked to ensuring large economic benefits. Programs and formulas have become complex and change substantially from one transportation bill to the next. Although programs proliferated to create balanced attention to many competing interests, the current mix of programs constitutes “stovepipes” that stymie innovation and prevent rational, integrated, comprehensive planning. That is, although a region may need a mix of maintenance, public transit, and highway investments, these federal programs are funded separately using different formulas, and decision making is dominated by cleverly navigating the funding structures rather than by adhering to logical regional or metropolitan plans. The proliferation of programs and the stove piping make it difficult to fashion investments that clearly meet any federal transportation goals, let alone increasing national economic performance. xiv

#### Federal spending on highways fails

Roth 10 (Gabriel Roth, civil engineer and transportation economist. He is currently a research fellow at the Independent Institute. During his 20 years with the World Bank, he was involved with transportation projects on five continents. Roth's books include Paying for Roads: The Economics of Traffic Congestion (1967) and Roads in a Market Economy (1996). He was also editor of Street Smart: Competition, Entrepreneurship, and the Future of Roads (2006), “Federal Highway Funding”, CATO Institute, June 2010, <http://www.downsizinggovernment.org/transportation/highway-funding#4>, RS)

Today, gasoline taxes and other revenues flowing into the FHTF total about $36 billion annually. Congress spends the money on highways and many other activities, often inefficiently. The following sections discuss six disadvantages of federal highway financing, and thus indicate the advantages of devolving highway financing to the states and private sector. 1. Funds Used Inefficiently and Diverted to Lower-Priority Projects Federal aid typically covers between 75 and 90 percent of the costs of federally supported highway projects. Because states spend only a small fraction of their own resources on these projects, state officials have less incentive to use funds efficiently and to fund only high-priority investments. Boston's Central Artery and Tunnel project (the "Big Dig"), for example, suffered from poor management and huge cost overruns.21 Federal taxpayers paid for more than half of the project's total costs, which soared from about $3 billion to about $15 billion.22 Federal politicians often direct funds to projects in their states that are low priorities for the nation as a whole. The Speaker of the House of Representatives in the 1980s, "Tip" O'Neill, represented a Boston district and led the push for federal funding of the Big Dig. More recently, Representative Don Young of Alaska led the drive to finance that state's infamous "Bridge to Nowhere," discussed below. The inefficient political allocation of federal dollars can be seen in the rise of "earmarking" in transportation bills. This practice involves members of Congress slipping in funding for particular projects requested by special interest groups in their districts. In 1982, the prohibition on earmarks in highway bills in effect since 1914 was broken by the funding of 10 earmarks costing $362 million. In 1987, President Ronald Reagan vetoed a highway bill partly because it contained 121 earmarks, and Congress overrode his veto.23 Since then, transportation earmarking has grown by leaps and bounds. The 1991 transportation authorization bill (ISTEA) had 538 highway earmarks, the 1998 bill (TEA-21) had 1,850 highway earmarks, and the 2005 bill (SAFETEA-LU) had 5,634 highway earmarks.24 The earmarked projects in the 2005 bill cost $22 billion, thus indicating that earmarks are consuming a substantial portion of federal highway funding. The problem with earmarks was driven home by an Alaska bridge project in 2005. Rep. Don Young of Alaska slipped a $223 million earmark into a spending bill for a bridge from Ketchikan—with a population of 8,900—to the Island of Gravina—with a population of 50. The project was dubbed the "Bridge to Nowhere" and created an uproar because it was clearly a low priority project that made no economic sense. 2. Funds Diverted to Non-Highway Activities Since 1982, increasing amounts of revenues from the FHTF have been diverted to non-highway uses. The Surface Transportation Assistance Act of 1982 raised the federal gas tax by five cents, with one-fifth of the increase dedicated to urban transit. The 1991 Intermodal Surface Transportation Efficiency Act substituted "flexibility" and "intermodalism" for the "dedication" of fuel taxes to highways. That wording change meant that any transportation-related activity could lay claim to highway money. Under the most recent highway authorization—SAFETEA-LU of 2005—transportation scholar Randal O'Toole figures that only about 59 percent of highway trust fund dollars will be spent on highways.25 Funds from the FHTF will go to mass transit (21 percent), earmarks (8 percent), and a hodge-podge of other activities such as bicycle paths (12 percent). Note, however, that some of the earmark funds will also go to highways. The main diversion is to rail transit, which can be a very inefficient mode of transportation, as discussed in a related essay. Most Americans do not use rail transit and should not have to subsidize expensive subways and rail systems in a small number of major cities that prohibit the use of more modern and effective transit methods, such as shared taxis. As the FHWA table (www.fhwa.dot.gov/safetealu/safetea- lu\_authorizations.xls) indicates, Congress allocates highway money to truck parking facilities, anti-racial profiling programs, magnetic levitation trains, and dozens of other non-road activities. O'Toole finds that the House version of upcoming transportation authorization legislation would reduce the highway portion of FHTF spending to just 20 percent. It would add high-speed rail at 10 percent, fund transit at 20 percent, and provide about 50 percent of the funds to the states to spend on "flexible" projects and earmarks.26 3. Federal Intervention Increases Highway Costs The flow of federal funding to the states for highways comes part-in-parcel with top-down regulations. The growing mass of federal regulations makes highway building more expensive in numerous ways. First, federal specifications for road construction standards can be more demanding than state standards. But one-size-fits-all federal rules may ignore unique features of the states and not allow state officials to make efficient trade-offs on highway design. A second problem is that federal grants usually come with an array of extraneous federal regulations that increase costs. Highway grants, for example, come with Davis-Bacon rules and Buy America provisions, which raise highway costs substantially. Davis-Bacon rules require that workers on federally funded projects be paid "prevailing wages" in an area, which typically means higher union wages. Davis-Bacon rules increase the costs of federally funded projects by an average of about 10 percent, which wastes billions of dollars per year.27 Ralph Stanley, the entrepreneur who created the private Dulles Greenway toll highway in Virginia, estimated that federal regulations increase highway construction costs by about 20 percent.28 Robert Farris, who was commissioner of the Tennessee Department of Transportation and also head of the Federal Highway Administration, suggested that federal regulations increase costs by 30 percent.29 Finally, federal intervention adds substantial administrative costs to highway building. Planning for federally financed highways requires the detailed involvement of both federal and state governments. By dividing responsibility for projects, this split system encourages waste at both levels of government. Total federal, state, and local expenditures on highway "administration and research" when the highway trust fund was established in 1956 were 6.8 percent of construction costs. By 2002, these costs had risen to 17 percent of expenditures.30 The rise in federal intervention appears to have pushed up these expenditures substantially. 4. Funds are Misallocated Across States Some states persistently receive more federal highway funding than they pay into the federal Highway Trust Fund. The Federal Highway Administration publishes Highway Statistics each year, showing the amounts the fund receives from each state and the allocation paid to each state from the fund.31 Supporters of federal highway financing use these figures to demonstrate how supposedly beneficial the current system is to all states. However, the receipts-and-allocations data presented in Highway Statistics are misleading. The FHWA divides the dollar amounts of the apportionments and allocations for each state by the amount of revenue paid into the fund by each state. The result is a ratio that overstates the benefits of the federal highway system to individual states for a number of reasons: Interest. Larger amounts are taken out of the trust fund than paid in —in other words, the grand total ratio exceeds 100 percent. For the whole period 1956–2008, the excess from the FHTF was around 13 percent, and for 2008 it was 32 percent.32 The excess is the result of interest earned on the fund's balances. But the interest on unspent balances does not represent additional resources that the federal government provides to the states. Minimum guarantee. The 1998 TEA-21 legislation included a "minimum guarantee" that no state would receive less than 90.5 percent of the amount it paid into the trust fund. The 2005 SAFETEA-LU reauthorization raised the minimum guarantee to 92 percent. To implement the guarantee from 1998, $35 billion—16 percent of the total authorized—was set aside to increase the shares of those states that, under the traditional formulas, received less than 90.5 percent of what they paid into the fund. Yet some of this money also went to states that were already receiving more than they paid into the fund, thereby doing little to remedy prior disparities. As there was no such guarantee before 1998, this rule's effect on total distributions over time cannot be gauged from data provided by the Federal Highway Administration. Exclusion of Mass Transit Account and non-road uses. The FHWA data excludes payments that are transferred to the Mass Transit Account and to other non-road uses. As these make up over 30 percent of fuel tax revenues, the data from the FHWA overstate the benefits of the federal highway program. A better way of showing the inequities between the states is to compare each state's share of money taken out of the highway trust fund as a ratio of the share it paid in.33 If a state's receipts were 3 percent of the whole, and its contribution 2 percent, the share ratio would be 1.5. I have presented such calculations elsewhere and found that there are substantial winner and loser states from the Highway Trust Fund.34 Similarly, a recent analysis by Ronald Utt found that half of the states are shortchanged by the current highway trust fund allocations.35 The Congressional Research Service notes that struggles over recent highway bills have focused on these interstate inequities (rather than on ways to make federal expenditures more productive), with the donor states tending to be in the South and Midwest and the donee states tending to be in the Northeast, Pacific Rim, and West.36 Finally, note that these analyses do not take into account the increased costs in every state from federal regulations and administrative costs. If these were taken into account, road users in very few states would derive any net benefits from federal highway financing. 5. Private Solutions Are Discouraged By subsidizing the states to provide seemingly "free" highways, federal financing discourages the construction and operation of privately financed highways. A key problem is that users of private highways are forced to pay both the tolls for those private facilities and the fuel taxes that support the government highways. Another problem is that private highway companies have to pay taxes, including property taxes and income taxes, while government agencies do not. Furthermore, private highways face higher borrowing costs because they must issue taxable bonds, whereas public agencies can issue tax-exempt bonds. The Dulles Greenway is a privately financed and operated highway in Northern Virginia, which cost investors about $350 million to build.37 The Greenway must compete against nearby "free" state highways. It has been tough going, but the Greenway has survived for 15 years. Typical users of the Greenway pay 36 cents in federal and state gasoline taxes per gallon to support the government highways, plus they pay Greenway tolls, which range from $2.25 to $4.15 per trip for automobiles using electronic tolling.38 If the Greenway and other private highways were credited the amounts paid into state and federal highway funds, their tolls could be lowered and more traffic would be attracted to them. That would make better use of private capacity as it could develop in coming years and relieve congestion on other roads. Unfortunately, the proposed version of new highway legislation by the chairman of the House Committee on Transportation and Infrastructure would add new federal regulatory barriers to toll roads in the states.39 Section 1204 of the bill would create a federal "Office of Public Benefit" to ensure "protection of the public interest in relation to highway toll projects and public-private partnership agreements on federal-aid highways." This new office would be tasked with reviewing and approving or disapproving proposed toll rate increases on these projects, among other interventionist activities. This would completely flip around the idea of road tolling as a decentralized market-based mechanism and turn it into a central planning mechanism. 6. Innovation Is Discouraged One of the promising advances to relieving urban congestion is High-Occupancy or Toll (HOT) highways. Networks of HOT lanes can be structured for use by vehicles with payment of variable tolls combined with buses at no charge. The tolls are collected electronically and set at levels high enough to ensure acceptable traffic conditions at all times. A current obstacle to expanding HOT lane programs is that it is difficult to add tolls to roads constructed with federal funds. The first HOT lanes in the United States were introduced in 1995 on California's State Route 91 near Anaheim. The California Private Transportation Company conceived, designed, financed, constructed, and opened two pairs of "express lanes" in the median of a 10-mile stretch of the highway.40 Express lane users pay tolls by means of identifiers, similar to those used by EZPass systems, with the payments debited electronically from accounts opened with the company. Following the lead of the private sector, California's public sector implemented a similar project on Route I-15 north of San Diego. It has also proven popular. The rates charged on the I-15 lanes are varied automatically in real time to respond to traffic conditions. HOT lanes have also been implemented in Denver and Minneapolis, and are planned for the Washington, D.C., area. Payments for the use of roads can now be made as easily as payments for the use of telephones, without vehicles having to stop. Such changes in payment methods can have profound effects on the management and financing of roads. If the federal government removed itself from highway financing, direct payments for road use could be made directly to state governments through tolls. These sorts of tolls are already in place in New York and New Jersey. An even better solution would be payment of tolls for road use directly to private highway companies, which would cut out government financing completely. This is now technically feasible. Following the success of the HOT lanes in Southern California, many other projects are being pursued across the country. One project is in Northern Virginia. Fluor-Transurban is building and providing most of the funding for HOT lanes on a 14-mile stretch of the Capital Beltway. Drivers will pay to use the lanes with electronic tolling, which will recoup the company's roughly $1 billion investment. HOT lane projects are attractive to governments because they can make use of existing capacity and because the tolls can pay for all or most of the costs.41 Such networks offer congestion-free expressways for those wanting to pay a premium price, in addition to reducing congestion on other roads and creating faster bus services. There are many exciting technological developments in highways, and ending federal intervention would make state governments more likely to seek innovative solutions. Technological advances—such as electronic tolling—have made paying for road services as simple as paying for other sorts of goods. In a world where a fuel tax that is levied on gasoline is an imperfect measure of the wear-and-tear each driver puts on roads, it is vital to explore better ways to finance highways.

