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## 1NC

#### The recovery is gaining momentum, but is fragile – maintaining current trends is key

Ewen MacAskill and Dominic Rushe, analysts for the Guardian, 6-26-2012, “OECD says US economy is recovering but income inequality problematic,” The Guardian, http://www.guardian.co.uk/business/2012/jun/26/oecd-us-economy-income-inequality?newsfeed=true

The OECD, which produces reports every two years, says that the US recovery is gaining momentum but remains fragile, with the country facing problems such as record long-term unemployment, income inequality and lack of investment in education and innovation. The report is more bullish on the economy than Federal Reserve chairman Ben Bernanke, who recently downgraded his forecasts for the US economy. But it points out that poverty is worse in the US than in Europe. "Income inequality and relative poverty are among the highest in the OECD," the report says. Only Chile, Mexico and Turkey among the 34 member OECD countries rank higher in terms of income inequality. The Obama administration welcomed the report, saying it was already implementing some of the proposals and backed others. It provides useful ammunition for the Obama administration in the run-up to the 2012 election which looks like being dominated by debate over the economy. There is less in the report that would be welcomed by Republicans. Karen Kornbluh, the US ambassador to the OECD, told a press conference in Washington to launch the report, that the organisation is recommending exactly what Barack Obama is doing in terms of investing in education to improve the skills of the workforce. One OECD recommendation the Obama administration is not acting on and is likely to continue to shy away from in an election year is a proposal to increase gas prices to help reduce the use of fossil fuels. Richard Boucher, deputy secretary-general of the OECD and a former US state department diplomat, who was also at the press conference, stood by the gas price recommendation. "I realise it is not always popular, particularly in an election year, but we call it as we see it." Boucher expressed concern about the persistence of income inequality in the US. The chances of staying poor in the US are higher than in Europe, he said. "If your parents are poor, the chances are you are going to stay poor," he said. The OECD argues that tackling inequality could help the wider economy, a point on which economists are divided. "We know that some of these steps to reduce inequality also help boost economic growth," Boucher said. The OECD report said that growth in the US will remain moderate this year but concludes that America's economic recovery has "gained momentum". Consumer and business spending have risen and unemployment, though still high at 8.2%, has fallen nearly two percentage points from its peak in 2009. "Even with these substantial improvements, however, the recovery is far from complete," the OECD warns. The US housing market has picked up but the large overhang of unsold homes and "the ongoing tide of foreclosures will continue to put downward pressure on house prices," according to the report.

#### Increased spending kills the economy – Europe proves

Johnny Munkhammar, adjunct scholar at the American Enterprise Institute and MP in Sweden, 6-27-2012, “The End of Stimulus Policy,” American Enterprise Institute, http://www.aei.org/files/2012/06/27/-the-end-of-stimulus-policy\_173446935952.pdf

It is clear from the European experience that increased public spending has not generally correlated with higher economic growth. If there is any correlation, it is the opposite. The more countries increased their public expenditure, the lower economic growth tended to be. The countries that experienced the highest growth rates during the past decade have either decreased their public expenditure or increased it only modestly, while the countries with the lowest growth rates are the ones that increased the size of government the most. Northern Europe has stood out as the part of Europe that has continued to focus on supply-side growth reforms and avoided big Keynesian stimulus. Germany has become the champion of austerity in core Europe. German reforms in the labor market – cutting taxes and unemployment benefits, combined with competitiveness-enhancing wage setting that has held unit labor costs down – has led it to be one of few countries with falling unemployment during the last years. German exports have also experienced strong growth. In Finland, growth has remained high – and these are two countries that share the common currency euro, illustrating the importance of national growth reforms rather than monetary or fiscal stimulus. The diagram below shows how employment has developed in the EU, OECD and selected countries during the last five years; high-stimulus countries have not done well in promoting job growth.

#### Econ decline causes war

Earl Tilford, PhD in history from George Washington University and served for thirty-two years as a military officer and analyst with the Air Force and Army, 2008, “Critical Mass: Economic Leadership or Dictatorship,” The Cedartown Standard, Lexis

Could it happen again? Bourgeois democracy requires a vibrant capitalist system. Without it, the role of the individual shrinks as government expands. At the very least, the dimensions of the U.S. government economic intervention will foster a growth in bureaucracy to administer the multi-faceted programs necessary for implementation. Bureaucracies, once established, inevitably become self-serving and self-perpetuating. Will this lead to “socialism” as some conservative economic prognosticators suggest? Perhaps. But so is the possibility of dictatorship. If the American economy collapses, especially in wartime, there remains that possibility. And if that happens the American democratic era may be over. If the world economies collapse, totalitarianism will almost certainly return to Russia, which already is well along that path in any event. Fragile democracies in South America and Eastern Europe could crumble.  A global economic collapse will also increase the chance of global conflict. As economic systems shut down, so will the distribution systems for resources like petroleum and food. It is certainly within the realm of possibility that nations perceiving themselves in peril will, if they have the military capability, use force, just as Japan and Nazi Germany did in the mid-to-late 1930s. Every nation in the world needs access to food and water. Industrial nations—the world powers of North America, Europe, and Asia—need access to energy. When the world economy runs smoothly, reciprocal trade meets these needs. If the world economy collapses, the use of military force becomes a more likely alternative. And given the increasingly rapid rate at which world affairs move; the world could devolve to that point very quickly.

## Uniqueness

### Uniqueness – Economy – Yes

#### The recovery is stable but fragile – leading indicators prove

Anna-Louise Jackson and Anthony Feld, business analysts for Bloomberg, 6-13-2012, “Truckers as Leading Indicator Show Stable U.S. Economic Growth,” Bloomberg, http://www.bloomberg.com/news/2012-06-14/truckers-as-leading-indicator-show-stable-u-s-economic-growth.html

Rising truck shipments show the U.S. economic expansion is intact, even amid concerns that a slowdown in retail sales and Europe’s sovereign-debt crisis could stall growth. Two measures of trucking activity signal the industry remains steady and has even “firmed up” since mid-May, according to Ben Hartford, an analyst in Milwaukee with Robert W. Baird & Co. The data complement anecdotal information from carriers that freight demand ended May on a strong note after more weakness than anticipated earlier in the month, he said. “Trucking trends are reflective of an economic environment that is stable, not deteriorating,” Hartford said. The for-hire truck-tonnage index rose 2.8 percent in April from a year earlier, up from 0.2 percent the prior month, marking 29 months of growth, based on data from the American Trucking Associations. The economy has never contracted without tonnage turning negative first, so the truck figures are a leading indicator, providing the “ first signal” of a slump, said Thom Albrecht, an analyst in Richmond, Virginia, with BB&T Capital Markets. His “buy” recommendations include Celadon Group Inc. (CGI), Swift Transportation Co. (SWFT) and Old Dominion Freight Line Inc. (ODFL) Another index that tracks the movement of goods between manufacturers and consumers also is a “good barometer” of the economy, said Jonathan Starks, director of transportation analysis at FTR Associates. FTR’s index of U.S. truck loadings increased 3 percent to 115.9 in April from a year earlier, the highest since 2008, based on data from the Nashville, Indiana- based transportation-forecasting company.

#### We’re in a holding pattern – prefer trends over snapshots

Anna-Louise Jackson and Anthony Feld, business analysts for Bloomberg, 6-13-2012, “Truckers as Leading Indicator Show Stable U.S. Economic Growth,” Bloomberg, http://www.bloomberg.com/news/2012-06-14/truckers-as-leading-indicator-show-stable-u-s-economic-growth.html

April’s improvement suggests the economy is expanding. “It’s not red-hot, but it’s not stalling, either,” Starks said, adding that annual gains above 5 percent would suggest robust activity. Index growth exceeded 5 percent between July 2010 and March 2011, the data show, while gross domestic product expanded an average 2.9 percent year-over-year in the same period. Contacts at trucking companies describe a “seasonally stable demand environment,” Hartford said. Albrecht agreed, saying two carriers characterized activity in early June as “robust.” These anecdotal “channel checks” are consistent with sentiment reported by Landstar System Inc. (LSTR) in its mid-quarter update, Albrecht said. The Jacksonville , Florida-based trucking company affirmed on May 29 its second-quarter earnings estimate of 71 cents to 76 cents a diluted share. This compares with first-quarter earnings of 57 cents a share. Both the economy and the operating environment for Landstar are “pretty much as forecasted,” moving “in a northerly direction, albeit in a slow and sometimes choppy pace,” Chairman and Chief Executive Officer Henry Gerkens said on a conference call that day. Landstar reiterated its guidance even as U.S. retail sales weakened. A 0.2 percent drop in May matched an April decline that previously was reported as a gain, based on data from the Commerce Department. This prompted some economists -- including those at Goldman Sachs Group Inc., Morgan Stanley and Credit Suisse AG -- to cut forecasts for second-quarter growth. The sequential declines are “consistent with retailers’ broader concerns about consumer demand and validate cautious recent inventory strategies among retail and consumer shippers,” Hartford said.

#### Best indicators prove slow but steady growth – trends are on our side

Anna-Louise Jackson and Anthony Feld, business analysts for Bloomberg, quoting Thom Albrecht, analyst with BB&T Capital Markets, 6-13-2012, “Truckers as Leading Indicator Show Stable U.S. Economic Growth,” Bloomberg, http://www.bloomberg.com/news/2012-06-14/truckers-as-leading-indicator-show-stable-u-s-economic-growth.html

Still, industry data and anecdotal comments from carriers -- both of which “have a good track record of signaling downturns or upturns” -- are “remarkably consistent in demonstrating slow but steady economic growth,” he said. Further, forecasts for FTR’s loadings index suggest activity will return steadily to 2007’s pre-recession levels by late 2014 , Starks said. The index has risen 12 percent from a 16-year low of 103.5 in December 2009, six months after the 18- month slump ended, the data show. “We probably won’t get a new peak for another couple years,” Starks said. “But the data is clearly showing that we’re also not entering any sort of recessionary environment at the moment.”