#### Federal highway spending fails

Roth 10 (Gabriel Roth, civil engineer and transportation economist. He is currently a research fellow at the Independent Institute. During his 20 years with the World Bank, he was involved with transportation projects on five continents. Roth's books include Paying for Roads: The Economics of Traffic Congestion (1967) and Roads in a Market Economy (1996). He was also editor of Street Smart: Competition, Entrepreneurship, and the Future of Roads (2006), “Federal Highway Funding”, CATO Institute, June 2010, <http://www.downsizinggovernment.org/transportation/highway-funding#4>, RS)

Americans are frustrated by rising traffic congestion. In the period 1980 to 2008, the vehicle-miles driven in the nation increased 96 percent, but the lane-miles of public roads increased only 7.5 percent. The problem is that U.S. road systems are run by governments, which do not respond to the wishes of road users but to the preferences of politicians. Transportation markets need to be liberated from government control so that road users can directly finance the needed highway improvements that they are prepared to pay for. We need to recognize "road space" as a scarce resource and allow road owners to increase supply and charge market prices for it. We should allow the revenues to stimulate investment in new capacity and in technologies to reduce congestion. If the market is allowed to work, profits will attract investors willing to spend their own money to expand the road system in response to the wishes of consumers. To make progress toward a market-based highway system, we should first end the federal role in highway financing. In his 1982 State of the Union address, President Reagan proposed that all federal highway and transit programs, except the interstate highway system, be "turned back" to the states and the related federal gasoline taxes ended. Similar efforts to phase out federal financing of state roads were introduced in 1996 by Sen. Connie Mack (R-FL) and Rep. John Kasich (R-OH). Sen. James Inhofe (R-OK) introduced a similar bill in 2002, and Rep. Scott Garrett (R-NJ) and Rep. Jeff Flake (R-AZ) have each proposed bills to allow states to fully or partly opt out of federal highway financing.47 Such reforms would give states the freedom to innovate with toll roads, electronic road-pricing technologies, and private highway investment. Unfortunately, these reforms have so far received little action in Congress. But there is a growing acceptance of innovative financing and management of highways in many states. With the devolution of highway financing and control to the states, successful innovations in one state would be copied in other states. And without federal subsidies, state governments would have stronger incentives to ensure that funds were spent efficiently. An additional advantage is that highway financing would be more transparent without the complex federal trust fund. Citizens could better understand how their transportation dollars were being spent. The time is ripe for repeal of the current central planning approach to highway financing. Given more autonomy, state governments and the private sector would have the power and flexibility to meet the huge challenges ahead that America faces in highway infrastructure.

## Airport Spending Fails

#### No stimulus- Funds are mismanaged and given to build airports that won’t help

Michael Cooper 8-11-09 (staff writer, nyt, Inspector General Questions Value of Some Airport Stimulus Projects <http://www.nytimes.com/2009/08/12/us/12airports.html>) MB

A $14.7 million stimulus project to replace an airport on a remote island in Alaska was one of several airport stimulus projects that were questioned in an advisory issued last week by the inspector general of the Transportation Department. The airport averages only 42 flights a month. The advisory found that the Federal Aviation Administration had awarded $38.5 million to low-priority airport projects of questionable economic merit, and that it had awarded $15 million more to four airports whose operators had been cited in the past for trouble managing federal grants. The aviation agency selected the projects as part of a $1.1 billion stimulus program for improving airports around the nation. Two of the airports the inspector general cited were in Alaska. The $14.7 million project calls for replacing the airport in Ouzinkie, a village of around 170 people, mostly of Russian Aleut ancestry, located on an island about 12 miles north of Kodiak. The second calls for spending $13.9 million to replace the airport in Akiachak, a remote Yup’ik Eskimo village in western Alaska with a population of around 660.ff The advisory said they were among several low-priority airport projects that were selected in part because the F.A.A. wanted to “ensure widespread geographic distribution of funds,” even though that was not a requirement of the stimulus law, the advisory found. The agency has a system to assign priority rankings to airport projects. Usually projects must score at least 41 out of 100 to qualify for airport improvement funds. But the administration set a higher goal for its stimulus money, prioritizing projects that scored 62 or higher. The two Alaskan airport projects each scored only 40, the inspector general found. The Department of Transportation defended the choice of projects, saying that the Alaskan airports qualified for the money under safety provisions of the law and that both villages would be extremely isolated without safe air travel. “These projects provide airstrips that meet minimum safety standards for the citizens of these Alaskan towns,” Deputy Transportation Secretary John D. Porcari wrote in a response to the department’s inspector general, Calvin L. Scovel III. The inspector general’s report came a month after ProPublica and CBS Newsreported that more than $100 million of the airport improvement money was being spent on airports with fewer than one flight an hour. The inspector general — who also questioned awards to four airports in Delaware, Missouri, Ohio and Washington that did not provide commercial passenger service and had limited flight operations — recommended that the aviation administration should either show that the projects had economic merit or consider withdrawing the grants. The inspector general plans to conduct a full audit of the program.

#### Airport funds are mismanaged – discourages economic growth

Michael Grabell, 8-11-09 (Staffwriter: propublica, Inspector General Blasts Stimulus for Tiny Airportshttp://www.propublica.org/article/inspector-general-blasts-stimulus-for-tiny-airports-811) MB

Millions of dollars in federal stimulus money are going to low-priority airports with questionable economic value and a history of mishandling grants, according to an advisory released Monday by the inspector general for the U.S. Department of Transportation. The report follows an investigation by ProPublica and CBS News last month that found more than $100 million was being directed to airports that have fewer than one flight an hour – including one serving an Alaskan village of 167 people. In the four-page memo, the inspector general said the Federal Aviation Administration selected low-priority projects for stimulus money to ensure that every state got at least one airport project. The office advised the FAA to withhold grant money for the projects until it can justify the economic merit. And it called for a full audit of stimulus airport grants. In a response, Deputy Transportation Secretary John Porcari said the FAA relied on long-standing rules to pick "prudent, high-priority projects" and noted that the report highlighted a small percentage of the 263 stimulus projects. The agency didn’t need to conduct a cost-benefit analysis, he said, because most of the projects were necessary to bring the airports into compliance with safety standards. To select airports for stimulus funding, the FAA relied on its National Priority Rating system, which scores projects on a scale of 0 to 100, based on safety, security and capacity needs. Typically, airports must score a 40 or higher to be approved. In the stimulus, the FAA raised the threshold to 62 to be certain worthy projects would be funded. Yet, the FAA chose more than 50 projects below that mark, "raising concerns about whether the agency’s process resulted in funding the highest priority [stimulus] projects," the IG’s report concluded. Among the projects mentioned are two new airports in the remote Alaskan villages of Akiachak and Ouzinkie. Ouzinkie, which is home to 167 people, received $13.9 million. But the report notes that it already has a gravel airstrip, a landing area for sea planes and access to cargo barges. In its response, the FAA said the Alaskan airports don’t meet safety standards and that alternative means of travel are much less reliable than the IG’s report makes it seem. In Ouzinkie, the main means of travel other than plane is an open skiff ride to Kodiak Island. But according to the FAA, from Thanksgiving through March, that option is available only 10 percent of the time. "These are hardly examples of government waste – both projects are simple gravel airstrips," Porcari wrote. "The costs of these projects have been checked and justified based on the high costs of moving materials and equipment to the areas." The other low-priority projects cited by the inspector general were a $5 million taxiway in Findlay, Ohio; a $2 million runway extension in Wilbur, Wash.; a $2 million apron in Warrensburg, Mo.; and a new runway at an airpark in Dover, Del. "The Dover project was chosen because it was the state’s only project that was ‘ready to go,’ " the report said. The inspector general also found four grant recipients that have a history of problems managing grants. Those airport authorities in Guam, Puerto Rico, Pitkin County, Colo., and Owensboro, Ky., together received $15 million despite problems handling cash and contracts. The Owensboro, Daviess County Regional Airport has been cited for poor administration of funds in 10 of the past 11 years, the IG’s report says. In its response, the DOT said it has increased its oversight and that all problems with prior grants had been resolved to the inspector general’s satisfaction. "The department has emphasized the need for careful stewardship of all funds expended, and particularly Recovery Act funding," Porcari wrote. The response didn’t cool criticism from Republicans, who used the report to attack the stimulus. "The IG’s investigation is more evidence that serious problems surround the stimulus program," said Rep. John Mica, R-Fla., the ranking member on the House transportation committee.

## Port Spending Fails

#### **Funding is wasted and used on projects which are low priorities and ineffective to spur growth**

Rugy, 05- research fellow at AEI (September 7, 2005, Veronique, “Is Port Security Spending Making Us Safer?,” <http://directory.cip.management.dal.ca/publications/Is%20Port%20Security%20Spending%20Making%20Us%20Safer.pdf> ) MG

Many terrorism experts believe that maritime container shipping may be an ideal platform to deliver weapons of mass destruction to the United States. If they are correct, intelligence and port security directed at keeping bad things from happening in our ports, along with nuclear detection, should be DHS’s priorities within port security spending. Unfortunately, they are not. Through FY2005, Congress has provided over $650 million in direct grants to ports to improve their physical and operational security and roughly $1.2 billion to nuclear nonproliferation programs, of which only a small portion is directed to protect stockpiles of fissile materials. 120 More worrisome, much of the money spent on ports goes to projects that should be receiving lower priority. For instance, a large portion of our port security dollars goes to nuclear detection on site, mainly through the implementation and use of radiation portal monitors. Not only has the effectiveness of the monitors often been challenged by experts, but direct detection on site is also by far the least cost effective measure to protect us against the admission of WMD materials into the country. To protect us against WMD attacks in our ports or in our cities, it would be more cost effective to concentrate our resources in foreign ports and in protecting stockpiles of fissile material. Furthermore, a significant portion of the port security money goes to projects whose contribution to maritime security is unclear. By way of this allocation, many private concerns are using taxpayer funds to secure infrastructure that they should be 31 securing themselves. Federal dollars should not be used to subsidize ports around the nation.

#### Public funding for ports does not mean growth

Helling and Poister 2K (Amy, associate professor in the Department of Public Administration and Urban Studies @ Georgia State University; Theodore, professor of Public Administration at the Andrew Young School of Social Policy @ Georgia State University, “U.S. Maritime Ports: Trends, Policy Implications, and Research Needs”, Economic Development Journal, Aug 1 2000, pp. 300 – 314) MG

Because ports are publicly subsidized, competition does not ensure efficiency. To stay in business, any for-profit enterprise must recover its costs, limiting the degree to which competition can reduce prices. By contrast, ports receiving public subsidies may allow taxpayers to make up the difference instead, especially when competition for traffic encourages them to invest in greater capacity but prevents them from raising prices. 14 In any given year, some ports’ revenues do not cover their expenses, even when revenues from public sources other than the port are included. Of the 55 ports surveyed by the American Association of Port Authorities, 12 reported negative net income in 1994 (American Association of Port Authorities, 1998).

#### Public spending on ports leads to the growth of unions which hurts competitiveness- prevents economic growth

Helling and Poister 2K (Amy, associate professor in the Department of Public Administration and Urban Studies @ Georgia State University; Theodore, professor of Public Administration at the Andrew Young School of Social Policy @ Georgia State University, “U.S. Maritime Ports: Trends, Policy Implications, and Research Needs”, Economic Development Journal, Aug 1 2000, pp. 300 – 314) MG

Direct employment in water transportation has declined from 232,000 in 1960 to 174,000 in 1995 (Bureau of Transportation Statistics, 1997a). Ironically, ports that retained more direct port-related employment, under expensive labor agreements struck with longshoremen’s unions many years ago, probably harmed their own ability to compete for cargo, ultimately contributing to port-related job losses. Cost savings that resulted from containerization are only now being passed along to shippers, in some cases as the workers covered by such agreements retire (Kennedy, 1997). But, in any case, direct public investment in ports does not by itself constitute economic development. Rather, economic development results when a port “affects the long-term ability of areas to attract, create, and retain employment and income” (Helling, 1997, p. 79)

#### Port spending won’t spill over to other industries’ growth

Helling and Poister 2K (Amy, associate professor in the Department of Public Administration and Urban Studies @ Georgia State University; Theodore, professor of Public Administration at the Andrew Young School of Social Policy @ Georgia State University, “U.S. Maritime Ports: Trends, Policy Implications, and Research Needs”, Economic Development Journal, Aug 1 2000, pp. 300 – 314) MG

The national input-output (I-O) accounts provide an indication of ports’ connections to local economies. As an intermediate consumer, U.S. water transportation had a total industry output multiplier of 1.94 (required $1.94 of direct and indirect inputs per dollar’s worth of output) in 1992. 118 This multiplier was smaller than those in 42% of I-O industries (Lawson, 1997). By far the greatest share of total inputs to water transportation came from the water transportation industry itself ($1.08), including payments for marine cargo handling and towing and tugboat services, for example. A dollar’s worth of water transportation output also required inputs from the following other I-O industries: other business and professional services ($0.10); state and local government enterprises, including public ports ($0.06); pipelines, freight forwarders, and related services ($0.06); real estate and royalties ($0.06); finance ($0.05); legal, engineering, accounting, and related services ($0.04); wholesale trade ($0.04); petroleum refining and related products ($0.03); maintenance and repair construction ($0.03); crude petroleum and natural gas ($0.03); and other transportation equipment ($0.03). Thus, reducing final demand for water transport would cause slightly greater than one-to-one shrinkage in the water transportation industry itself, a substantial portion of which might be expected to occur in ports’ metropolitan areas. The I-O accounts indicate that much lesser reductions would be expected in industries that help manage, maintain, or expand public and private marine facilities and services or that supply vessels and terminals with fuel and machinery. Thus, reduced final demand at one or more maritime ports (because of competition from other ports or other modes or as a result of changing international trading patterns) would likely have much smaller consequences on port cities’ other industries.

#### Focus on Keynesian stimulus depresses price levels, forcing ports to borrow from local and state governments to cover losses

Helling and Poister 2K (Amy, associate professor in the Department of Public Administration and Urban Studies @ Georgia State University; Theodore, professor of Public Administration at the Andrew Young School of Social Policy @ Georgia State University, “U.S. Maritime Ports: Trends, Policy Implications, and Research Needs”, Economic Development Journal, Aug 1 2000, pp. 300 – 314) MG

However, these issues are not being squarely addressed. Ports currently have little choice but to behave competitively, which is to say, parochially. Yet, the U.S. Maritime Administration (1998) acknowledges that competition among ports, coupled with a philosophy that “ports are to promote regional economic development and to create jobs,” leads to overcapacity and inefficiency. Focusing on economic development tends to depress price levels for the whole industry. Public ports rely on price and service competition to attract and hold business. Price competition tends to lower revenues while service competition may require additional investments in facilities and equipment. One consequence of price/service competition is that many ports rely on state and local subsidies to cover financial shortfalls. 22 (p. 3) Port revenues and revenue bonds make up a diminishing share of port funding in recent years, leaving ports to depend more heavily on state transportation trust funds, state and local budget appropriations, and property tax revenues (U.S. Maritime Administration, 1998).

#### Ports increase imports, which harm local economies

Helling and Poister 2K (Amy, associate professor in the Department of Public Administration and Urban Studies @ Georgia State University; Theodore, professor of Public Administration at the Andrew Young School of Social Policy @ Georgia State University, “U.S. Maritime Ports: Trends, Policy Implications, and Research Needs”, Economic Development Journal, Aug 1 2000, pp. 300 – 314) MG

Because of the reduced advantages of proximity to ports, port customers are more distant from port cities, and the localized, indirect economic development benefits to these cities of hosting a port are far smaller than they once were (Campbell, 1993; Helling, 1997). Although port investments are advocated to promote exports, Noponen, Markusen, and Driessen (1997) found that port cities showed less growth in manufacturing employment during the period 1978 through 1986 than did nonport cities, a result they attribute to ports facilitating the growth of imports that compete with local products, undermining local economic development. 20 Because different metropolitan economies, even within the same state, have vastly different abilities to increase exports and substitute for imports, these authors argue that port subsidies are likely to foster economic development in some metropolitan areas and harm others, possibly dramatically (Noponen et al., 1997).

## Train Spending Fails

#### Bureaucratic inefficiencies prevents Train investment from creating growth

Lee 11 – Adjunct Scholar at the CATO Institute, Forbes.com (Timothy B., “Trains, Pensions, and Economic Freedom”, Cato.org, August 17, 2011) MG

As for trains, not only does the subject have no obvious connection to economic freedom, but Gillespie and Welch don't make a very compelling case that trains are particularly prone to mismanagement and boondoggles. To be sure, there have been a lot of wasteful train projects, but it's easy to find examples of mismanaged projects involving other modes of transportation, all of which are also heavily regulated and subsidized by the government. The problem is that large bureaucracies are inefficient, not that there's something uniquely bad about rail transportation.

#### Regulatory laws prevent high Population densities which prevents trains from becoming efficient and popular

Lee 11 – Adjunct Scholar at the CATO Institute, Forbes.com (Timothy B., “Trains, Pensions, and Economic Freedom”, Cato.org, August 17, 2011)

More to the point, one of the big reasons train-based transit tends to perform poorly is that the government systematically discourages the kind of high-density development patterns that make trains economically viable. Trains are an efficient and popular mode of transportation in cities like New York, Philadelphia, and DC because there's a critical mass of people within walking distance of each stop. But today, rules about minimum parking, setbacks, maximum building heights, and so forth effectively make it illegal to build neighborhoods like the high-density parts of Northeastern cities. Repeal those rules and wait a couple of decades, and some of these train boondoggles might start to make more sense.

## AT: History Proves

#### Be weary of their “history proves” evidence- it’s based on bad models – states will negate any positive multiplier in stimulus spending

Auerbach 12 ( Alan J., Burch Professor of Economics and Law Director, Robert D. Burch Center for Tax Policy and Public Finance, University of California, Berkeley May 2012, “The Fall and Rise of Keynesian Fiscal Policy, <http://elsa.berkeley.edu/~auerbach/TheFallandRiseofKeynesianFiscalPolicy.2>)AS

The similarity in multiplier assumptions by CEA and CBO is reflected in similar estimates of the aggregate impact of the stimulus package. CBO (2010) estimated that, in the first quarter of 2010, the stimulus package raised the level of GDP by between 1.7 percent and 4.2 percent and raised the level of employment by 1.2 million to 2.8 million. Subsequent evaluations, also based on large-scale macroeconomic models, yielded similar results. However, two points should be made about such analyses. First, these large-scale models incorporate traditional Keynesian features that can generate relatively large multipliers when the economy is 20 far from full employment, as was the case in 2009. As discussed above, such multipliers are less easily generated using alternative modeling techniques. Second, these studies are predictions of the effects of ARRA – they do not in any way confirm that such effects occurred. For that, one would need to know the counterfactual path of the economy. Indeed, an alternative approach to evaluating the effects of ARRA, looking at trends in behavior at the state and local government level (Cogan and Taylor, 2011), concluded that state and local governments offset the increase in federal transfers to them by reducing outstanding debt and increasing transfer payments, rather than increasing government purchases. As a consequence, Cogan and Taylor argue that ARRA had virtually no impact on overall government purchases as of mid-2010, and as a consequence was unlikely to have had a strong stimulus effect even if the government purchases multiplier were large.

#### No conclusive, timely data that stimulus boosted the economy

Cochrane 09 (Feb 27, John H., Myron S. Scholes Professor of Finance “Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?” <http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm>) BH

These ideas changed because Keynesian economics was a failure in practice, and not just in theory. Keynes left Britain 30 years of miserable growth. Richard Nixon said, “We are all Keynesians now,” just as Keynesian policy led to the inflation and economic dislocation of the 1970s--unexpected by Keynesians but dramatically foretold by Milton Friedman’s 1968 AEA address. Keynes disdained investment, where we now all realize that saving and investment are vital to long-run growth. Keynes did not think at all about the incentives effects of taxes. He favored planning, and wrote before Hayek reminded us how modern economies cannot function without price signals. Fiscal stimulus advocates are hanging on to a last little timber from a sunken boat of ideas, ideas that everyone including they abandoned, and from hard experience. If we forget all that, we could repeat the economics of postwar Britain, of spend-and-inflate Latin America, and of bureaucratic, planned India.

There has been no grand empirical reevaluation of fiscal stimulus either. Empirical work is hard, since governments try fiscal stimulus in bad times. If you bleed with leaches when you have a cold, empirical work might say that the leaches cured you. Empirical work has to find fiscal stimulus events that were applied randomly, without regard to the state of the economy. Harder still, it has to find stimulus spending that people expected to be paid off rather than inflated away. Most current empirical work does not make this distinction, and therefore is in danger of measuring the slope of the Phillips curve rather than the fiscal multiplier. Finally, empirical work without a plausible mechanism is hard to believe. Even so, doing the best to surmount these problems, nothing in recent empirical work on US data has revised a gloomy opinion of fiscal stimulus.9 Looking across the world, large government deficits and spending programs are clearly not the keys to economic health, and evidence of stimulus effects over time in the US needs to be reconciled with this supreme lack of evidence across countries.

The Administration's estimates for the effect of a stimulus plan cite no new evidence and no theory at all for their large multipliers. The multipliers come ".. from a leading private forecasting firm and the Federal Reserve’s FRB/US model." (Appendix 1) Multipliers are hard-wired in these models by assumption, rather than summarizing any evidence on the effectiveness of fiscal policy, and the models reflect the three theoretical fallacies above. The multipliers in this report are not conditioned on "slack output" or something else -- they state that every dollar of government spending generates 1.57 dollars of output always! If you've got magic, why not 2 trillion dollars? Why not 10 trillion dollars? Why not 100 trillion, and we can all have private jets? If you don't believe that, why do you think it works for a trillion dollars? Their estimates of industry effects come from a blog post (p. 8)! Ok, they did their best in the day and a half or so they had in the rush to put the report together. But really, before spending a trillion dollars of our money, wouldn't it make sense to spend, say one tenth of one percent on figuring out if it will work at all? (That would be 100 million dollars, more than has ever been spent on economic research in the entire history of the world. )

Some economists tell me, “Yes, all our models, data, and analysis and experience for the last 40 years say fiscal stimulus doesn’t work, but don’t you really believe it anyway?” This is an astonishing attitude. How can a scientist “believe” something different than what he or she spends a career writing and teaching? At a minimum policy-makers shouldn’t put much weight on such “beliefs,” since they explicitly don’t represent expert scientific inquiry.