### Uniqueness – Fiscal Discipline – Yes

#### Yes fiscal discipline – Obama has constrained spending

Ray Nutting, congressional analyst for Market Watch, 5-22-2012, “Obama spending binge never happened,” Market Watch, http://articles.marketwatch.com/2012-05-22/commentary/31802270\_1\_spending-federal-budget-drunken-sailor

WASHINGTON (MarketWatch) — Of all the falsehoods told about President Barack Obama, the biggest whopper is the one about his reckless spending spree. As would-be president Mitt Romney tells it: “I will lead us out of this debt and spending inferno.” Almost everyone believes that Obama has presided over a massive increase in federal spending, an “inferno” of spending that threatens our jobs, our businesses and our children’s future. Even Democrats seem to think it’s true. But it didn’t happen. Although there was a big stimulus bill under Obama, federal spending is rising at the slowest pace since Dwight Eisenhower brought the Korean War to an end in the 1950s. Even hapless Herbert Hoover managed to increase spending more than Obama has. Here are the facts, according to the official government statistics: • In the 2009 fiscal year — the last of George W. Bush’s presidency — federal spending rose by 17.9% from $2.98 trillion to $3.52 trillion. Check the official numbers at the Office of Management and Budget. • In fiscal 2010 — the first budget under Obama — spending fell 1.8% to $3.46 trillion. • In fiscal 2011, spending rose 4.3% to $3.60 trillion. • In fiscal 2012, spending is set to rise 0.7% to $3.63 trillion, according to the Congressional Budget Office’s estimate of the budget that was agreed to last August. • Finally in fiscal 2013 — the final budget of Obama’s term — spending is scheduled to fall 1.3% to $3.58 trillion. Read the CBO’s latest budget outlook. Over Obama’s four budget years, federal spending is on track to rise from $3.52 trillion to $3.58 trillion, an annualized increase of just 0.4%. There has been no huge increase in spending under the current president, despite what you hear. Why do people think Obama has spent like a drunken sailor? It’s in part because of a fundamental misunderstanding of the federal budget. What people forget (or never knew) is that the first year of every presidential term starts with a budget approved by the previous administration and Congress. The president only begins to shape the budget in his second year. It takes time to develop a budget and steer it through Congress — especially in these days of congressional gridlock. The 2009 fiscal year, which Republicans count as part of Obama’s legacy, began four months before Obama moved into the White House. The major spending decisions in the 2009 fiscal year were made by George W. Bush and the previous Congress. Like a relief pitcher who comes into the game with the bases loaded, Obama came in with a budget in place that called for spending to increase by hundreds of billions of dollars in response to the worst economic and financial calamity in generations.

#### Obama budgets rock fiscal discipline

David Brooks, Washington commentator for the New York Times and noted part-time pop sociologist, 4-16-2012, “The White House Argument,” NY Times, http://www.nytimes.com/2012/04/17/opinion/brooks-the-white-house-argument.html

They argue that the president’s 2013 budget is a step toward fiscal stability that will also pave the way for bigger steps in the years ahead. They estimate that their budget would produce $5 trillion in budget savings over a decade. It would raise $1.5 trillion in new revenue by raising taxes on those making more than $250,000 a year. There would also be a broad range of spending cuts. These include the $1.7 trillion in cuts the administration agreed to in the budget deals with Republicans over the summer, and several others (including the somewhat gimmicky $617 billion “cut” by not fighting the wars in Iraq and Afghanistan for another decade). Further, the president is parsimonious when it comes to domestic spending. The White House has prepared a series of charts to illustrate the administration’s fiscal discipline. The most interesting concerns domestic discretionary spending, which is spending on things like education, welfare and social support. Going back to 1962, domestic spending has hovered around 3.3 percent of G.D.P. In big-spending years (the Jimmy Carter years), it rose to about 4.4 percent. In low-spending years (Ronald Reagan’s and Bill Clinton’s second terms), it fell to about 2.9 percent of G.D.P. During Obama’s presidency, domestic spending topped out at 4 percent of G.D.P. But, in the Obama budget, over the next 10 years, that spending would fall to 2.2 percent, much lower than anything Reagan achieved. Under Paul Ryan’s budget, by the way, that spending would fall to 1.8 percent, which the Obama administration regards as savagely low. These officials say the administration has also made modest but important progress in controlling Medicare spending, the biggest debt driver. The budget raises some Medicare premiums on high-income retirees and increases some deductibles. White House officials say they have taken enormous heat from the left for putting some structural Medicare reforms on the table — cutting benefits, raising eligibility ages and changing cost-of-living adjustments. Republican leaders, they point out, have not done anything that brave. Over all, they continue, the president’s budget stabilizes the debt in a way that is relatively gimmick-free. Annual federal deficits, which are at about 8 percent now, would come down to around 3 percent between 2015 and 2022. The total federal debt is now at about 74 percent of G.D.P. Under Obama’s plan, it would rise to 78.4 percent of G.D.P. in 2014 and then stabilize at about 76.5 percent from 2018 to 2022. Basically, what we’re looking at is a period of stability, administration officials say, which would soothe credit markets and give us time to make further adjustments. This, they conclude, is responsible prudence.

### AT: Fiscal Cliff Thumper – Yes Compromise

#### Compromise avoids the cliff

Ben Marks, investment analyst and contributor for Forbes, 7-6-2012, “Get Your Portfolio Ready For A Fall Over The Fiscal Cliff,” Forbes, http://www.forbes.com/sites/greatspeculations/2012/07/06/get-your-portfolio-ready-for-a-fall-over-the-fiscal-cliff/

Nothing puts more stress on the markets than bad news and uncertainty. Unfortunately, we have had plenty of both in recent weeks, as U.S. private-sector employment numbers disappointed in June and sovereign debt default remains a very real possibility in key European countries. The great fear right now is that the fiscal situation will worsen beginning January 1, 2013, if policymakers in Washington do not extend or amend a series of tax-friendly policies scheduled to expire at the end of this year. Without new legislation, a wave of tax hikes on capital gains, qualified equity dividends and employee payrolls are set to take effect. These would coincide with massive federal spending cuts and the elimination of unemployment benefits for millions of Americans. Investors are concerned, quite justifiably, that should all these events happen at once, there would be a catastrophic shock to the system, delivering a body blow to an already teetering economy and further curbing consumer and investor confidence. Fortunately, the scenario is unlikely to unfold this way. While the federal government and Congress remain as dysfunctional as ever, most elected officials have proven themselves adept at avoiding political suicide, even if rational solutions generally tend to wait until the eleventh hour and are preceded by a white-knuckle ride. It is sensible, therefore, to assume the powers that be in both parties will recognize the political pitfalls associated with doing nothing in the face of these looming fiscal policy shifts, and that some sort of compromise is likely.

#### Compromise and grand bargain coming now

Forrest Jones, Washington correspondent for Money News, 7-5-2012, “Wharton’s Siegel: US Will Veer Away From ‘Fiscal Cliff’ at Last Minute,” Money News, http://www.moneynews.com/Economy/Siegel-US-Fiscal-Cliff/2012/07/05/id/444470

Lawmakers will work together and steer the country away from a fiscal cliff looming in early 2013, says Wharton finance professor Jeremy Siegel. On Dec. 31, the Bush-era tax cuts and other tax holidays expire at the same time automatic spending cuts kick in. The combination of the two, known widely as a fiscal cliff, could seriously derail recovery and throw the country back into recession by some estimates. Congress must act by delaying the timing of the tax hikes and spending cuts. Considering lawmakers nearly threw the country into default in 2011 by waiting until the last second to raise the debt ceiling, faith they'll work together in an election year to address the fiscal cliff remains scant. But after the election, expect results. "I may be an optimist. I believe there is going to be an extension for 6, 9 or maybe 12 months in the Bush tax cuts," Siegel tells CNBC. "I think they are going to seriously tackle the deficit much to everyone's surprise. No one has an incentive right now — the election is coming up in November. But once people know who has been voting for who and what position has been advocated, I think they are going to sit down and do some serious work, and we are going to get some good reform next year."

#### They’ll compromise – huge pressure

Chad Stone, Senior Research Fellow at the Center on Budget and Policy Priorities, 6-18-2012, “MISGUIDED “FISCAL CLIFF” FEARS POSE CHALLENGES TO PRODUCTIVE BUDGET NEGOTIATIONS,” CBPP, http://www.cbpp.org/files/6-4-12bud.pdf

Politically speaking, such a scenario would resemble in some respects the government shutdown in the winter of 1995-96, when President Clinton and Republican Congressional leaders failed to reach agreement on legislation to fund government departments and agencies. The intense political pressure that both sides faced once the shutdown ensued broke the impasse fairly quickly, and the sides reached agreement that limited the shutdown to 21 days. This time, with tax increases and spending cuts taking effect under current law on January 2 amidst a still-weak economy, the political pressure to reach an agreement quickly would likely be even greater.

### AT: Fiscal Cliff – No Impact

#### It’s a fiscal slope – their impacts are overstated

Nin-Hai Tseng, economics and finance correspondent for Fortune Magazine, 6-12-2012, “The fiscal cliff may look more like a fiscal slope,” Fortune, http://finance.fortune.cnn.com/2012/06/12/fiscal-cliff-explainer/

But what exactly is a "fiscal cliff?" It's a question worth asking, given that fear and uncertainty certainly move markets. While another recession would obviously be painful for the U.S. and the rest of the world, could the fiscal cliff hawks be blaring their sirens a little too loudly? Some think so. Chad Stone, chief economist at the non-partisan Center on Budget and Policy Priorities, says the fears are misplaced. In a paper released last week, he wrote that the economy won't immediately fall over a cliff and plunge into another Great Recession come January 1. Rather than rush negotiations and end up with potentially very bad policy, policymakers still have some (although limited) time to come up with a solid plan and therefore avoid another downturn. To be sure, Stone doesn't doubt the U.S. will slip into recession if lawmakers drag their feet for too long. The slated policy changes include an end to the temporary tax cuts enacted during the George W. Bush administration, as well as an end to the temporary Obama administration payroll tax reductions. If the slated changes take effect, the economy could contract by 1.3% during the first half of 2013 and grow by 2.3% during the second half, according to the Congressional Budget Office. That's scary stuff. However, it will take some time before the economy feels the weight of those changes. Stone offers a few examples, starting with the tax cuts: It's true that households might feel a pinch from an increase in taxes withheld from their weekly or monthly checks, "but taxpayers newly falling within the reach of the [Alternative Minimum Tax] in 2012 will not actually pay those higher taxes until they file their returns in subsequent months," he writes. So while the implications of a fiscal cliff are very real, it's more like a "fiscal slope," he adds. Stone's bigger point is that good policymaking takes time. If lawmakers go past the fiscal cliff by a few weeks or a month, the economy would be okay.