Others say that we should have a fiscal stimulus to “give people confidence,” even if we have neither theory nor evidence that it will work. This impressively paternalistic argument was tried once with the TARP. Nobody could say how it would work in any way that made sense, but it was supposed to be important do to something grand to give people “confidence.” You see how that worked out. Public prayer would work better and cost a lot less. Seriously, as social scientists, economists don’t have any special expertise to prescribe what intrinsically meaningless gestures will and will not give “confidence,” so there is no reason for anyone to listen to our opinions on that score.

#### History isn’t on your side- US “successes” are inconsistent and failures are more prevalent

Piereson 2012 (James, is a Manhattan Institute senior fellow and director of the Institute’s Center for the American University. William E. Simon Foundation John Maynard Keynes and the Modern Revolution in Political Economy. March <http://www.springerlink.com/content/q4662768k2075837/fulltext.pdf>) AS

There have not been all that many clear-cut cases in which efforts to apply Keynesian fiscal policies have rescued modern economies from recession or depression. FDR’s spending policies during the 1930s are sometimes cited in this connection, but those policies were too inconsistent, quixotic, and uncertain in their effects to be judged as Keynesian successes. The Kennedy tax cut of 1964 is more plausibly cited as a triumph of Keynesian policy, since it did produce a boom, at least for a short time, and it was explicitly crafted by Kennedy’s advisors as a demand-side stimulus. It is of special interest that these effects were achieved by cutting taxes rather than by increasing expenditures. There is also the argument that our modern political economy incorporates built in stabilizers such that recessions create automatic and self-correcting deficits. In other words, we have built a Keynesian system that automatically prevents or corrects for slumps. On the other hand, there are several contrary cases that must be considered as well, such is the British experience in the 1960s and the American in the 1970s when Keynesian policies either did not work or produced harmful effects—a major devaluation in Great Britain and “stagflation” in the United States. For the past twenty years, since the collapse in its real estate and stock markets, Japan has tried various Keynesian-type policies, including major stimulus packages and public works programs, with little success in producing sustained growth but leaving that country with a public debt roughly twice the size of its annual Gross Domestic Product. The United States also enacted a Keynesian stimulus package in 2009 to deal with a major recession, but so far with disappointing results. Once the funds were spent, the expansion slowed and unemployment rates began to creep up again, provoking calls for further stimulus spending. Meanwhile, government debt levels are approaching parity with annual GDP. In the United States, Japan, and in several European countries, governments have come close to spending whatever Keynesian ammunition they once had.

#### And the great depression was caused by failure in US monetary policy not the private markets- Keynesian spending didn’t solve

Brannon and Edwards 2009 (Ike, is the Director of Economic Policy as well as the Director of Congressional Relations for the American Action Forum. Chris, is the director of tax policy studies at Cato and editor of [www.DownsizingGovernment.org](http://www.downsizinggovernment.org). Barack Obama's Keynesian Mistake, <http://www.cato.org/publications/commentary/barack-obamas-keynesian-mistake>, ) AS

The dominance of Keynesianism ended in the 1970s. Government spending and deficits ballooned, but the result was higher inflation, not lower unemployment. These events, and the rise in monetarism led by Milton Friedman, ended the belief in an unemployment-inflation trade-off. Keynesianism was flawed and its prescription of active fiscal intervention was misguided. Indeed, Friedman's research showed that the Great Depression was caused by a failure of government monetary policy, not a failure of private markets, as Keynes had claimed.

#### No Conclusive data on whether the stimulus is what boosted the economy- too many concurrent policies.

Auerbach 2012 ( Alan J. Department of Economics, University of California, Berkeley, CA , The Fall and Rise of Keynesian Economic Policy, May, <http://www.joserobertoafonso.ecn.br/attachments/article/2595/1205%20Auerbach--The%20Fall%20and%20Rise%20of%20Keynesian%20Fiscal%20Policy.pdf>) AS

Many other countries also pursued active fiscal measures during this period. The prevalence of fiscal policy interventions reflects the severity of the recession and also perhaps at least a temporary optimism with regard to the potential effectiveness of activist fiscal policy. Yet the variety of approaches adopted suggests uncertainty about which approaches might have been most effective, and the overall perspective on the effectiveness of fiscal policy as a tool for stabilization is still debated, even as the focus in many countries, including the United States, has begun to shift away from fiscal stimulus to fiscal balance, with another controversial view, that fiscal contractions may in certain circumstances stimulate economic activity, coming in conflict with the traditional Keynesian perspective.

## AT: Multiplier

#### No Positive Multipliers- High Debt ratio and flexible exchange rate

De Rugy and Mitchell 11 (September 2011, Veronique - senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy and federal budget; Matthew - senior research fellow at the Mercatus Center at George Mason University. His primary research interests include economic freedom and economic growth, government spending, state and local fiscal policy, public choice, and institutional economics, “Would more infrastructure spending stimulate the economy? No. 11-36, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>, accessed June 19, 2012) MG

What‘s more, not all studies that incorporate this low interest-rate assumption obtain large estimated multipliers. For example, studies that consider the tax that will need to be levied tomorrow to pay for today‘s spending, find much smaller multipliers, even when interest rates are exceedingly low. 9 Stimulus in a highly indebted nation: An extensive study from the IMF shows that fiscal multipliers in nations with debt levels in excess of 60 percent of GDP are zero or even negative. 10 The current U.S. debt-to-GDP ratio is 70 percent and, according to the Congressional Budget Office, it will be 90 percent within seven years and 100 percent within ten. 11 Stimulus under flexible exchange rates: The same IMF study also finds that a nation‘s exchange-rate regime impacts the size of the multiplier. When a nation‘s exchange rate is fixed, the multiplier can be relatively large. 12 But when the country allows the market to dictate movements in the exchange rate—as the United States does—the IMF economists found that the multiplier is much lower. This is because fiscal stimulus tends to cause domestic interest rates to rise relative to foreign interest rates. And when this happens, foreigners increase their demand for the domestic currency, causing it to appreciate. This, in turn, makes domestic goods more expensive and foreign goods cheaper, decreasing net exports and lowering output. Stimulus in a balance-sheet recession: The current recession has resulted in an unprecedented collapse in net wealth. In other words, it is a deep ―balance sheet‖ recession. But with personal wealth diminished and private credit impaired, some economists believe that stimulus is likely to be less effective than it would be in a different type of recession. This is because consumers are likely to use their stimulus money to rebuild their nest eggs, i.e., to pay off debts and save, not to buy new products as Keynesian theoreticians want them to. 13 The same is likely true for state and local governments who have used their ARRA dollars to reduce their budget gaps or reduce their borrowing rather than to increase infrastructure spending or other government purchases.

#### No Stable multiplier can predict the outcome of federal spending

Wilson 2012 (DANIEL J. Senior Economist Microeconomic Research at the Federal Reserve Bank of San Francisco, Government Spending: An Economic Boost? February 6, 2012, <http://www.cato.org/publications/commentary/keynesian-policies-have-failed>) AS

What does this literature tell policymakers and others trying to assess the impact of fiscal policy changes? It is an inconvenient reality that this literature provides an enormous range of multiplier estimates, ranging from –1 to 3. However, this range is not so much a reflection of disagreement over an underlying parameter as it is a reflection of one of the key lessons of this research—that there is no single multiplier that can be applied mechanically to all situations. The impact depends on the type of fiscal policy changes in question and the environment in which they are implemented. The effects of government investment are potentially greater than those of other types of government spending. And the effects from transfers to people without much wealth or ability to borrow are probably higher than from transfers to others. The impact depends on how policy changes affect expectations of future government spending and taxes. It also depends on how quickly the changes are implemented and whether they were anticipated before they were authorized. Moreover, the impact varies depending on whether monetary policy counteracts or complements fiscal policy. Finally, it depends on the state of the business cycle. Effects are more positive during recessions. An important lesson from the research is that it’s essential to clearly understand the context in which fiscal policy is operating, that is, the factors that may cause economic effects and the size of the multiplier to vary.

#### **Debt crisis means stimulus multiplier is low**

Auerbach 12 ( Alan J., Burch Professor of Economics and Law Director, Robert D. Burch Center for Tax Policy and Public Finance, University of California, Berkeley May 2012, “The Fall and Rise of Keynesian Fiscal Policy, <http://elsa.berkeley.edu/~auerbach/TheFallandRiseofKeynesianFiscalPolicy.2>)AS

As the Table 2 shows, the multiplier in recession is strengthened when the debt-GDP ratio is zero, and becomes roughly zero when the debt-GDP ratio is 1. While this finding does not suggest that fiscal contractions are expansionary, it does indicate that attempts at fiscal stimulus may be relatively ineffective for countries facing budget stress. Of course, results for OECD countries, as most of the preceding studies are, do not necessarily apply to the United States, still a provider of a reserve currency and perceived as a relatively safe haven in turbulent world economic times. In summary, there is some evidence suggesting that fiscal stimulus may be more difficult to achieve, even in recession, for a country in a challenging fiscal environment, as measured by its debt-GDP ratio. But, while fiscal consolidation may have clear long-run benefits, its shortrun desirability in recession remains to be proved for countries that, like the United States, do not face imminent financial crises or reduced access to credit markets.

#### At best the multiplier is only a fraction of government spending- especially in peacetimes

Foster 9 – PH. D, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation (J.D., July 27, 2009, “Keynesian Fiscal Stimulus Policies Stimulate Debt – Not the Economy”, <http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>, accessed June 21, 2012) MG

Perhaps Robert J. Barro's analysis of fiscal stimulus efficacy is the most well known and controversial. Barro argues the clearest evidence of fiscal policy effects is likely to be found when spending ramps up rapidly during wars.[7] Examining U.S. fiscal policy in the periods surrounding World War II, the Korean War, and the Vietnam War, Barro's analysis suggests a fiscal multiplier of 0.8, meaning even at its most effective, the increase in output was a fraction of the increase in government spending. Barro further theorizes the wartime multiplier is likely to be much greater than the peacetime multiplier, with a peacetime multiplier likely near zero so every extra dollar of government spending actually replaces a dollar of private spending leaving output unaffected. Paul Krugman among others have criticized Barro's results, noting that the wars themselves and the often attendant wage and price controls would have diminished the effectiveness of fiscal policy.[8] However, none of his critics has as of yet provided an empirical analysis challenging Barro's results.

## AT: Boosts Jobs

#### Most recent studies prove spending doesn’t boost job creation

Phoenix Center 2011 (The Phoenix Center is a non-profit organization that studies broad public-policy issues related to governance, social and economic conditions “New Phoenix Center Analysis of Fifty Years of U.S. Economic Data Finds that Government Spending has Zero Effect on Private-Sector Job Creation During Economic Slumps”, <http://www.sacbee.com/2011/11/01/4022083/new-phoenix-center-analysis-of.html>,)

In a new study released today entitled: Can Government Spending Get America Working Again?, the Phoenix Center finds that government spending has zero effect on private-sector job creation in periods of economic sluggishness. With unemployment still at record highs and expected to remain so for the foreseeable future, the Phoenix Center looks at fifty years of data to examine the effectiveness of government spending on private-sector job growth. Rather than contemplate the average or typical effect of government stimulus on private-sector jobs, the study divides the past fifty years of U.S. economic history into low-growth and high-growth periods. The Center then applies a non-linear, two-regime model to study whether the stimulus effects on private-sector jobs of government and private investment differ between recessionary and expansionary periods. The Phoenix Center finds that during periods of economic sluggishness, government spending has zero effect on private-sector job creation. This result is consistent with the apparent impotence of huge federal government spending increases in recent times aimed at reducing unemployment. In contrast, when it comes to job growth, expansions in private investment are effective at creating jobs in both good and bad economic times, but the efficacy of private investment is greater during periods of slow economic growth. By implication, policies that discourage private investment may have severe job-killing effects during economic downturns, since it is during the low growth periods that jobs are most responsive to increases in private investment. In light of these results and the evident failure of government stimulus to restore economic growth, the Phoenix Center finds that job creation appears best served, under present economic conditions, by policies that encourage efficient private-sector investment such as tax and regulatory relief. "Our study confirms from fifty years of economic data what most Americans already know firsthand," said Phoenix Center President and study co-author Lawrence J. Spiwak. "Government can't spend the country into prosperity. Instead, if we want to create more jobs, then we need to enact policies such as tax and regulatory reform to get the private-sector investing in America once again." "The response of jobs to spending, whether by the government or by the private sector, differs between periods of economic expansion and economic sluggishness," adds Dr. George S. Ford, Phoenix Center Chief Economist and co-author of the study. "When the economy is lethargic, as it is now, we find that government spending has no effect on private-sector job creation, but at the same time, private investment is more potent than ever. The implication seems clear -- the government needs to focus on private-sector recovery. By most accounts, including President Obama's, this means significant reform of the nation's regulatory bureaucracy."

#### And History proves more people lost their jobs after the stimulus. There’s been no short or long term boost in jobs

Powell 2011 (Jim, a senior fellow at the Cato Institute, CATO Institute, More Unemployed Presently, Than in 2009, September 9th <http://www.cato.org/publications/commentary/more-unemployed-presently-2009>) AS

Unemployment has worsened for two principal reasons. First, Obama neglected the unemployment issue for more than a year while he focused on his personal priority — the government takeover of health insurance. Second, many of Obama's policies have made it more difficult and more expensive for employers to hire people. Whenever something becomes more difficult and expensive, there's likely to be less of it. In effect, Obama has promoted anti-jobs policies. When speaking to the joint session of Congress, Obama made clear he wants to repeat some of his biggest failures. For starters, another round of "stimulus" spending — some $300 billion. Like his previous blowout, widely viewed as a failure, the new one is based on the discredited theory that the best way to promote private sector jobs is to drain hundreds of billions of dollars out of the private sector and give the money to government agencies and government employee unions. The theory behind such stimulus involves the so-called Keynesian "multiplier" — each dollar of government spending will supposedly lead to more than a dollar's worth of total spending as the money circulates. But government money doesn't come out of thin air. It comes from taxpayers, and each dollar taken from taxpayers means they have less money, the people they do business will have less money, and so on. The alleged benefits of Keynesian spending are canceled out by taxation. That's why Obama's spending has failed to stimulate the economy as he claimed, and if Congress voted for another round of stimulus spending, it would be a bust, too.

#### Keynesian spending lures jobs from the private sector – most qualified studies agree

Reynolds 2 (Aug 25, 2002, Alan senior fellow at the CATO Institute internationally syndicated economist, “Supply-Side Goes to Harvard”, CATO Institute, <http://www.cato.org/publications/commentary/supplyside-goes-harvard>, accessed June 20, 2012) MG

The president's economic gabfest at Waco, like similar events in the past, was an insult to the economic profession. As a wise teacher once remarked, "If economics is that simple, why do we pay professors to teach it to our kids?" The few token economists at Waco were from an older generation, and therefore burdened by a legacy of theories and assumptions that younger economists know to be quaint deceptions. Complex theories make some people oblivious to simple facts. President Bush thought the only reason to trim a mere $5 billion from federal spending is that budget deficits push up interest rates -- a remarkable thing to say while bonds yields are the lowest in four decades. Attachment to theories that don't match the facts is a legacy of Keynesian speculations that were all the rage in the 1960s, particularly at Yale and Harvard. But economics has made giant strides since then, and Harvard is no exception. Alan Reynolds is a senior fellow with the Cato Institute and a nationally syndicated columnist. More by Alan Reynolds In the 1980s, Harvard's top economists included Marty Feldstein, Dale Jorgenson, Larry Lindsey and Larry Summers -- all of whom contributed to the "microeconomic" analysis known as supply-side economics. Yet when it comes to talking about the overall economy ("macroeconomics"), that generation of Harvard economists often reverts to Keynesian folklore. A younger generation of economists, however, has noticed that Keynesian notions of what stimulates or injures an economy are upside down. Once again, some leading innovators are from Harvard, notably Robert Barro and Alberto Alesina. The latest American Economic Review features a startling study about "Fiscal Policy, Profits and Investment" in 18 large economies by Profs. Alesina, Ardagna, Perotti and Schiantarelli. For simplicity, call it the Alesina study. Harvard economists once thought cutting government spending was contractionary, something that would shrink the private economy. The Alesina study finds that big cuts in government spending are expansionary, making economies boom. Ireland slashed government spending by more than 7 percent of GDP in 1986-89, and economic growth from 1989 to 2001 averaged 7.2 percent per year. Japan spent hundreds of billions on Keynesian public works schemes after 1991, and economic growth averaged only 1.1 percent. Part of the explanation is taxes. Ireland now has a 15 percent tax on corporate profits, a 20 percent tax on inflation-indexed capital gains and lower tax rates on labor. Japan imposed new taxes on sales, property and capital gains, while maintaining Asia's most punitive income-tax rates. Alesina found that "labor taxes have the largest negative impact on profits and investment," partly because private workers "react to tax hikes or more generous transfer payments by decreasing the labor supply or asking for higher pretax real wages." But this study also found that big government spending is inherently bad for economic growth, even aside from taxes. Government hiring and pay raises lure workers from private businesses, which are forced to raise wages even if that means reduced hiring. Higher labor costs per employee depress profits and investment. Many other new studies find equally bad effects of big government on economic growth. In the May issue of the same journal, for example, Ed Prescott of the University of Minnesota found that "differences in the consumption and labor tax rates in France and the United States account for virtually all of the 30 percent difference in the labor input per working-age person." Mr. Prescott calculates that the French would be 19 percent better off if they had a tax system no worse than ours. I believe the United States would be 50 percent better off with a tax system like Hong Kong's, but that is another story for another day. In any case, the Alesina study concluded that "fiscal stabilizations that have led to an increase in growth consist mainly of spending cuts, particularly in government wages and transfers, while those associated with a downturn in the economy are characterized by tax increases." The study explained that "since aggregate demand-driven models fail to capture significant aspects of fiscal policy we concentrate on the supply side." Jude Wanniski and I came up with a name for that back in April 1976: We called it supply-side economics. To concentrate on the supply side may sound like an old idea to those who opine about economics without bothering to study the subject. But it is an exciting new idea in leading universities like Harvard and also in newly prosperous countries such as Ireland and Russia. It always works.

#### Stimulus doesn’t work- deregulation is what is needed

Beard et al, 11 (T. Randolph Beard, Ph.D. ,George S. Ford, Ph.D. ,Hyeongwoo Kim, Ph.D., Lawrence J. Spiwak, Esq., CAN GOVERNMENT SPENDING GET AMERICA WORKING AGAIN?, PHOENIX CENTER POLICY BULLETIN NO. 31, <http://www.phoenix-center.org/PolicyBulletin/PCPB31Final.pdf>) MB

When the Obama Administration passed the $800 billion stimulus package at the height of the financial crisis in 2008, many people thought that such intervention was necessary because the private-sector looked so weak. Indeed, as the FINANCIAL TIMES reported, President Nixon’s famous (mis)quotation that “We are all Keynesians now”35 rings “truer today than at any time since, as governments seize on John Maynard Keynes’s idea that fiscal stimulus … can help dig their economies out of recession.”36 Some, like Princeton Professor and Nobel Prize winner Paul Krugman, argued that $800 billion was insufficient and that far more government spending was required.37 We are now several years on, and many economists and policymakers are beginning to doubt the ability of government spending and monetary policy to effectively correct our current employment problems. Lacking any exact counterfactual, assessing the effectiveness of the spending so far is difficult. It is discouraging that, after so much economic research, our understanding of the dynamics of the macroeconomy remains so limited. Be that as it may, in this BULLETIN we have attempted to look at the link between federal spending initiatives and private employment, allowing for the possibility that this link depends on the state of the macroeconomy. Our findings are discouraging, but perhaps not surprising to those who have begun to doubt our current course. Government spending appears likely to help when help is not needed. Less surprising is the finding that private investment is “always” effective, but its increased effectiveness during low-growth periods is a new result of significant policy relevance. These findings suggest, if only informally, that the expectations of private employers play a vital role, although our analysis is not designed to parse this issue. More research on this important issue is, as always, encouraged. Accordingly, we suggest that the United States consider a change of economic policy course: Regulatory relief, combined with policies that reduce the costs, and raise the returns, to domestic private investment, should be given a serious try, at least before any more additional deficit-funded “stimulus” is authorized.

#### Stimulus Spending destroys job growth- ARA proves

Tcherneva 2012 ( Pavlina R., Levy Economics Institute of Bard College, Reorienting Fiscal Policy after the Great Recession, Levy Economics Institute of Bard College founded in 1986, is a nonprofit, nonpartisan, independently funded research organization devoted to public service. Through scholarship and economic research it generates viable, effective public policy responses to important economic problems that profoundly affect the quality of life in the United States and abroad. May ) AS

The Recovery Act of 2009, which initially allocated $787 billion over the course of four years, included $288 billion in tax benefits, $265 billion in contracts, grants, and loans, and $234 billion in entitlements (www.recovery.gov). The economic team of president Obama outlined clearly their methodology and approach toward macroeconomic stabilization in the report titled The Job Impact of the American Recovery and Reinvestment Plan (Romer and Bernstein 2009; see also Arnold 2009). The methodology consists of three steps. The first is to specify a prototypical package that outlines the various types of government expenditures. The second is to estimate the effect of these expenditures on GDP, where the economic team uses some conventional estimates for the multiplier effects of government spending and tax rebates on the GDP. And the final step is to estimate the number of jobs created as a result of the growth in GDP (Ibid.: 14).3 The program was projected to create or save 3 to 4 million jobs and bring the unemployment rate down to 7 percent by 2010 (and 6 percent by 2012). Note that the unemployment rate in March 2012 stood at 8.2 percent. The growth projections, however, were accurate. Real GDP from 2009 to 2010 grew by 3.7 percent, which is the exact estimate of the Romer-Bernstein report (2009). Yet during the same period (2009-2010), the economy experienced not a job growth of the expected 3 million jobs, but a cumulative loss of payroll employment of over 4 million jobs, after already shedding 3.6 million jobs in 2008 alone. Of course, in the absence of the Recovery Act, the unemployment level would have been much higher, but the unemployment projections nevertheless were off the mark (see Figure 1). Policy makers assessed poorly the labor market trends that would develop, even though it was already apparent in 2008 that the unemployment problem they would face would be formidable. The difficulty with the government’s policy response rested not just in the underestimation of the magnitude of the unemployment problem. The fundamental problem lied in the reliance on the very relationship between growth and unemployment as a useful policy guide. Indeed after a 3.5 percent collapse in real GDP from 2008 to 2009, the economy has been growing steadily at an average annual rate of 2.6 percent in real terms; yet the conditions of the labor markets have been dismal at best.

Models for job growth are flawed – any predictions that stimulus boosts jobs is false

Mankiw 10 (July 14, Greg- a professor of economics at Harvard University, The CEA's Impossible Job <http://gregmankiw.blogspot.com/2010/07/ceas-impossible-job.html> ) BH

The ARRA, the fiscal stimulus act passed last year, gave the Council of Economic Advisers an impossible job: measuring how many jobs the act created. Here is the CEA's latest attempt. As far as I can tell, there are two kinds of evidence here. First, there are model simulations. That is, the CEA took a conventional Keynesian-style macroeconomic model and used those set of equations to estimate the effect the stimulus should have had. Essentially, the model offers an estimate of the policy's effect, conditional on the model being a correct description of the world. But notice that this exercise is not really a measurement based on what actually occurred. Rather, the exercise is premised on the belief that the model is true, so no matter how bad the economy got, the inference is that it would have been even worse without the stimulus. Why? Because that is what the model says. The validity of the model itself is never questioned. (Moreover, the fact that other organizations simulating similar models come to similar conclusions is no evidence about the validity of the model's simulations. It only tells you the CEA staff did not commit egregious programming errors when running their computer simulations.) Second, the CEA offers some statistical evidence that things got better after the stimulus passed. Some of this evidence comes early in the document in the form of simple graphs. Some comes later by examining deviations from forecasts based on a two-variable vector autoregression. But the nature of the evidence is basically the same: Post hoc ergo propter hoc.