## Link

### Link – Regulations

#### Regulations ensure projects go over budget

Michael Tanner, senior fellow at Cato, 2-8-2012, “Highway Robbery by Republicans,” Cato, http://www.cato.org/publications/commentary/highway-robbery-republicans

Moreover, the strings that can accompany federal highway funding can actually make road building more expensive. Federal road standards are often higher than state standards, driving up the cost of projects. Federally funded projects also require payment of much higher union-scale wages (under the Davis-Bacon Act). These regulations can drove up road building costs by as much as 30 percent under previous highway bills, and often preempt local zoning laws and building plans. Federal administrative costs and paperwork can add another 5 percent to road-building costs.

### Link – Crowd-Out

#### Spending causes crowd out and long term inflation – crushes the recovery

Armstrong Williams, economics analyst for the Hill, 6-13-2012, “Increased money supply funding government spending,” The Hill, http://thehill.com/blogs/pundits-blog/economy-a-budget/232501-increased-money-supply-funding-government-spending

Many will tell you that it is not taxation but debt that is financing the government spending; thus it is not crowding out private spending. I maintain that government debt crowds out private borrowing and investment. Many of my anti-capitalist colleagues say that government spending is not crowding out private investment because interest rates are low. Therefore there is plenty of money to finance private investment. Unfortunately, in an attempt to protect depositors, and the government guarantee of such deposits, the bank regulators have increased the credit underwriting requirements on banks. Consequently, they are not lending to small and medium-sized businesses. Interest rates are low because the Fed is printing money and as a result significantly increasing the money supply, thereby making money less expensive. The irony of artificially low interest rates is that it reduces the income of pensioners and savers. This in effect shifts money and consumption from savers and transfers it to the government, which is borrowing at artificially low rates. The business community realizes that the increased money supply is financing government spending and the private sector must eventually pay the piper. Consequently, the business community is not investing as much as it might because it is concerned about inflation and higher future taxes to pay for the borrowing. Since business investment takes time for a return, the businessman making an investment now and expecting a return two or three years from now knows that his taxes are going to be increased with the expiration of the Bush tax cuts and the 3.8 percent new ObamaCare tax on unearned earnings. Thus the businessman is not investing today because he knows his return is being significantly reduced two years from now.

#### Public spending kills private growth

Valerie Ramey, professor of economics at UC San Diego and member of the National Bureau of Economic Research, January 2012, “Government Spending and Private Activity,” NBER, http://weber.ucsd.edu/~vramey/research/NBER\_Fiscal.pdf

This paper has investigated the effects of government spending on private spending, unemployment, and employment. For the most part, it appears that a rise in government spending does not stimulate private spending; most estimates suggest that it significantly lowers private spending. These results imply that the government spending multiplier is below unity. Adjusting the implied multiplier for increases in tax rates has only a small effect. The results imply a multiplier on total GDP of around 0.5. Increases in government spending do reduce unemployment. For all but one specification, though, it appears that all of the employment increase is from an increase in government employment, not private employment. The only exception is in the specification using the Fisher-Peters measure of defense news for the 1958 to 2008 period. This specification implies that a sustained increase in government spending has a robust positive effect on private employment. On balance, though, the results suggest that direct hiring of workers by the government may be more effective than relying on multiplier effects of government purchases.

#### Crowding out kills private sector growth

Johnny Munkhammar, adjunct scholar at the American Enterprise Institute and MP in Sweden, 6-27-2012, “The End of Stimulus Policy,” American Enterprise Institute, http://www.aei.org/files/2012/06/27/-the-end-of-stimulus-policy\_173446935952.pdf

The so-called crowding out effect might explain much of the Keynesian failure. According to Keynesian theory, output in the economy expands as government spending increases. One possible reason why expansionary policies might fail in reality is that when government expands spending, private investment is crowded out by changes in the distribution of investment towards public expenditures. This is primarily the case when spending increases are financed through debt rather than increased taxes, in large part because individuals and businesses realize that the increased spending and debt have to be paid for in the future (Barro 1979). Additionally, an increased supply in government debt can lead to increases in interest rates, which also has a contractionary effect on private sector investment.

### Link – Overspending

#### Infrastructure spending guarantees cost overrun

Veronique de Rugy, professor of economics at George Mason and senior research fellow at GMU’s Mercatus Center, 9-8-2011, “Why Infrastructure Spending Is a Bad Bet,” National Review Online, http://www.nationalreview.com/corner/276636/why-infrastructure-spending-bad-bet-veronique-de-rugy

Infrastructure spending tends to suffer from massive cost overruns, waste, fraud, and abuse. A comprehensive study examining 20 nations on five continents (“Underestimating Costs in Public Works Projects: Error or Lie?” by Bent Flyvbjerg, Mette K. Skamris Holm, and Søren L. Buhl) found that nine out of ten public-works projects come in over budget. Cost overruns routinely range from 50 to 100 percent of the original estimate. For rail, the average cost is 44.7 percent greater than the estimated cost at the time the decision was made. For bridges and tunnels, the equivalent figure is 33.8 percent, for roads 20.4 percent.

#### Infrastructure projects always overspend

Samuel Staley, professor of urban economics and urban planning at Florida State University, 6-15-2012, “Highway Construction As Stimulus? Not So Fast,” The Reason Foundation, http://reason.org/news/show/highway-construction-as-stimulus-no

It is this reality of overbuilding that should sober ideas about infrastructure spending "paying for itself" or "filling a need," particularly in an advanced and mature economy such as the one within the United States. Certain parts of the Highway System certainly showed positive economic gains, but many other segments were unnecessary - or at least not necessary at the time the government built them. While spending federal dollars on road development is not the only arrow in the quiver of the pro-stimulus argument, a more sophisticated look at our experience with the Interstate Highway System at least suggests that Washington should be careful about simply dropping billions more dollars on the economy without considering the potential inefficiencies they create. A critique of this argument might be that we're just nitpicking on price. However, new research out of China of all places suggests that the waste may well have amounted to more than 20 percent of the total cost. China is a particularly intriguing case study because its economy is going through many of the same challenges, fits, and starts as the U.S. economy in the early and mid-twentieth century. Roads, rails, bridges, ports, and airports have emerged as critical infrastructure for nurturing a burgeoning manufacturing economy, and facilitating national mobility. China, however, didn't have the economic tax base to support a sprawling national highway system. While provinces were responsible for building the roads and expressways, they couldn't levy taxes to finance them. So, they relied on private capital to build their expressways and later established government-controlled toll authorities to fund many more. The model worked reasonably well except that the primary purpose was to collect money to pay off the debt, not optimize the efficiency of the highway network. Tollroads were established based on whether the agencies could float bonds to finance them, not economic analysis of travel demand and willingness to pay. The result? Expressway overbuilding. Economists at the Institute for Regional and Transportation Economy at Chang'an University studied highway investments and toll rates in four provinces - Jiangsu, Hebei, Shaanxi, Jilin - and found that the expressways were overbuilt by about 20 percent. They concluded that road pricing that takes into account travel demand as well as the debt incurred to build the highways would substantially reduce the size of the highway network. In short, by making the true costs of building highways transparent to users through properly calibrated tolls, the expressway network would have been smaller and less expensive. The implications for U.S. transportation policy and highway finance are important, particularly given the current gridlock over long-term transportation spending in Congress and the intransigence of some Congressman toward public private partnerships. If China managed to overbuild its tolled expressways by 20 percent, the inefficiencies and overbuilding in the unpriced U.S. highway system are likely much larger. At the very least, this makes a strong case for expanding the scope of private involvement in American highways. And it should provide a non-ideological pushback on the idea that stimulus spending on infrastructure is a good idea.

### Link – Delays

#### Delays in public spending cause businesses to stop spending in the short term

Eric Leeper, Todd Walker, and Shu-Chun Yang, analysts for the International Monetary Fund, October 2010, “Government Investment and Fiscal Stimulus,” IMF Working Paper, http://www.imf.org/external/pubs/ft/wp/2010/wp10229.pdf

This paper contributes to the on-going policy debate by conducting a positive analysis of government investment in an estimated neoclassical growth model fit to U.S. postwar data. The analysis shows that implementation delays and expected fiscal adjustments can hinder the beneficial effects of government investment at both short and long horizons. Implementation delays determine the rate of spending outlays for government investment, and the speed at which spending occurs is crucial for short-run stimulative effects. Many projects, especially infrastructure, require coordination among federal, state, and local governments and have to go through a long process of planning, bidding, contracting, construction, and evaluation. To model these delays, a time-to-build setup is used to characterize the formation of public capital, as in Kydland and Prescott (1982). Compared to a scenario with little delay, implementation delays for government investment can lead private investment to fall more and labor and output to rise less (or even decline slightly) in the short run. So long as public capital is productive, the expectation of higher government investment spending generates a positive wealth effect, which discourages current work effort. Depending on the implementation speed, this positive wealth effect could dominate the usual negative wealth effects from increasing government purchases, resulting in small or even negative effects on labor and output in the short run. In addition, because private investment projects typically do not entail the substantial delays associated with public projects, private investment falls initially and does not rebound until later, when the public capital is on line and raises the productivity of private inputs. Implementation delays can postpone the intended economic stimulus and may even worsen the downturn in the short run. Delays in government investment are analogous to the phased-in tax cuts enacted in 2001 and 2003, where expectations of future tax cuts may have induced workers and firms to postpone work and production, actions that House and Shapiro (2006) argue retarded the recovery from the 2001 recession.3 Current weakness in employment growth, which falls short of the administration’s predictions of the effects of the ARRA, may be partly attributable to implementation delays in government investment.4 By the end of fiscal year 2009, outlays for infrastructure spending from the ARRA were less than 10 percent of the budget authority granted for infrastructure in that year (Congressional Budget Office (2010c)), despite the claim that many projects were “shovel ready.”

#### Delays make spending short-term contractionary

Eric Leeper, Todd Walker, and Shu-Chun Yang, analysts for the International Monetary Fund, October 2010, “Government Investment and Fiscal Stimulus,” IMF Working Paper, http://www.imf.org/external/pubs/ft/wp/2010/wp10229.pdf

Macroeconomic effects of government investment hinge critically on implementation delays and distorting fiscal adjustments. A substantial time-to-build lag in a standard neoclassical model can make expansionary government investment contractionary in the short run, at worst, and have a muted impact, at best. Over longer horizons, the choice of fiscal adjustment instruments is important for minimizing the negative effects from stabilizing government debt. The productivity of government investment is also critical. Macroeconomic analysis often does not distinguish among the various types of government spending. But present-value long-run output multipliers can be larger than 1 even if government investment is only moderately productive.