## AT: Boosts Business Confidence

#### Government spending doesn’t boost business confidence

Khalid et al. 12 (March 21, 2012, Ahmed M., Ph. D (Economics) John Hopkins University, has taught at the Ph. D level on Monetary Theory and Policy and researches applied macroeconomics and monetary economics, with a recent emphasis on financial crises and financial sector reforms, “Regulatory Failure and the Global Financial Crisis: An Australian Perspective“ pp. 90-96- Google books) AS

The major rationale for implementing fiscal stimulus is that it is supposed to counter the loss of confidence that causes a sudden spending stop. The spending that stopped most dramatically during the global financial crisis was business investment expenditure. Business investment is a key driver of the business cycle and its recovery is essential for a strong economic rebound. Yet there is a glaring contradiction in the argument that extensive fiscal stimulus is necessary for building business confidence. This is because higher government spending and the higher than necessary long-term interest rates that result, are inimical to asset price recovery, private investment and the strength of future economic growth.

## AT: Boosts Consumption

#### Money spent will be have to be taxed later on- meaning people wont consume but save.

Cochrane 09 (Feb 27, John H., Myron S. Scholes Professor of Finance “Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?” <http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm>) BH

Third, people must ignore the fact that the government will raise future taxes to pay back the debt. If you know your taxes will go up in the future, the right thing to do with a stimulus check is to buy government bonds so you can pay those higher taxes. Now the net effect of fiscal stimulus is exactly zero, except to raise future tax distortions. The classic arguments for fiscal stimulus presume that the government can systematically fool people. The central question is whether fiscal stimulus can do anything to raise the level of output. The question is not whether the “multiplier” exceeds one – whether deficit spending raises output by more than the value of that spending. The baseline question is whether the multiplier exceeds zero.2

## AT: Public Expectations

#### Public expectations go neg- expectations of future actions don’t impact overall demand

Denes et al. 12 – The Wharton School of Business @ University of Pennsylvania (Matthew, February 1, 2012, “Deficits, Public Debt Dynamics, and Tax and Spending Multipliers”, Federal Reserve Bank Staff Reports, <http://www.newyorkfed.org/research/staff_reports/sr551.pdf> pp. 16-17) AS

To get our second set of results, we consider how short-run demand depends upon expectations about long-run policy. We first look at the effect of long-run taxes and the long-run size of the government on short-run demand if the central bank is not constrained by the zero bound and successfully targets constant inflation. In this case we show that expectations of future fiscal policy are irrelevant for aggregate demand. What happens in the model is that if the central bank successfully targets inflation it "replicates" the solution of the model that would take place if all prices were perfectly flexible, i.e. the "Real Business Cycle" (RBC) solution. And if all prices were flexible in the model, then aggregate demand would play no role in the first place. We then move on to study the effect of fiscal policy expectations when there are large enough shocks so that the zero bound is binding. Then the central bank is unable to replicate the flexible price RBC solution. In this case the results are much more interesting: Output is completely demand determined, i.e., the amount produced depends on how much people want to buy. Crucially, expectations about future economic conditions start having an important effect on short-run demand and thus output. And future economic conditions, in turn, depend on long-run policy. To summarize: We find that a commitment to reduce the size of the government in the long run or to reduce future labor taxes increases short-run demand. This is because both policies imply higher future private consumption, and thus will tend to raise consumption demanded in the short run. It is worth noting that any policy that tends to increase expectations of future output potentially will also be expansionary in exactly the same way. Meanwhile, a commitment to lower long-run sales taxes has the opposite effect, i.e., it reduces short-run demand. This is because lower future sales taxes induce people to delay short-run consumption to take advantage of lower future prices.

## AT: Drives down Sticky Wages

#### Stimulus fails to effect wages

Brannon and Edwards 2009 (Ike, is the Director of Economic Policy as well as the Director of Congressional Relations for the American Action Forum. Chris, is the director of tax policy studies at Cato and editor of [www.DownsizingGovernment.org](http://www.downsizinggovernment.org). Barack Obama's Keynesian Mistake, <http://www.cato.org/publications/commentary/barack-obamas-keynesian-mistake>, ) AS

Federal policymakers are moving ahead with a huge $800-billion stimulus plan to return the U.S. economy to growth. Will it work? Decades of macroeconomic research suggest that it won't. Indeed, the revival of old-fashioned Keynesianism to fight the recession seems to stem more from political expediency than modern economic theory or historical experience. The idea of using fiscal policy to boost the economy during a downturn was championed by John Maynard Keynes in the 1930s. Keynes argued that market economies can get stuck in a deep rut and that only large infusions of government stimulus can revive growth. He posited that high unemployment in the Great Depression was due to "sticky wages" and other market problems that prevented the return of full-employment equilibrium. Interestingly, Keynes did not offer any evidence that sticky wages were a serious problem, and later research indicated that wages actually fell substantially during the 1930s. Instead, one needs to look at a range of government interventions to explain why the downturn lasted so long. Despite the flaws in Keynes' analysis, his prescription of fiscal stimulus to increase aggregate demand during recessions became widely accepted. Governments came to believe that by manipulating spending or temporary tax breaks they could scientifically manage the economy and smooth out business cycles. Many economists thought that there was a trade-off between inflation and unemployment that could be exploited by skilled policymakers. If unemployment was rising, the government could stimulate aggregate demand to reduce it, but with the side-effect of somewhat higher inflation. Keynesians thought that fiscal stimulus would work by counteracting the problem of sticky wages. Workers would be fooled into accepting lower real wages as price levels rose. Rising nominal wages would spur added work efforts and increased hiring by businesses. However, later analysis revealed that the government can't routinely fool private markets, because people have foresight and they are generally rational. Keynes erred in ignoring the actual microeconomic behaviour of individuals and businesses.

## AT: Printing Money Solves

#### Printing money fails- rational actors will circumvent and respond to inflation

Foster 9 – PH. D, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation (J.D., July 27, 2009, “Keynesian Fiscal Stimulus Policies Stimulate Debt – Not the Economy”, <http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>, accessed June 21, 2012) MG

However, the monetary authority may opt to subordinate its policy rules and objectives to fiscal policy, repeating the 1970s experiments in the United States. The previous outcome of loose monetary policy was economic stagnation coupled with high and rising inflation, what came to be known as "stagflation." The policy failed to produce sustained economic growth because market participants learn quickly. Businesses, investors, workers, and savers recognized the shift toward an inflationary monetary policy, interpreted it correctly, and reflected higher inflation in their pricing and expectations. In so doing, they nullified the potential stimulative effects of the policy and the Federal Reserve was forced to adopt a contractionary counter-inflationary policy resulting in the deep recession of 1981- 1982. Even a compliant central bank cannot make Keynesian policy effective unless the central bank can consistently and persistently fool the markets.

## AT: China + India Proves Stimulus Works

#### False- emerging markets are succeeding based on credit explosions not stimulus

O'Hanlon 12 (5/28/12, Steve,chief investment officer for fixed income at ACPI Financial Times, “Western economies still feeling untold damage”, <http://www.ftadviser.com/2012/05/28/investments/global/western-economies-still-feeling-untold-damage-2LM2eSdZ2NA1OrcvgkWmYM/article-0.html>) AS

Emerging markets (EMs) also participated in this massive stimulus. But unlike the low multiplier recoveries in the West, the EM countries boomed on the back of a massive credit explosion in their own economies. In Brazil and China the expansion of credit since the crisis has grown at a faster rate than it ever did in the west. The effects of this can be seen now in some of the Bric nations, such as China and India. The side effects of such rapid credit also has unintended inflationary consequences in the developed markets. The outcome of all this stimulus clearly indicates that this is not just a cyclical slowdown, but rather indicates something much more structural has gone wrong in developed market economies. Commentators can point to their deleveraging as a positive development, and they would probably have a point.

## AT: Economic Models

#### The overstate the effectiveness of spending in their models- err neg

Foster 9 – PH. D, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation (J.D., July 27, 2009, “Keynesian Fiscal Stimulus Policies Stimulate Debt – Not the Economy”, <http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>, accessed June 21, 2012) AS

Christina Romer and Jared Bernstein, Chief Economist of the Office of the Vice President, provide a recent example of the model simulation approach.[10] They averaged the output from policy simulations using two quantitative macroeconomic models--one in use at the Federal Reserve Board, and one from an unnamed private forecasting firm. [THEY] found that an increase in government spending of 1 percent of GDP increases output by 1.6 percent. In contrast, John Cogan and his colleagues[11] used a state-of-the-art macroeconomic model constructed by Frank Smets and Rafael Wouters.[12] The Smets-Wouters model embodies the "new Keynesian" approach to macroeconomic analysis. Among the differences from older models, such as those used by Romer and Bernstein, Smets-Wouters includes forward-looking, or rational, expectations. Cogan found the impact in the first year of a Keynesian stimulus to be "very small" and that the multipliers are less than one as consumption and investment are crowded out. As the above discussion on monetary policy suggests, the policy of the central bank can have a powerful influence on the economy and thus on the apparent effectiveness of fiscal policy. Eggertsson used a model similar to Smets-Wouters to examine these questions.[13] Her analysis explored the consequences of increased government spending in the two cases in which monetary policy is and is not explicitly coordinated with fiscal policy. Uncoordinated policies need not mean that monetary and fiscal policies have divergent goals. For example, both monetary policy and fiscal policy may react to economic weakness, a threat of deflation, or off-target inflation. As defined by Eggertsson, the lack of coordination in policies means that in reacting to macroeconomic conditions the monetary authority's actions may be coincidental to fiscal policy, but not specifically intended to support fiscal policy. On the other hand, if the monetary authority sets aside its usual guidelines to subordinate monetary policy to fiscal policy goals, it is considered to be coordinated with fiscal policy.

#### Err neg on economic models

Foster 9 – PH. D, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation (J.D., July 27, 2009, “Keynesian Fiscal Stimulus Policies Stimulate Debt – Not the Economy”, <http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>, accessed June 21, 2012) MG

The downside to all economic models is that they often provide uncertain illumination for policymakers because the models ultimately only report what their builders have designed into them. Economic models are inherently abstract representations of an economic phenomenon, dependent on the state of economic theory and the quality and availability of data. Given these limitations it can be difficult to discern whether an interesting result reflects the model or the economy the model is intended to represent.

## AT: Heritage Foundation

#### The Heritage Foundation’s writing is based in ideology, not facts. They will write anything to boost the conservative agenda

Krugman 11 (April 17, Paul, an American economist, Professor of Economics and International Affairs at the Woodrow Wilson School of Public and International Affairs at Princeton University “Lets Not Be Civil” <http://www.nytimes.com/2011/04/18/opinion/18krugman.html>) BH

When the proposal was released, it was praised as a “wonk-approved” plan that had been run by the experts. But the “experts” in question, it turned out, were at the Heritage Foundation, and few people outside the hard right found their conclusions credible. In the words of the consulting firm Macroeconomic Advisers — which makes its living telling businesses what they need to know, not telling politicians what they want to hear — the Heritage analysis was “both flawed and contrived.” Basically, Heritage went all in on the much-refuted claim that cutting taxes on the wealthy produces miraculous economic results, including a surge in revenue that actually reduces the deficit. By the way, Heritage is always like this. Whenever there’s something the G.O.P. doesn’t like — say, environmental protection — Heritage can be counted on to produce a report, based on no economic model anyone else recognizes, claiming that this policy would cause huge job losses. Correspondingly, whenever there’s something Republicans want, like tax cuts for the wealthy or for corporations, Heritage can be counted on to claim that this policy would yield immense economic benefits.

#### Heritage foundation is swayed by corporate interests- reject their evidence

Tevelow 5 — Amos A. Tevelow, Ph.D. Candidate in the Department of Communication at the University of Pittsburgh, 2005 (“From Corporate Liberalism To Neoliberalism: A History Of American Think Tanks,” Thesis Submitted to the Graduate Faculty of Arts and Sciences in partial fulfillment of the requirements for the degree of Doctor of Philosophy, Available Online at http://etd.library.pitt.edu/ETD/available/etd-08192005-162045/unrestricted/FinalTevelowETD.pdf, Accessed 04-25-2010, p. 174-175)

Heritage is significant not only because of its real or perceived influence on public policy, but because it stood as a model for other explicitly ideological and aggressively marketed think tanks (Citizens for a Sound Economy, Competitive Enterprise Institute, Heartland Institute, and others). The New Right think tanks sloughed off the nonpartisan self-understanding of the proto-tanks as a useless anxiety, wearing their conservative ideology on their sleeves. The desire to be objective and perceived as such, an anxiety rife through much of think tank history, doesn’t vex advocacy tanks, except to the extent that they need to employ such rhetoric to maintain a non-profit, tax-exempt status. As self-conscious proponents of a neoliberal system, they are proud hired guns who know that their own viability depends on their ability represent the interests of their corporate benefactors as common interests, and have had no problem entering the fray of ideas with explicit agendas, offering the free market as a corrective to “creeping socialism” and “liberal elites” in America. While speaking of Great Britain, Stuart Hall’s pioneering Gramscian interpretation of “Thatcherism” applies just as well to this aspect of the American case518: [end page 174] Thatcherism...[is] not simply a worthy opponent of the Left, but in some deeper way its nemesis, the force that is capable in this historical moment of unhingeing it from below.519 Its sheer audacity as an ideological crusade marks conservatism as a hegemonic project.

## AT: CATO Institute

#### The Cato Institute is motivated my donations, and ignore key issues.

Brin 06 (MAY 23, David, a scientist, futurist, and bestselling author “The Cato Hypocrisy” <http://davidbrin.blogspot.com/2006/05/cato-hypocrisy.html>)BH

Alas, the paradox only gets worse, the higher your IQ! In every walk of life we are surrounded -- especially at all extremes of the hoary/insipid "political spectrum" -- by bright fools who wallow in sanctimonious just-so stories, blithely dismissing contrary evidence, always ignoring the suspiciously pat convenience of just-happening to be oh-so right. Take for example\* the erudite, "freedom-promoting" scholars of the Washington DC Cato Institute -- purported to be the key think tank for studying and propounding principles of libertarianism. Let me zero in on them, because right now they offer a marvelous case study illustrating our problem -- the mountain of rationalizing human nature that we must still overcome. Why pick on Cato? I mean, other than the fact that they wear they IQs on their sleeves. You see, these passionate and articulate champions of the free market have lately found themselves in a difficult situation. A real bind. Year after year, members and affiliates have maintained a marvelous high wire act, claiming surficially to be nonpartisan - to find equal fault between "Republicans who oppress freedom of the bedroom and Democrats who oppress freedom of the marketplace." And yet, as donations poured in from well-heeled private sources, a funny thing happened to the production line of scholarly documents and position papers. It veered right. Oh, occasionally (for credibility's sake) Cato fellows would fire a very general - and very soft - fusillade in favor of abortion rights or against Alaska's pork "Bridge to Nowhere." Still, as the propaganda wheels turned, there appeared to be one guiding principle behind almost every missive produced by the Cato Institute. We, who style ourselves as the defenders of a free market, shall obsessively and relentlessly ignore the market's greatest enemy. We will never mention or acknowledge the blatant fact that, for 5,000 years, the most deadly foe of free enterprise has always been conspiratorial aristocracy. Indeed, the Cato Institute has long promoted the worst social, economic and political conflation of modern times. A delusion that Adam Smith warned against. The notion that ownership of capital is the prime correlate with wise market capitalism. A very different concept, fundamentally, than saying that markets are themselves wise at allocating, rewarding or promoting innovative goods and services. Just scan Cato's sage and scholarly thinktank documents propounding upon the inherently superior wisdom of markets. Apparently, "pre-selecting outcomes" is a sin when it is done openly, by a nation's broadly-inclusive and constitutional deliberative process. Even (especially) when it is shown that intergenerational costs cannot be accounted-for without some regulated market tuning, this kind of accounting is dismissed as an impossibly utopian and unachievable, due to the limited knowledge and predictive power of governing bodies. Point taken. Score one for Hayek. And yet, "pre-selecting outcomes" is somehow portrayed as perfectly okay, when it is performed by much smaller clades of secretively collusive owners, scheming in small groups to allocate resources, labor and capital as capriciously as the feudal lords of any other era. Eras that, though less trammelled by well-meaning social tinkering, somehow managed to be far, far less successful than our own. Somehow, under those conditions, nobody speaks about "limited knowledge and predictive power." The secrecy that nearly all economists call poisonous to markets, is somehow portrayed as just fine when it is used by a few golf buddies to manipulate those same markets and squeeze out all players who aren't in-the-know. While the obsolete, ridiculous and long-discredited spectre of socialism continues drawing ire and alarm, the Cato and its allies keep on shrilly pointing at "government" as the sole and inherent foe of enterprise, never allowing attention to drift toward those who (increasingly) control government for their own enrichment. Aristocracies who exercise extreme influence over law and regulation, ensuring that government favors elites, in ways that Adam Smith cogently denounced during his own era. THE "FALL" OF THE GOP... WITH AN EXCUSE... Take the most recent "Cato's Letter," issued quarterly by the Institute, this time featuring an article by Tucker Carlson (host of MSNBC's The Situation) entitled - "The Decline and Fall of the Republican Party." Wow. With a title like that , you might think the Catoins have seen the light! That they've realized, at long last, how deeply one of our great parties - and through it, nearly all of our government institutions - is suborned by a narrow cabal of native and foreign elites. That most insatiable subset of aristocrats, imbued with a deep sense of righteous privilege, who have engaged in one of the most reckless campaigns of kleptocratic mismanagement in all of history. Have the Catoins decided - belatedly - to rise up and help us all deal with the cakocratic fecklessness. The rampant deceit, corruption, willful ignorance, indolence, violence, and anti-scientific dogmatism that has threatened civilization at all levels? Well... um... not quite. In fact, the Cato guys pretty much had to issue some kind of denunciation at this point in time. The national wave of revulsion toward today's GOP has risen toward tsunami proportions. The henchman defections that I have long called for are starting to trickle and stream from a myriad cracks in the neocon edifice. Soon, when whistleblowers start feeling safe to emerge, these cracks will grow so wide that Karl Rove will no longer be able to patch his coalition with liberal... oops... I mean generous... dollops of culture war. Under circumstances like these, it is not surprising to see Cato join in, if only to hold onto a little residual relevance. But the line they are pushing! Ah, that's where things get really cute. Hang on and watch closely. It is better than a streetcorner game of Three Card Monty! OFFERING EXCUSES FOR THE "LESSER OF EVILS"... For starters, it seems that the most dogmatic administration in living memory has failed because it was not dogmatic enough. Oh, but it gets even better. For, according to Tucker Carlson -- the great sin of the Republican Party is that (horrors!) it has sunk down almost to the dissolute, immoral, spendthrift, corrupt and despicable level of Democrats! Shudder. That low? Mea maxima culpa! If the far right does not renew itself soon, it is in serious danger of drifting down to the level of... liberals. Talk about blame shifting legerdemain! Didn't I say these guys were bright? Prepare to hear this line more and more, as the political season advances. Let me paraphrase some more. Yes, the neocons and their fellow travellers have proved to be disgusting, greedy and incompetent. But you must still rationalize holding your nose and continuing to vote for them, because democrats are inherently worse. Clever, for sure. Only there's a problem with this line. It doesn't match the facts at any level. Not even when you lean upon the insipid crutch of left right cliches. Because the neocons' long road into hell did NOT take them into Democratic territory. In fact, they did it by heading - at warp drive - in diametrically opposite directions. by massively increasing secrecy in government, rather than reducing it. (The unambiguous trend across the nineties.) by massively increasing deficit spending, rather than reducing it. (Ditto.) by massively increasing pork barrel graft, rather than reducing it. (In fairness, the decline of pork in the nineties may have resulted from divided government, with President Clinton forced to co-habitate with the very different (and somewhat lamented) neocons of Newt Gingrich's wave.) by undermining America's alliances and status in the world in favor of cowboy adventurism, rather than building worldwide consensus and acceptance of mature U.S. leadership. by rejecting all sources of objective evidence or criticism that might conflict with doctrine, relentlessly undermining both science and the autonomy of skilled professionals, demolishing or repressing advisory panels and suppressing independent thinking in the intelligence and military officer corps. by crippling the Border Patrol in a blatant effort to emphasize and promote illegal immigration, in preference over legal immigration (the democrats' preference.) by systematically demolishing government contract-vetting and purchasing procedures, finding every excuse to grant sole-source contracts on the basis of whim or crony connections. Will a Catoin ever do the correlation - that more actual deregulation of major industries took place during the Carter and Clinton administrations, than was ever proposed during the sum total of the Nixon, Reagan, Bush and Bush tenures? Never. Cognitive dissonance -- an inability to perceive that which conflicts with comfortable assumption -- will keep that from ever happening. This list could go on and on. But the core point is clear. Tucker Carlson and the other court savants -- nay, courtesans -- of Cato and the right never look to any of these factors. In calling up an image of today's fallen GOP as nearly as bad as democrats, their sole criterion is to wag a finger and make tsk-tsk noises at the hemorrhaging federal deficit, while propounding that these conservatives have failed us, by becoming -- in effect -- liberals.

## AT: CBO Predictions

#### CBO Data goes neg- predicts a massive collapse in the economy due to the size of the debt

Foster 9 – PH. D, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at the Thomas A. Roe Institute for Economic Policy Studies at the Heritage Foundation (J.D., July 27, 2009, “Keynesian Fiscal Stimulus Policies Stimulate Debt – Not the Economy”, <http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>, accessed June 21, 2012) MG

According to the Congressional Budget Office (CBO), the U.S. government is expected to run a deficit of $1.8 trillion in 2009, or 13 percent of GDP.[5] This would amount to a stunning $1.4 trillion of Keynesian stimulus--nearly 10 percent of GDP. Despite this massive jolt of deficit spending, the CBO and others project the real economy to decline in 2009. The numbers tell the story in black and white. Either these forecasters believe the economy would have contracted by 11 percent or more in 2008 but for the stimulus, or they believe massive Keynesian stimulus will be as ineffective in 2009 as more modest stimulus was in 2008. For 2010, the CBO projects a deficit of $1.4 trillion under President Obama's budget, a decline of $393 billion, or 2.7 percent of GDP. Under the Keynesian theory, the deficit needs to rise slightly to have a neutral effect on the economy in the short run. A drop in the deficit of 2.7 percent of GDP under this theory is then massively contractionary. Keynesians should be in panic about the economy's immediate future. Most forecasters, including the CBO, appear calmly to ignore this phantom contractionary pressure in their own economic forecast. Apparently, forecasters outside the political realm do not believe in Keynesian theory, either.