### Link – Debt

#### More debt destroys the economy

Johnny Munkhammar, adjunct scholar at the American Enterprise Institute and MP in Sweden, 6-27-2012, “The End of Stimulus Policy,” American Enterprise Institute, http://www.aei.org/files/2012/06/27/-the-end-of-stimulus-policy\_173446935952.pdf

The current debt crisis is very serious and is justifiably on top of the policy agenda. It demands accurate analyses, crisis management and political leadership. In this process, it is essential to study which policy measures have worked and which have not. Keynesian stimulus policies, with vast increases in public expenditure, deficits and debt, have been counter-productive. As an economic recovery comes, the lesson of Keynesian stimulus policy failure must not be forgotten. Such policy must be avoided when policymakers are faced with the next crisis, which will inevitably come, in one form or another. Long-term reforms for growth, balanced budgets and limited public expenditure should be in focus for governments as they emerge from the current downturn. The consequences of continuing or repeating failed policies – or unwillingness to correct a harmful policy path – will be serious.

#### Borrowing kills the economy – empirically proven

Johnny Munkhammar, adjunct scholar at the American Enterprise Institute and MP in Sweden, 6-27-2012, “The End of Stimulus Policy,” American Enterprise Institute, http://www.aei.org/files/2012/06/27/-the-end-of-stimulus-policy\_173446935952.pdf

Increasing government spending through borrowing in order to stimulate the economy has led to meaningful slowdowns in many of the countries in which it has been recently attempted. As deficits and debt have mounted, growth has plunged. Long-term effects on growth – such as decreased productivity and the rising cost of paying back debt – may impede growth for many years to come. The risks of following this policy were not unknown – on the contrary, they were apparent already four decades ago – and the effects of crowding out, poor political processes, errors in central planning and the effects of subsidies have not decreased in the decades since they were first explained. Some growth effects have become stronger, such as the free-flow of goods and services in the global economy. As the next crisis unfolds, the pains of current Keynesian policies must be remembered as cries to “do something” permeate the public debate.

#### Paying for projects kills growth long-term

Eric Leeper, Todd Walker, and Shu-Chun Yang, analysts for the International Monetary Fund, October 2010, “Government Investment and Fiscal Stimulus,” IMF Working Paper, http://www.imf.org/external/pubs/ft/wp/2010/wp10229.pdf

With respect to fiscal adjustments, how deficit spending is ultimately financed matters for the effects of government investment at longer horizons. This issue is especially pertinent to the current fiscal situation. A quickly deteriorating federal government budget situation suggests that future policies must change to maintain fiscal sustainability.5 To model the effects of fiscal adjustments, a variety of fiscal instruments—transfers, government consumption, and income taxes—are allowed to adjust with a two-year lag to rising government debt and the adjustment process is estimated. Debt-financed fiscal expansions then trigger expected adjustments in spending and taxes that ensure policy is sustainable. Distorting fiscal financing dampens the growth effects of government investment over longer horizons. Estimates find that the government has systematically relied on cutting government consumption and transfers and raising income taxes to stabilize debt in the post-1960 sample. When public capital is only weakly productive, government investment can be contractionary at longer horizons, as the disincentives to invest and work due to distortionary fiscal adjustments can dominate the incentives from higher productivity of private inputs. The speed of fiscal adjustment is also a significant factor in determining the ability of government investment to offset cyclical movements in macro aggregates: stimulative impacts of deficit-financed increases in government investment are mitigated if distortionary fiscal instruments rapidly retire debt.

## Internals

### Fiscal Discipline – Econ

#### Fiscal discipline is key to the recovery

Lacy H Hunt, executive VP of Hoisington Investment Mgmt Company, 5-17-2012, “Economic Recovery Via Shared Sacrifice,” Market Oracle, <http://www.marketoracle.co.uk/Article34706.html>

LH: It may occur sooner than we think**.** If interest rates in the marketplace were to go up 200 basis points, it would add approximately $350B a year to the federal budget deficit. Of course, you'd have to borrow that, and then borrow more and more in succeeding years. So the interest expense is really a potential time bomb. I don't think a rise in long-term rates is at hand, but it's very problematic as we go forward. TGR: You also write about a negative risk premium—when the total return of the S&P 500 is less than the return on long-term Treasuries and thus equity investors aren't being rewarded for the risks they take. It seems to contradict the concept that we're marching toward this bang point. Will the negative risk premium continue until we reach the bang point? LH: First of all, let me explain a bit more about the negative risk premium. We know that over very long periods of time investors in stocks have received a premium over investors in long-term Treasuries. If that didn't hold true over the long run, people wouldn't take the risk. But there have been significant exceptions. Following the build-up of debt in the 1860s and 1870s, we had a 20-year span during which the S&P 500 return was lower than long-term Treasury returns. Then, even though World War II interrupted, another period of negative risk premiums lasted from 1928 to 1948. In both instances, 20 years was a long time to wait for risk to be rewarded. Certainly there were quarters, even years, during those spans when the S&P 500 returns were better than the Treasuries, but when you stand back and you look at the entire period, risk was not rewarded. We've had another massive build-up of debt over the last 20 years, and since 1991 we've been in another negative risk premium cycle. We've past the 20-year point already, and if we continue along the path toward increased indebtedness, we'll extend the negative risk premium interval this time around. I think it will be very difficult for the normal economic conditions to prevail. A lot of the pioneering work on the role of debt was done by Irving Fisher. He thought the economy operated on a normal business cycle model, one to two bad years, four to five good years. The one to two got a little testy, but it was over and you went on. That's why he was fooled by the Great Depression. He freely admitted he was fooled. He made some outrageous statements about the health of the economy in 1929, but he did his *mea culpa,* reexamined what he thought and concluded that the normal business cycle doesn't work in highly over-indebted situations. In those situations, the indebtedness controls nearly all other economic variables—including the risk premium. The normal bounds don't work, just as they did not work after the panics of 1873, 1929, and 1989, when risk was not rewarded. So by trying to solve this over-indebtedness problem by getting further in debt, the standard of living will not rise and, in the final analysis, the stock market will reflect how well our people are doing. And our people are not doing well. Of course, the bang point is a point of calamitous development, but it would mark the climax of a prolonged period of underperformance and financial risk management. It's not at hand. We have the ability to control it, but we have to have the political will to do so. At present, it doesn't appear to be forthcoming. TGR: You've indicated that the only way for developed nations to get out from under this debt burden is austerity, not inflation or more Quantitative Easing (QE). With the income of average American citizens stagnant, at best, for a decade already, what would spark the political will to force austerity measures on a beleaguered populace? LH: No one wants austerity. Neither the politicians nor the public want it. The McKinsey Global Institute did an outstanding study of what happens to highly overleveraged countries that get into crisis situations. It found 32 cases that have fully played out, starting with the 1930s. In 16 cases of the 32—or half—austerity was required. Only eight cases were resolved by higher inflation, but they were all very small, emerging economies. A small country with no major role in world markets can get away with debasing its currency, but a major player cannot do that.

#### Deficit reduction is key to investment and business confidence

Ezra Klein, editor of Wonkblog and Washington Post columnist, interviewing Tom Coburn, US Senator from Oklahoma, 5-18-2012, “Sen. Tom Coburn, part one: Defusing the debt bomb,” Wonkblog, http://www.washingtonpost.com/blogs/ezra-klein/post/sen-tom-coburn-part-one-defusing-the-debt-bomb/2012/05/15/gIQAIUteRU\_blog.html

**EK: Is there anything** we need **but** deficit reduction **to get growth back on the right path?** TC: It’s signals. The number one thing, and I think most economists would agree, confidence matters. If you have negative confidence, then you get much lower growth. If you have positive confidence you get much better growth with the same set of numbers. I think people are so disgusted with Washington that if we send a signal we’re actually going to fix this -- with any combination of tax and spending, remember that I voted for Simpson-Bowles -- we’ll get our mojo back when people have some confidence in the future and see their Congress solving their problems.

#### Austerity works – Europe proves how half-hearted economic strategies lock countries into pseudo-growth with long-term consequences

Bill Bonner, economic analyst with the Daily Reckoning, 5-9-2012, “Austerity in the Face of a ‘Fiscal Cliff’ http://www.dailyreckoning.com.au/austerity-in-the-face-of-a-fiscal-cliff/2012/05/09

Real austerity - with deep cuts and balanced budgets - could work. But it contradicts the whole [idea of government](http://www.dailyreckoning.com.au/how-the-insiders-control-government/2011/12/12/), which is to transfer as much wealth from the [outsiders to the insiders](http://www.dailyreckoning.com.au/insider-economy/2011/11/24/) as possible. Besides, such deep cutbacks would probably trigger a zombie revolution. And by the way, 'austerity' is coming to the US too - if Congress doesn't stop it. Economists are calling it the "fiscal cliff." The nation is scheduled to run off the edge on Dec. 31st... Mohammed El-Erian explains: Economists are rightly starting to warn that the United States faces a worrisome "fiscal cliff" at year's end. The blunt spending cuts mandated by the 2011 compromise on the debt ceiling - and the failure of the "supercommittee" that followed - along with across-the-board tax increases would derail the US recovery and undermine the well-being of the global economy. We should be avoiding the edge of this cliff - and politicians should not believe that they have until the end of this year to act. The sequestration mandated by the Budget Control Act of 2011 and the reversal of the Bush-era and payroll tax cuts would essentially mean withdrawing from the economy some 4 percent of the national income in one blunt go - and this doesn't factor in possible knock-on effects. The importance of this issue cannot be overstated. A fiscal contraction of this magnitude and composition would stop dead in its tracks the economy's nascent healing and job creation. Consumption and investment would be harmed. Foreigners would become more cautious about buying our ever-increasing debt issuance. And with our internal growth momentum weakened, the headwinds from the European debt crisis could prove overwhelming. The [austerity show has been playing in Europe](http://www.dailyreckoning.com.au/will-europes-austerity-mean-fireworks-for-australians/2012/04/28/) for the last two years. That's why half of Europe is in recession...with the other half not far behind. Europeans are tired of it. So, now the Europeans seem to be giving up on phony austerity and turning to phony growth. They are going to spend more borrowed and printed money. This will look vaguely like "growth." There will be more jobs and more incomes. But there will be precious little real prosperity going on. Of course, going for growth is precisely what got the developed world into such a jam in the first place. Too many people spent too much money they didn't have on too many things they didn't need. In America, the Fed encouraged it with [low rates](http://www.dailyreckoning.com.au/why-low-interest-rates-are-bad-for-the-economy/2012/01/20/)...then after the private sector debt bubble blew up, the feds made up for the missing spending by spending more themselves. In Europe, the euro-feds made a debt bubble possible by establishing a single currency bloc...with harmonized interest rates. All of a sudden Greece and Ireland could borrow as easily and cheaply as France and Germany. And so they did; they borrowed their way to the brink of bankruptcy. Now, Francois Hollande has a plan. He wants to make Europe more like America...with a central bank that lends to government directly and "mutualization" of credit risk. In other words, he wants to do what Alexander Hamilton did to the US in 1791: make the states collectively responsible for each other's debt. And then he'll let the [ECB print the money](http://www.moneymorning.com.au/20120309/how-the-ecb-kicks-the-can-down-the-road.html) to buy sovereign bonds directly. Yes, dear reader, the trend towards centralization continues...with central financial planning...[central bank counterfeiting](http://www.moneymorning.com.au/20120410/qe-why-we-can-expect-more-money-printing-from-central-banks.html)...and everybody going broke together.

### Debt – Econ

#### Increases in the deficit kill recovery

Gordon Chang, Forbes editor on China policy, 5-20-2012, “Hey, Krugman, Ask China If Stimulus Is A Good Idea,” Forbes, http://www.forbes.com/sites/gordonchang/2012/05/20/hey-krugman-ask-china-if-stimulus-is-a-good-idea/

This is where Krugman comes in. Debt matters, even in countries like China where it can be hidden for decades on the books of the banks, local government instrumentalities, and central government ministries. The failure of China’s banks to lend in the last four weeks is just the inevitable result of burdening them with the responsibility of stimulating the economy for more than two years. Even in a semi-command economy like China’s, the laws of economics eventually apply. So, Dr. Krugman, after years of stimulus channeled through the banks, the buildup of loans looks like it is beginning to prevent the central government from taking effective action to stop collapsing growth. China’s debt-to-GDP ratio is thought to be about the same as America’s. But in an open economy like ours, debt could have an even more profound—and immediate—effect.

#### Increased debt kills growth both short-term and long-term

Johnny Munkhammar, adjunct scholar at the American Enterprise Institute and MP in Sweden, 6-27-2012, “The End of Stimulus Policy,” American Enterprise Institute, http://www.aei.org/files/2012/06/27/-the-end-of-stimulus-policy\_173446935952.pdf

While the aims of stimulus policies tend to not be fulfilled, building up debt creates real problems. During the coming years and decades, both the US and Japan must deal with huge and growing deficits and debt. These debts, as well as the potential tax increases that might be enacted to counter them, may create a crowding out effect which can affect both output and employment. Economists Kenneth Rogoff and Carmen Reinhart have recently shown that countries with high government debt-to-GDP ratios have weaker economic growth than other nations. Based on a dataset with 44 countries and spanning about 200 years, the authors demonstrate that nations with debt over 90 percent of GDP experience a drop in median GDP growth by one percent. The threshold for public debt is shown to be similar in advanced and emerging economies (Reinhart and Rogoff 2010). The persistence of the debt overhang’s burden to the economy often continues for more than a decade following the initial contraction (Reinhart, Reinhart and Rogoff 2012).

#### Debt hoses investment – turns the case

Henning Bohn, professor of economics at UCSB, 2010, “The Economic Consequences of Rising U.S. Government Debt: Privileges at Risk,” UCSB, http://escholarship.org/uc/item/7kz6v3zs

The rapidly growing federal government debt has become a concern for policy makers and the public. Yet the U.S. government has seemingly unbounded access to credit at low interest rates. Historically, Treasury yields have been below the growth rate of the economy. The paper examines the ramifications of debt financing at low interest rates. Given the short maturity of U.S. public debt – over $2.5 trillion maturing in 2010 – investor expectations are critical. Excessive debts justify reasonable doubts about solvency and monetary stability and thus undermine a financing strategy built on the perception that U.S. debt is safe. The rapidly growing U.S. government debt has become a concern for policy makers and the public. The ratio of U.S. public debt to GDP has increased from 36.2% in 2007 to 53.0% in 2009. Under current policies, the debt-GDP ratio is likely to reach 70% by 2011 and 90% by 2020.1 What are the consequences of this rising U.S. government debt? The paper will argue that a proper analysis of U.S. debt must account for the U.S. government’s ability to issue debt at interest rates that are on average below the growth rate of the U.S. economy. Evidence suggests that the low interest rates are largely due to perceptions of safety, with a secondary role for liquidity effects. Given the short maturity of U.S. public debt – over $2.5 trillion maturing in 2010 – investor expectations are critical. To refinance its debt, the government must ensure that bond buyers remain firmly convinced of the government’s solvency. Excessive debts justify reasonable doubts about solvency and about inflation. Hence they undermine a financial strategy built on a perception of safety.

### Inflation – Econ

#### Increasing inflation kills the global recovery

John Authers, international economist for the Financial Times, 2-20-2012, “Inflation cycle puts lid on sustained recovery,” Financial Times, http://www.ft.com/cms/s/0/65eaa09e-58c6-11e1-b118-00144feabdc0.html#axzz1z4qAHTP7

But central banks do not operate in a vacuum and the money they create is fungible. Once created, it tends to find its way to wherever it will make the greatest return. So, in 1998, money to ease the financial system through the Long-Term Capital Management crisis helped inflate the tech bubble, and money to deal with the bursting tech bubble inflated the US housing bubble. At present, money is likely to find its way to emerging markets. They are growing, and have higher interest rates. Brazilian government bonds yield more than 10 per cent. Park money there and little will go wrong. Except emerging markets have an endemic inflation problem of their own, which forced many central banks to raise rates after the Fed’s first wave of money-printing in 2009. Many now hope that emerging central banks will ease rates this year; but that grows less likely if flows of US money push up inflation again. Higher rates in the emerging economies would in turn tend to choke off economic activity there. And that would be a shame because it is on emerging markets, led by China, that the world currently relies for its growth. In a global economy, it is hard for any one nation, even the US, to take actions that will not have a countermanding effect somewhere else in the world.

#### Economic decline causes war

Sean O’Donnell, staff writer, 2-26-2009, “Will this recession lead to World War III?,” Baltimore Republican Examiner, http://www.examiner.com/republican-in-baltimore/will-this-recession-lead-to-world-war-iii

Could the current economic crisis affecting this country and the world lead to another world war? The answer may be found by looking back in history. One of the causes of World War I was the economic rivalry that existed between the nations of Europe. In the 19th century France and Great Britain became wealthy through colonialism and the control of foreign resources. This forced other up-and-coming nations (such as Germany) to be more competitive in world trade which led to rivalries and ultimately, to war. After the Great Depression ruined the economies of Europe in the 1930s, fascist movements arose to seek economic and social control. From there fanatics like Hitler and Mussolini took over Germany and Italy and led them both into World War II. With most of North America and Western Europe currently experiencing a recession, will competition for resources and economic rivalries with the Middle East, Asia, or South American cause another world war? Add in nuclear weapons and Islamic fundamentalism and things look even worse. Hopefully the economy gets better before it gets worse and the terrifying possibility of World War III is averted. However sometimes history repeats itself.

### Dollar – Hegemony

#### Dollar collapse causes heg collapse

Chas Freeman Jr., retired diplomat, former Minister in Beijing and Bangkok, and ambassador to Saudi Arabia, and Assistant Secretary of Defense for International Security Affairs, 7-13-2011, “The Incapacitation of US Statecraft and Diplomacy,” The Hague Journal of Diplomacy, volume 6 page 413-432

The risks entailed in failing to meet these challenges are not trivial. At least one is almost existential. A dollar-based global monetary system that is long past its prime and overdue for correction cannot much longer sustain the spendthrift fiscal policies to which Americans have become accustomed.3 The inevitable adjustment to fiscal and monetary realities could include not just global financial collapse but the sudden decline of both US prosperity and the worldwide military power and political prestige that this has long underwritten. This linkage to the possibility of a dollar sovereign-debt crisis is well understood in the Pentagon,4 even if not reflected in fiscal and monetary policy or debate in the US Congress. It could bring on a sudden, radical reduction in US economic power and military prowess.

#### US dollar hegemony is key to power projection

Rohini Hensman, writer and independent scholar and social activist, and Marinella Correggia, activist and writer, 1-30-2005, “US DOLLAR HEGEMONY: THE SOFT UNDERBELLY OF EMPIRE (AND WHAT CAN BE DONE TO USE IT!)”, South Asia Citizens Web, http://www.sacw.net/free/rohini\_marinella30012005.html

What we intend to argue below is that if the US's ability to undertake imperial conquests like that of Iraq depends on its obvious military supremacy, this in turn is ultimately based on the use of the US dollar as the world's reserve currency. It is the dominance of the dollar that underpins US financial dominance as a whole as well as the apparently limitless spending power that allows it to keep hundreds of thousands of troops stationed all over the world. Destroy US dollar hegemony, and "Empire" will collapse. David Ludden's article 'America's Invisible Empire' (1) sums up the problem of the world's most recent empire with remarkable clarity. Constituting itself at a time when decolonisation was well under way and other empires were disintegrating, US imperialism could never openly speak its name. Initially, it disguised itself as the defender of democracy against communism; when the Soviet Union ceased to exist, the pretext became the "war against terror". National security and national interest were invoked as the rationale for global dominance.

#### Dollar hegemony underpins all of American hegemony

Rohini Hensman, writer and independent scholar and social activist, and Marinella Correggia, activist and writer, 1-30-2005, “US DOLLAR HEGEMONY: THE SOFT UNDERBELLY OF EMPIRE (AND WHAT CAN BE DONE TO USE IT!)”, South Asia Citizens Web, http://www.sacw.net/free/rohini\_marinella30012005.html

The core advantage of the US economy, the source of its financial dominance, is the peculiar role of the US currency. It is because the dollar is the world's reserve currency that the US is able to maintain its twin deficits (fiscal and trade) and depend on the world's generosity. It needs a subsidy of at least 1.2 billion dollars per day to keep up its level of spending. Its military superiority is one reason why it it is unlikely ever to face an embargo, but more importantly, it can continue to live beyond its means because of US dollar hegemony. But for long? The dollar mechanism has been described extensively elsewhere,(3) so we will merely summarize here. The strength of the US economy after World War II enabled the US dollar, backed by gold, to become the world's reserve currency. When the US abandoned the gold standard in 1971, the dollar remained supreme, and its position was further boosted in 1974 when the US came to an agreement with Saudi Arabia that the oil trade would be denominated in dollars.(4) Most countries in the world import oil, and it made sense for them to accumulate dollars in order to guard against oil shocks. Third World countries had even more reason to hoard dollars so as to protect their fragile economies and currencies from sudden collapse. With everyone clamouring for dollars, all the US had to do was print fiat dollars and other countries would accept them in payment for their exports. These dollars then flowed back into the US to be invested in Treasury Bonds and similar instruments, offsetting the outflow. As a reserve currency fulfills world needs in addition to the functions of a domestic currency, the favoured country can build up debt for a protracted period on a scale that would wreck any other country's currency. But this advantage is a double-edged sword.(5) It allowed the US economy to decline unnoticed, its fiscal and trade deficits to climb steeply: by 2004 the US trade deficit had reached $503 billion, the current account deficit $413 billion, the gross national debt around $7 trillion. Globalization destroyed the US as a manufacturing nation; the outsourcing of services means that even this sector is gradually being shifted out of the US.(6) Only its pre-eminence in the global financial services industry remains intact.(7) And this is underpinned by US dollar hegemony.