## AT: Keynes

#### Keynes was wrong- his methodologies are inaccurate and inconsistent with modern day economics

Khalid et al. 12 (March 21, 2012, Ahmed M., Ph. D (Economics) John Hopkins University, has taught at the Ph. D level on Monetary Theory and Policy and researches applied macroeconomics and monetary economics, with a recent emphasis on financial crises and financial sector reforms, “Regulatory Failure and the Global Financial Crisis: An Australian Perspective“pp. 90-96- Google books) AS

6.3 The Revival of Keynesian Economics Though dormant as an influence on macroeconomic policy for years leading up to the crisis, Keynesianism has unexpectedly reappeared centre stage as the sole theoretical rationale for fiscal stimulus (see Spilimbergo et al., 2008). It should not come as a surprise that policies reflecting Keynes’s ideas should provoke heated political debate. After all, Keynes in the concluding chapter of his best-known work, The General Theory of Employment, Interest and Money, asserted, incorrectly as it turned out, that in the post-Depression era ‘somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment’. The enduring appeal of Keynes’s theory was that it offered a cogent explanation of the main components of the national accounts and the phenomenon of the business cycle, while simultaneously asserting that governments could easily and at little cost correct macroeconomic misbehavior at will and as it saw fit. But this has always put Keynesianism at odds with the centuries-old tradition of economics that emphasized how prices automatically equilibrated markets and which suggested minimum government involvement in commercial exchange as the best means of allocating an economy’s resources. Such a way of thinking underpins, for instance, international trade theory and policy, which few question. By asserting the opposite – that there was a greater need for government intervention in economic activity – Keynes’s theory of fiscal activism introduced a logical inconsistency to economics that his critics have always found discomforting. Keynes’s central planning approach to fiscal policy was credited by his disciples in the 1940s and 1950s with saving Western capitalism from itself. However, later critics of Keynesianism have argued that it was not fiscal expansion that ended the Depression, but that the Depression lasted much longer than it should have, especially in the US, because of a prolonged contraction of liquidity, policy-induced investment uncertainty, and large-scale retreat to international trade protectionism. The great appeal of the naïve short-term Keynesianism underpinning fiscal stimulus measures is that it provides governments with a seemingly costless economic solution for addressing recession and unemployment in the here and now. 6.4 Problems with Keynesian Theory As a theory, simple Keynesianism focuses exclusively on the short term, emphasizes aggregate spending as the source of economic growth, and largely ignores the future consequences of unproductive public spending and the fiscal deficits that result. This is in keeping with Keynes’s own comment that “in the long run we are all dead”. While that comment is undeniably true, what it fails to recognize is that the vast majority of the population can in our lifetimes expect to suffer the consequences of the public debt legacy that Keynesianism activism bequeaths, through higher taxes, higher interest rates, and higher inflation. Keynes’s general theory was anything but general in its original form and was premised on a special set of Depression conditions. These included interest rates at zero, ongoing deflation, and a prolonged collapse in international trade, none of which Australia suffered from during the current crisis. The theory also ignored the fact that economies could be heavily reliant on foreign capital to fund their investment. In short, the characteristics of modern open economies like Australia are not like those Keynes sought to address. It was left to another English economist, John Hicks (1937), to make Keynes’s theory more general in application, while retaining its most useful elements such as his theory of consumption, investment and money demand. Hick’s adaptation of Keyne’s contribution, sanctioned by Keynes himself, synthesized the aggregate spending and monetary sides of an economy and for years was the mainstay of many textbooks. Yet this framework actually shows that fiscal stimulus can quickly drive up interest rates, crowding out private investment to the longer-term cost of the economy. Though Keynes is widely considered the most influential macroeconomist the United Kingdom ever produced, the United States produced a contemporary of Keynes, the much neglected Yale economist, Irving Fisher, 1867-1947.

#### And his theory isn’t the only game in town- modern economics trumps

Cochrane 9 (September 16, 2009, John H., Distinguished Service Professor of Finance at University of Chicago Booth School of Business, writes on deficits and inflation, <http://faculty.chicagobooth.edu/john.cochrane/research/Papers/krugman_response.htm>, accessed June 20, 2012) AS

Second, Krugman argues that “a more or less Keynesian view is the only plausible game in town,” and “Keynesian economics remains the best framework we have for making sense of recessions and depressions.” One thing is pretty clear by now, that when economics incorporates flaws and frictions, the result will not be to rehabilitate an 80-year-old book. As Paul bemoans, the “new Keynesians” who did just what he asks, putting Keynes inspired price-stickiness into logically coherent models, ended up with something that looked a lot more like monetarism. (Actually, though this is the consensus, my own work finds that new-Keynesian economics ended up with something much different and more radical than monetarism.) A science that moves forward almost never ends up back where it started. Einstein revises Newton, but does not send you back to Aristotle. At best you can play the fun game of hunting for inspirational quotes, but that doesn’t mean that you could have known the same thing by just reading Keynes once more.

#### Keynesian theory is outdated- It doesn’t take into account a constantly changing system

Wolff 12 (May 3,Robert Paul- a contemporary American political philosopher and professor emeritus at the University of Massachusetts Amherst. “A CRITIQUE OF KEYNES CONCLUSION” <http://robertpaulwolff.blogspot.com/2012/05/critique-of-keynes-conclusion.html>) BH

All of the modern efforts to manipulate, manage, shape, control, and direct an essentially private capitalist economy rest on this Keynesian theory, with its subjective psychological foundations. In the tradition of British philosophy and political economy from which he derives, Keynes takes subjective propensities as given data – impenetrable, inexplicable, beyond argument or appeal. They are, to use the term of which economists are fond, exogenous variables, which is to say they come from outside the system. They are given in exactly the same way that the laws of nature and the resources of the earth are given. It is worth pausing for a moment to reflect on how far economics has moved from its classical assumptions by the time we come to Keynes. Originally, all agents are assumed to maximize gain in an environment of perfect certainty and complete knowledge. Prices, wages, profits, rents, and the rate of economic growth are, under these conditions, functions of two factors: the objective technology of production, which determines what combinations of inputs are required for specified outputs; and the relative strength of the several classes of the society, which determines how the annual net social product will be divided up among the workers, the capitalists, and the landlords. As the world becomes, and is recognized to have become, more complex, the simplifying knowledge assumptions of the classical model must give way to the acknowledgement of risk, uncertainty, and finally subjective expectation. At the same time, as it becomes clear that workers do not live permanently at the level of subsistence, that landlords are not mere idle consumers, and that capitalists, for a variety of reasons, are not perfect accumulators, the elegant theorems derived from the simple behavioral assumptions of classical political economy must be given up. Faced with the intrusion of subjective non-rational elements into the process of economic choice and decision, post-Keynesian economists are forced to alter fundamentally the way in which they seek to understand a capitalist economy. Instead of a priori analysis built on elementary assumptions of profit-maximization, they offer econometric models in which dummy variables and functions stand for the several elements of the decision-making process. A variable for liquidity preference; a variable for the propensity to consume; a function separating a worker’s leisure/labour trade off, which is to say the proportion of total available labour-time that the worker prefers to devote to leisure, expressed as a function of income. And so on and on. Any of you who have taken even an elementary course in macroeconomics will be aware of the extent to which the subject, as now taught, rests on this sort of model-building.

#### Keynesian economic predictions are nothing more than Platonic shadows on the wall and have no direct ties to reality- they use imaginary variables and unrealistic statistics

Wolff 12 (May 3,Robert Paul- a contemporary American political philosopher and professor emeritus at the University of Massachusetts Amherst. “A CRITIQUE OF KEYNES CONCLUSION” <http://robertpaulwolff.blogspot.com/2012/05/critique-of-keynes-conclusion.html>) BH

The result is that economics has become an extremely elegant, complex, mathematically sophisticated way of guessing at the shadows on the wall of the cave. In Plato’s REPUBLIC, you will recall, Socrates relates an allegory of the human condition. We are to imagine, he says, that a group of men are chained to the floor of a dark cave, so that they can only look to their front at a blank wall. Behind them, fires are lit, and unseen attendants walk before the fires, carrying small scale models of physical objects and people. The light casts shadows of these objects on the wall, where they flicker in fantastic distortion. At first, the captives are simply mystified by the succession of shadows, but after a while, some of them, those best adapted to a troglodytic existence, begin to discern repetitions and patters in the images. They formulate theories about what shadows will appear next, and the most skillful among them acquire considerable reputations for their ability to anticipate by a few moments the next images. Some, we may even imagine, extending the story a bit beyond Plato, become tenured professors of shadow-guessing, and a few whose theories of the shadow world have risen to heights of mathematical elegance even win Nobel prizes for shadow-guessing. One of the captives, Socrates tells us, driven by some obscure instinct that the world holds more than shadows, works himself free of his bonds and crawls painfully to the mouth of the cave. Dazzled by the bright sunlight, he slowly acclimates himself to the brilliant light, and sees for the first time the real physical objects whose twisted and distorted shadows he has all these years observed. At last he realizes that these are the reality of which the shadows are more imperfect reflections or appearances. Rushing back into the cave to bring this momentous news to his fellows, he is temporarily blinded by the darkness, and staggers about as though mad. Naturally, the remaining captives simply laugh at his insistence that their shadows are inferior appearances, behind which lies a truer reality. Puffed up by their skill at shadow-guessing, they consider merely comic the claims by their former comrade that they are enmired in unreality. Marx had a name for the masters of shadow-guessing. He called them Vulgar economists and contrasted them with the classical economists -- Petty, Quesney, Smith, Ricardo -- whom he considered serious students of economic reality. Paul Samuelson, the greatest of the shadow-guessers, has returned the compliment by characterizing Marx, in a famous essay, as a “minor post-Ricardian,” and, worst of all, “an auto-didact.” (To be self-taught, I suppose, is from Samuelson’s standpoint even worse than to be a minor follower of the wrong economist, for if it should turn out that one can teach oneself to understand economics, that will put an end to the hegemony of the profession.) The dummy variables and functions of econometric model-building refer to nothing at all that can be directly studied. There is no way that we can get at an individual’s “propensity to consume,” for the purpose of constructing a more adequate theory of consumer behavior. Nor can anything useful be said about the inner determination of the capitalists’ expectations for future gain, so as to lay the foundations for a scientific theory of investment and growth. Instead, economists are forced to amass countless time-series of date, on which, in a manner that would have made David Hume proud, they can perform simplistic extrapolations.

## AT: Krugman

#### Hes a hack- doesn’t subscribe to modern economics and takes his evidence out of context- disregard his evidence

Cochrane 11 ( John H. an economist, specializing in financial economics and macroeconomics. “How did Paul Krugman get it so Wrong?” http://modeledbehavior.com/2009/09/11/john-cochrane-responds-to-paul-krugman-full-text/)

Many friends and colleagues have asked me what I think of Paul Krugman’s New York Times Magazine article, “How did Economists get it so wrong?” Most of all, it’s sad. Imagine this weren’t economics for a moment. Imagine this were a respected scientist turned popular writer, who says, most basically, that everything everyone has done in his field since the mid 1960s is a complete waste of time. Everything that fills its academic journals, is taught in its PhD programs, presented at its conferences, summarized in its graduate textbooks, and rewarded with the accolades a profession can bestow, including multiple Nobel prizes, is totally wrong. Instead, he calls for a return to the eternal verities of a rather convoluted book written in the 1930s, as taught to our author in his undergraduate introductory courses. If a scientist, he might be an AIDS-HIV disbeliever, a creationist, a stalwart that maybe continents don’t move after all. It gets worse. Krugman hints at dark conspiracies, claiming “dissenters are marginalized.” Most of the article is just a calumnious personal attack on an evergrowing enemies list, which now includes “new Keynesians” such as Olivier Blanchard and Greg Mankiw. Rather than source professional writing, he plays gotcha with outof-context second-hand quotes from media interviews. He makes stuff up, boldly putting words in people’s mouths that run contrary to their written opinions. Even this isn’t enough: he adds cartoons to try to make his “enemies” look silly, and puts them in false and embarrassing situations. He accuses us of adopting ideas for pay, selling out for “sabbaticals at the Hoover institution” and fat “Wall street paychecks.” It sounds a bit paranoid. It’s annoying to the victims, but we’re big boys and girls. It’s a disservice to New York Times readers. They depend on Krugman to read real academic literature and digest it, and they get this attack instead. And it’s ineffective. Any astute reader knows that personal attacks and innuendo mean the author has run out of ideas. That’s the biggest and saddest news of this piece: Paul Krugman has no interesting ideas whatsoever about what caused our current financial and economic problems, what policies might have prevented it, or what might help us in the future, and he has no contact with people who do. “Irrationality” and advice to spend like a drunken sailor are pretty superficial compared to all the fascinating things economists are writing about it these days.