#### Deficit spending crushes the economy, the dollar, and heg

James Rickards, major hedge fund manager in New York City, 6-25-2012, “Why Obama's Deficit Spending Is Making Things Worse,” US News and World Report, http://www.usnews.com/opinion/blogs/economic-intelligence/2012/06/25/why-obamas-deficit-spending-is-making-things-worse?s\_cid=related-links:TOP

When you hear mainstream economists offer detailed reasons why the Bush-Clinton tax increases were needed and why the Obama deficits are the right medicine for the economy, bear in mind these are the same economists who did not see the 2007 housing collapse coming, did not see the 2008 financial panic coming, and are willfully ignoring gathering threats to the stability of the dollar today. Government has become a complex entity with an insatiable demand for new spending. Government is like a shark that must feed continually or die. When times are good government increases spending. When times are bad government increases debt so it can keep spending. At no point in the business cycle does total government spending ever go down. At no point in the credit cycle does total government debt ever go down. Citizens understand this. They have been lied to long and often enough to get how the game is played. Citizens who insist that government stop talking about cuts and start the actual process of cutting spending now have got it right. Fewer resources for government means more resources for the private sector where ideas, invention, technology, innovation, and jobs actually originate. Wimpy's financial dodges were amusing in the Popeye cartoons and entirely fictional. The real-life Wimpys in academia and Washington are not amusing at all. In fact, they are dangerous to the stability and national security of the United States. They have been partly discredited in the eyes of many citizens. Let's hope it doesn't take another financial collapse to finish the job.

### Econ Decline – Space

#### Economic collapse makes getting off the rock impossible

James Pinkerton, former aid to presidents Bush and Reagan and senior fellow at the New America foundation. “The NIMBY mentality makes its way to space,” 2001. http://techcentralstation.com/090401D.html

Spaceniks in particular should be afraid, very afraid, of this phenomenon. Why? Because space exploration is dependent on a long chain of technological and cultural links-including economic prosperity, a robust aerospace sector, and self-confident questing--and any break in those linkages could collapse the whole idea of humanity's seriously venturing into space. Spacers should understand that if the NIMBYs and NIMPies prevail, we could find ourselves trapped forever on this single planet, our outward-bounded dreams swaddled-and strangled-in red tape. NIMPies, of course, don't worry much about space; they're too busy subduing the Earth in accordance with their anti-growth agenda. Global warming is the mega-issue, of course, but some green groups have seized upon subset-issues for special attention. For example, the most recent issue of the San Francisco-based Earth Island Institute's magazine, Earth Island Journal, features a piece entitled "The Jetcraft Juggernaut: More Airplanes, More Airports, More Delays and More Pollution." Author Peter Fisher cites a 1999 report by the Intergovernmental Panel on Climate Change, which concluded that aircraft were responsible for 3.5 percent of global climate change through carbon dioxide emissions, and that this percentage could rise fourfold by 2050. It's not hard to see how such "data" could be used and abused in the future, as activists and alarmists issue urgent "calls to action." And as the Earth Island website makes clear, the space program is in the same crosshairs; Earth Island Journal pats itself on the back for reportage on "the serious damage to the ozone layer caused by every launch of the space shuttle."

#### Growth key to space colonization.

Robin Hason, Professor of economics at George Mason University, Oct. 18, 2001, http://hanson.gmu.edu/wildideas.html

If our growth does not stop, it must continue. And it cannot continue this long without enabling and encouraging massive space colonization. Spatial/material growth requires it, technical growth enables it, and economic growth induces technical growth.

#### We can’t get off the rock if there isn’t a strong economy

Sylvia Engdahl, professor at New York’s New School for Social Research, former computer systems specialist for the SAGE Air Defense System and author. “Space and Human Survival,” 2000 http://www.sylviaengdahl.com/space/survival.htm

I have called this stage in our evolution the “Critical Stage.” Paul Levinson [the Director of Connected Education] uses different terminology for the same concept. He says that we have only a narrow window to get into space, a relatively short time during which we have the capability, but have not yet run out of the resources to do it. I agree with him completely about this. Expansion into space demands high technology and full utilization of our world’s material resources (although not destructive utilization). It also demands financial resources that we will not have if we deplete the material resources of Earth. And it demands human resources, which we will lose if we are reduced to global war or widespread starvation. Finally, it demands spiritual resources, which we are not likely to retain under the sort of dictatorship that would be necessary to maintain a “sustainable” global civilization. Because the window is narrow, then, we not only have to worry about immediate perils. The ultimate, unavoidable danger for our planet, the transformation of our sun, is distant—but if we don’t expand into space now, we can never do it.

## Impacts

### Econ Decline – Turns Hegemony

#### Perception of a healthy economy is key to heg

Leslie H. Gelb, former New York Times columnist and senior official in the state

and defense departments and is currently president emeritus of the Council on Foreign

Relations, Summer 2010, “Fashioning a Realistic Strategy for the Twenty-First Century A Conversation with Leslie H. Gelb”, The Fletcher Forum of World Affairs, http://ui04e.moit.tufts.edu/forum/archives/pdfs/34-2pdfs/Gelb.pdf

Power is what it always has been. It is the ability to get someone to do something they do not want to do by means of your resources and your position. It was always that. There is no such thing in my mind as “soft” power or “hard” power or “smart” power or “dumb” power. It is people who are hard or soft or smart or dumb. Power is power. And people use it wisely or poorly. Now, what has changed is the composition of power in international affairs. For almost all of history, international power was achieved in the form of military power and military force. Now, particularly in the last fifty years or so, it has become more and more economic. So power consists of economic power, military power, and diplomatic power, but the emphasis has shifted from military power (for almost all of history) to now, more economic power. And, as President Obama said in his West Point speech several months ago, our economy is the basis of our international power in general and our military power in particular. That is where it all comes from. Whether other states listen to us and act on what we say depends a good deal on their perception of the strength of the American economy. A big problem for us in the last few years has been the perception that our economy is in decline.

#### Economic decline makes heg impossible.

Samuel Huntington, Professor of the Science of Government at Harvard, “Why International Primacy Matters,” International Security, v17 n4, Spring, 1993, p. 81

“Economics,” as Daniel Bell has said, “is the continuation of war by other means.” Economic primacy matters because economic power is both the most fundamental and the most fungible form of power. For the United States, the loss of economic primacy to Japan could be highly damaging, as would have been the loss of political-military primacy to the Soviet Union. This loss to Japan would, first, make U.S. influence in world affairs subor­dinate to that of Japan and, second, reduce long-term U.S. economic welfare, as Japan used its power, as its leaders and policies have said that it would, to accumulate high-technology, high-value-added industries in Japan, and to reduce the United States to the status of a “giant Denmark.” The American public, in the phrase that provoked Robert Jervis, very justifiably “is obsessed with Japan for the same reasons that it was once obsessed with the Soviet Union. It sees that country as a major threat to its primacy in a crucial arena of power.” Does Professor Jervis really believe that Americans are wrong for not wanting to live in a world where the major decisions affecting them economically are made in Tokyo? Does he really think that those decisions would be the same as decisions made in Washington, New York, Chicago, Atlanta, Houston, and Los Angeles?

#### Economic decline destroys US hegemony

Zalmay Khalilzad, RAND, The Washington Quarterly, Spring, 1995

The United States is unlikely to preserve its military and technological dominance if the U.S. economy declines seriously. In such an environment, the domestic economic and political base for global leadership would diminish and the United States would probably incrementally withdraw from the world, become inward-looking, and abandon more and more of its external interests. As the United States weakened, others would try to fill the Vacuum. To sustain and improve its economic strength, the United States must maintain its technological lead in the economic realm. Its success will depend on the choices it makes. In the past, developments such as the agricultural and industrial revolutions produced fundamental changes positively affecting the relative position of those who were able to take advantage of them and negatively affecting those who did not. Some argue that the world may be at the beginning of another such transformation, which will shift the sources of wealth and the relative position of classes and nations. If the United States fails to recognize the change and adapt its institutions, its relative position will necessarily worsen. To remain the preponderant world power, U.S. economic strength must be enhanced by further improvements in productivity, thus increasing real per capita income; by strengthening education and training; and by generating and using superior science and technology. In the long run the economic future of the United States will also be affected by two other factors. One is the imbalance between government revenues and government expenditure. As a society the United States has to decide what part of the GNP it wishes the government to control and adjust expenditures and taxation accordingly. The second, which is even more important to U.S. economic wall-being over the long run, may be the overall rate of investment. Although their government cannot endow Americans with a Japanese-style propensity to save, it can use tax policy to raise the savings rate.

### Econ – Extinction

#### Economic decline results in extinction

Lt. Col, Tom Bearden, PhD Nuclear Engineering, April 25, 2000, <http://www.cheniere.org/correspondence/042500%20-%20modified.htm>

Just prior to the terrible collapse of the World economy, with the crumbling well underway and rising, it is inevitable that some of the [wmd] weapons of mass destruction will be used by one or more nations on others. An interesting result then---as all the old strategic studies used to show---is that everyone will fire everything as fast as possible against their perceived enemies. The reason is simple: When the mass destruction weapons are unleashed at all, the only chance a nation has to survive is to desperately try to destroy its perceived enemies before they destroy it. So there will erupt a spasmodic unleashing of the long range missiles, nuclear arsenals, and biological warfare arsenals of the nations as they feel the economic collapse, poverty, death, misery, etc. a bit earlier. The ensuing holocaust is certain to immediately draw in the major nations also, and literally a hell on earth will result. In short, we will get the great Armageddon we have been fearing since the advent of the nuclear genie. Right now, my personal estimate is that we have about a 99% chance of that scenario or some modified version of it, resulting.

#### Economic decline causes extinction

Phil Kerpen, National Review Online, October 29, 2008, Don't Turn Panic Into Depression, http://www.cbsnews.com/stories/2008/10/29/opinion/main4555821.shtml

It’s important that we avoid all these policy errors - not just for the sake of our prosperity, but for our survival. The Great Depression, after all, didn’t end until the advent of World War II, the most destructive war in the history of the planet. In a world of nuclear and biological weapons and non-state terrorist organizations that breed on poverty and despair, another global economic breakdown of such extended duration would risk armed conflicts on an even greater scale.

#### The US is key to global economy

Walter Russell Mead, Kissinger Senior Fellow at the Council of Foreign Relations, Foreign Policy. 3/1/04

Similarly, in the last 60 years, as foreigners have acquired a greater value in the United States--government and private bonds, direct and portfolio private investments--more and more of them have acquired an interest in maintaining the strength of the U.S.-led system. A collapse of the U.S. economy and the ruin of the dollar would do more than dent the prosperity of the United States. Without their best customer, countries including China and Japan would fall into depressions. The financial strength of every country would be severely shaken should the United States collapse. Under those circumstances, debt becomes a strength, not a weakness, and other countries fear to break with the United States because they need its market and own its securities. Of course, pressed too far, a large national debt can turn from a source of strength to a crippling liability, and the United States must continue to justify other countries' faith by maintaining its long-term record of meeting its financial obligations. But, like Samson in the temple of the Philistines, a collapsing U.S. economy would inflict enormous, unacceptable damage on the rest of the world. That is sticky power with a vengeance.

### Hegemony – Extinction

#### Heg solves great power peace – history proves retaining capacity and cred is key to prevent transition wars

Robert Kagan, senior fellow in Foreign Policy at Brookings, 3-15-2012, “America has made the world freer, safer and wealthier,” CNN World, http://us.cnn.com/2012/03/14/opinion/kagan-world-america-made/index.html?hpt=hp\_c1

Finally, what about the long peace that has held among the great powers for the better part of six decades? Many people imagine that American predominance will be replaced by some kind of multipolar harmony. But multipolar systems have historically been neither stable nor peaceful. War among the great powers was a common, if not constant, occurrence in the long periods of multipolarity in the 16th, 17th, and 18th centuries. The 19th century was notable for two stretches of great-power peace of roughly four decades each, punctuated, however, by major wars among great powers and culminating in World War I, the most destructive and deadly war mankind had known up to that point. The era of American predominance has shown that there is no better recipe for great-power peace than certainty about who holds the upper hand. Many people view the present international order as the inevitable result of human progress, a combination of advancing science and technology, an increasingly global economy, strengthening international institutions, evolving "norms" of international behavior, and the gradual but inevitable triumph of liberal democracy over other forms of government -- forces of change that transcend the actions of men and nations. But there was nothing inevitable about the world that was created after World War II. International order is not an evolution; it is an imposition. It is the domination of one vision over others -- in America's case, the domination of liberal free market principles of economics, democratic principles of politics, and a peaceful international system that supports these, over other visions that other nations and peoples may have. The present order will last only as long as those who favor it and benefit from it retain the will and capacity to defend it. If and when American power declines, the institutions and norms American power has supported will decline, too. Or they may collapse altogether as we transition into another kind of world order, or into disorder. We may discover then that the United States was essential to keeping the present world order together and that the alternative to American power was not peace and harmony but chaos and catastrophe -- which was what the world looked like right before the American order came into being.Collapse of heg causes regional nuclear wars, massive proliferation, economic collapse and forces US reengagement.

Robert J. Lieber, Professor of Government and International Affairs @ Georgetown University. *The American Era: Power and Strategy for the 21st Century*. 2005. Pg. 53-54.

Withdrawal from foreign commitments might seem to be a means of evading hostility toward the United States, but the consequences would almost certainly be harmful both to regional stability and to U.S. national interests. Although Europe would almost certainly not see the return to competitive balancing among regional powers (i.e., competition and even military rivalry between France and Germany) of the kind that some realist scholars of international relations have predicted,2’ elsewhere the dangers could increase. In Asia, Japan, South Korea, and Taiwan would have strong motivation to acquire nuclear weapons — which they have the technological capacity to do quite quickly. Instability and regional competition could also escalate, not only between India and Pakistan, but also in Southeast Asia involv­ing Vietnam, Thailand, Indonesia, and possibly the Philippines. Risks in the Middle East would be likely to increase, with regional competi­tion among the major countries of the Gulf region (Iran, Saudi Arabia, and Iraq) as well as Egypt, Syria, and Israel. Major regional wars, even­tually involving the use of weapons of mass destruction plus human suffering on a vast scale, floods of refugees, economic disruption, and risks to oil supplies are all readily conceivable. Based on past experience, the United States would almost certainly be drawn back into these areas, whether to defend friendly states, to cope with a humanitarian catastrophe, or to prevent a hostile power from dominating an entire region. Steven Peter Rosen has thus fit­tingly observed, “If the logic of American empire is unappealing, it is not at all clear that the alternatives are that much more attractive.”22 Similarly, Niall Ferguson has added that those who dislike American predominance ought to bear in mind that the alternative may not be a world of competing great powers, but one with no hegemon at all. Ferguson’s warning may be hyperbolic, but it hints at the perils that the absence of a dominant power, “apolarity,” could bring “an anarchic new Dark Age of waning empires and religious fanaticism; of endemic plunder and pillage in the world’s forgotten regions; of economic stagnation and civilization’s retreat into a few fortified enclaves.”23

#### Hegemony solves nuke war and extinction

Thomas P.M. Barnett, Former Senior Strategic Researcher and Professor in the Warfare Analysis & Research Department, Center for Naval Warfare Studies, U.S. Naval War College American military geostrategist and Chief Analyst at Wikistrat., worked as the Assistant for Strategic Futures in the Office of Force Transformation in the Department of Defense, 3-7-2011, “The New Rules: Leadership Fatigue Puts U.S., and Globalization, at Crossroads,” http://www.worldpoliticsreview.com/articles/8099/the-new-rules-leadership-fatigue-puts-u-s-and-globalization-at-crossroads

It is worth first examining the larger picture: We live in a time of arguably the greatest structural change in the global order yet endured, with this historical moment's most amazing feature being its relative and absolute lack of mass violence. That is something to consider when Americans contemplate military intervention in Libya, because if we do take the step to prevent larger-scale killing by engaging in some killing of our own, we will not be adding to some fantastically imagined global death count stemming from the ongoing "megalomania" and "evil" of American "empire." We'll be engaging in the same sort of system-administering activity that has marked our stunningly successful stewardship of global order since World War II. Let me be more blunt: As the guardian of globalization, the U.S. military has been the greatest force for peace the world has ever known. Had America been removed from the global dynamics that governed the 20th century, the mass murder never would have ended. Indeed, it's entirely conceivable there would now be no identifiable human civilization left, once nuclear weapons entered the killing equation. But the world did not keep sliding down that path of perpetual war. Instead, America stepped up and changed everything by ushering in our now-perpetual great-power peace. We introduced the international liberal trade order known as globalization and played loyal Leviathan over its spread. What resulted was the collapse of empires, an explosion of democracy, the persistent spread of human rights, the liberation of women, the doubling of life expectancy, a roughly 10-fold increase in adjusted global GDP and a profound and persistent reduction in battle deaths from state-based conflicts. That is what American "hubris" actually delivered. Please remember that the next time some TV pundit sells you the image of "unbridled" American military power as the cause of global disorder instead of its cure. With self-deprecation bordering on self-loathing, we now imagine a post-American world that is anything but. Just watch who scatters and who steps up as the Facebook revolutions erupt across the Arab world. While we might imagine ourselves the status quo power, we remain the world's most vigorously revisionist force. As for the sheer "evil" that is our military-industrial complex, again, let's examine what the world looked like before that establishment reared its ugly head. The last great period of global structural change was the first half of the 20th century, a period that saw a death toll of about 100 million across two world wars. That comes to an average of 2 million deaths a year in a world of approximately 2 billion souls. Today, with far more comprehensive worldwide reporting, researchers report an average of less than 100,000 battle deaths annually in a world fast approaching 7 billion people. Though admittedly crude, these calculations suggest a 90 percent absolute drop and a 99 percent relative drop in deaths due to war. We are clearly headed for a world order characterized by multipolarity, something the American-birthed system was designed to both encourage and accommodate. But given how things turned out the last time we collectively faced such a fluid structure, we would do well to keep U.S. power, in all of its forms, deeply embedded in the geometry to come. To continue the historical survey, after salvaging Western Europe from its half-century of civil war, the U.S. emerged as the progenitor of a new, far more just form of globalization -- one based on actual free trade rather than colonialism. America then successfully replicated globalization further in East Asia over the second half of the 20th century, setting the stage for the Pacific Century now unfolding.

### Space – Extinction

#### Space prevents inevitable extinction

James Oberg, space writer and a former space flight engineer based in Houston, 1999, Space Power Theory, http://www.jamesoberg.com/books/spt/new-CHAPTERSw\_figs.pdf

We have the great gift of yet another period when our nation is not threatened; and our world is free from opposing coalitions with great global capabilities. We can use this period to take our nation and our fellow men into the greatest adventure that our species has ever embarked upon. The United States can lead, protect, and help the rest of [hu]mankind to move into space. It is particularly fitting that a country comprised of people from all over the globe assumes that role. This is a manifest destiny worthy of dreamers and poets, warriors and conquerors. In his last book, Pale Blue Dot, Carl Sagan presents an emotional argument that our species must venture into the vast realm of space to establish a spacefaring civilization. While acknowledging the very high costs that are involved in manned spaceflight, Sagan states that our very survival as a species depends on colonizing outer space. Astronomers have already identified dozens of asteroids that might someday smash into Earth. Undoubtedly, many more remain undetected. In Sagan’s opinion, the only way to avert inevitable catastrophe is for mankind to establish a permanent human presence in space. He compares humans to the planets that roam the night sky, as he says that humans will too wander through space. We will wander space because we possess a compulsion to explore, and space provides a truly infinite prospect of new directions to explore. Sagan’s vision is part science and part emotion. He hoped that the exploration of space would unify humankind. We propose that mankind follow the United States and our allies into this new sea, set with jeweled stars. If we lead, we can be both strong and caring. If we step back, it may be to the detriment of more than our country.

#### Space colonization solves all wars

Isaac Asimov, visionary genius, 1985, http://info.rutgers.edu/Library/Reference/Etext/Impact.of.Science.On.Society.hd/3/4

I have a feeling that if we really expanded into space with all our might and made it a global project, this would be the equivalent of the winning of the West. It's not just a matter of idealism or preaching brotherhood. If we can build power stations in space that will supply all the energy the world needs, then the rest of the world will want that energy too. The only way that each country will be able to get that energy will be to make sure these stations are maintained. It won't be easy to build and maintain them; it will be quite expensive and time-consuming. But if the whole world wants energy and if the price is world cooperation, then I think people are going to do it. We already cooperate on things that the whole world needs. International organizations monitor the world's weather and pollution and deal with things like the oceans and with Antarctica. Perhaps if we see that it is to our advantage to cooperate, then only the real maniacs will avoid cooperating and they will be left out in the cold when the undoubted benefits come in. I think that, although we as nations will retain our suspicions and mutual hatreds, we will find it to our advantage to cooperate in developing space. In doing so, we will be able to adopt a "globalist" view of our situation. The internal strife between Earthlings, the little quarrels over this or that patch of the Earth, and the magnified memories of past injustices will diminish before the much greater task of developing a new, much larger world. I think that the development of space is the great positive project that will force cooperation, a new outlook that may bring peace to the Earth, and a kind of federalized world government. In such a government, each region will be concerned with those matters that concern itself alone, but the entire world would act as a unit on matters that affect the entire world. Only in such a way will we be able to survive and to avoid the kind of wars that will either gradually destroy our civilization or develop into a war that will suddenly destroy it. There are so many benefits to be derived from space exploration and exploitation; why not take what seems to me the only chance of escaping what is otherwise the sure destruction of all that humanity has struggled to achieve for 50000 years? That is one of the reasons, by the way, that I have come from New York to Hampton despite the fact that I have a hatred of traveling and I faced 8 hours on the train with a great deal of fear and trembling. It was not only The College of William and Mary that invited me, but NASA as well, and it is difflcult for me to resist NASA, knowing full well that it symbolizes what I believe in too.

## Answers To

### AT: Stimulus – Fails

#### Stimulus fails – public spending offsets private spending and leaves everything the same

J.D. Foster, Ph.D in economics and economist for the Heritage Foundation, 2-16-2011, “Why the Demand Side Stimulus Failed,” Heritage, http://www.heritage.org/research/testimony/2011/02/why-the-demand-side-stimulus-failed

An increase in government borrowing to finance an increase in deficit spending produces one of two ensuing events, either of which (or in combination) leaves total demand unchanged. First, the increase in government borrowing can mean a reduction in the amount of saving available for private consumption and private investment. Government demand goes up, private demand goes down, total demand is unchanged. Alternatively, the increase in government borrowing may be financed not by reducing private borrowing but by an increase in net inflows of foreign saving—either a reduction in the gross outflows of U.S. saving or an increase in the gross inflows of foreign-sourced saving. Total demand remains unaffected, however, because the balance of payments still balances, and so the increase in net inflows of saving is matched by an increase in the net inflows of goods and services—the increase in the trade deficit offsets the increase in deficit spending. Underlying this simple confusion surrounding demand-side stimulus is that the theory ignores the existence of a well-developed financial system, the job of which fundamentally is to direct private saving into private consumption, private investment, or government deficit spending. Even in the past few years, when the financial system has worked poorly in the sense that institutions have failed, markets struggled, and the direction of investment dollars has been less than stellar, the markets still managed to take every dollar of saving and direct it toward a borrower willing to take it and use it. Demand-side theory presumes the existence of financial markets, as government must rely on those markets to issue debt to finance deficit spending, but then ignores that absent the additional government borrowing, markets would have directed the saving to other purposes, which would have added to total demand in the same amount. These economic relationships are analogous to the law of conservation of energy, which says that energy can be neither created nor destroyed in a closed system, but can only be transformed from one state to another. If we exclude the possibility of cross-border capital flows, then the closed system is the domestic economy and the energy conserved is the amount of saving available. If we allow for the possibility of cross-border capital flows, then the closed system is the global economy and the energy conserved is the amount of domestic saving augmented or diminished by the second closed system of the balance of payments.

### AT: Stimulus – Diverted

#### Money gets diverted to pet projects and deficit reduction

Jim Epstein, economist for the Reason Foundation, 12-8-2011, “Why Obama's Stimulus Failed: A Case Study of Silver Spring, Maryland,” Reason, http://reason.com/blog/2011/12/08/why-obamas-stimulus-failed-a-case-study

Why didn't Maryland's $771 million stimulus dollars for transit infrastructure have a bigger impact on the state's economy? Partly because Gov. Martin O'Malley cut infrastructure spending more than enough to offset any gains from the stimulus. Maryland’s Transportation Trust Fund generally pays for highway repairs by collecting a special gas tax and other user fees. After the stimulus money was available, Governor O’Malley raided the trust fund by diverting $861 million over the next three years to help balance the state's budget, according to information provided by Maryland's Department of Legislative Services. After you account for the $771 million in stimulus money, state funding for transit infrastructure saw a net decrease of $90 million. That sort of scenario played out in all sorts of ways in all sorts of states: Stimulus dollars were used to cover general expenses rather than to increase overall spending.

### AT: Stimulus – Long Term

#### No short-term stimulus – projects take time to implement and result in waste

Veronique de Rugy, professor of economics at George Mason and senior research fellow at GMU’s Mercatus Center, 9-8-2011, “Why Infrastructure Spending Is a Bad Bet,” National Review Online, http://www.nationalreview.com/corner/276636/why-infrastructure-spending-bad-bet-veronique-de-rugy

Second, according to Keynesian economists, for spending to be stimulative, it has to be timely, targeted, and temporary. Infrastructure spending isn’t any of that. That’s because infrastructure projects involve planning, bidding, contracting, construction, and evaluation. Only $28 billion of the $45 billion in DOT money included in the stimulus has been spent so far. We know that the stimulus money wasn’t targeted toward the areas that were hit the most by the recession, but even if the funding were targeted, it still might not be stimulative. First, the same level of job poaching from existing jobs would have happened; construction workers tend to be highly specialized, and skilled workers rarely suffer from high unemployment. 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. The overall value added by improving their roads is probably a lot less than that of new infrastructure in growing areas that might have relatively little unemployment but do have great demand for more roads, schools, and other types of long-term infrastructure. As for being temporary — which stimulus spending needs to be to work — what the president will propose tonight is likely to cost the American people money for a very long time. Infrastructure spending tends to suffer from massive cost overruns, waste, fraud, and abuse. A comprehensive study examining 20 nations on five continents (“Underestimating Costs in Public Works Projects: Error or Lie?” by Bent Flyvbjerg, Mette K. Skamris Holm, and Søren L. Buhl) found that nine out of ten public-works projects come in over budget. Cost overruns routinely range from 50 to 100 percent of the original estimate. For rail, the average cost is 44.7 percent greater than the estimated cost at the time the decision was made. For bridges and tunnels, the equivalent figure is 33.8 percent, for roads 20.4 percent.

### AT: Stimulus – No Multipliers

#### Multipliers don’t exist – stimulus proves

James Rickards, major hedge fund manager in New York City, 6-25-2012, “Why Obama's Deficit Spending Is Making Things Worse,” US News and World Report, http://www.usnews.com/opinion/blogs/economic-intelligence/2012/06/25/why-obamas-deficit-spending-is-making-things-worse?s\_cid=related-links:TOP

The first part of the formula is easy to shoot down. Empirical evidence has been accumulating for years that the Keynesian multiplier is mythical, an abstraction only an academic could embrace bearing no resemblance to real world economic dynamics. One need look no further than President Barack Obama's 2009 stimulus program of $787 billion in extra deficit spending. This was projected to create 7 million net new jobs and increase GDP by 3.7 percent by the end of 2010. In fact, no net jobs were created and the economy did not grow at all. Many academic studies have shown the Keynesian multiplier to be less than one, which means that new deficit spending actually reduces private sector output.

#### Deficit spending crushes the economy, the dollar, and heg

James Rickards, major hedge fund manager in New York City, 6-25-2012, “Why Obama's Deficit Spending Is Making Things Worse,” US News and World Report, http://www.usnews.com/opinion/blogs/economic-intelligence/2012/06/25/why-obamas-deficit-spending-is-making-things-worse?s\_cid=related-links:TOP

When you hear mainstream economists offer detailed reasons why the Bush-Clinton tax increases were needed and why the Obama deficits are the right medicine for the economy, bear in mind these are the same economists who did not see the 2007 housing collapse coming, did not see the 2008 financial panic coming, and are willfully ignoring gathering threats to the stability of the dollar today. Government has become a complex entity with an insatiable demand for new spending. Government is like a shark that must feed continually or die. When times are good government increases spending. When times are bad government increases debt so it can keep spending. At no point in the business cycle does total government spending ever go down. At no point in the credit cycle does total government debt ever go down. Citizens understand this. They have been lied to long and often enough to get how the game is played. Citizens who insist that government stop talking about cuts and start the actual process of cutting spending now have got it right. Fewer resources for government means more resources for the private sector where ideas, invention, technology, innovation, and jobs actually originate. Wimpy's financial dodges were amusing in the Popeye cartoons and entirely fictional. The real-life Wimpys in academia and Washington are not amusing at all. In fact, they are dangerous to the stability and national security of the United States. They have been partly discredited in the eyes of many citizens. Let's hope it doesn't take another financial collapse to finish the job.

#### Multipliers are crap and don’t happen in the short term

Eric Leeper, Todd Walker, and Shu-Chun Yang, analysts for the International Monetary Fund, October 2010, “Government Investment and Fiscal Stimulus,” IMF Working Paper, http://www.imf.org/external/pubs/ft/wp/2010/wp10229.pdf

The recent debate on fiscal stimulus has inspired a number of authors to study government spending multipliers.6 Together with earlier estimates (e.g., Ramey and Shapiro (1998), Blanchard and Perotti (2002), Mountford and Uhlig (2009)), economists have offered an embarrassingly wide range of estimated multipliers: from −1 (the present-value multiplier 20 quarters after a spending increase in Mountford and Uhlig (2009) to 3.7 (the impact multiplier when the zero nominal interest rate bound is binding in Christiano et al. (2009)). Those studies focus on unproductive government spending. Our multiplier calculations highlight three aspects of government spending largely overlooked by the recent literature: whether the spending is productive, delays in when the spending occurs, and the longer run impacts of fiscal financing. Even in a standard neoclassical growth model with distorting financing, present-value cumulative multipliers for output can exceed 1 if public capital is sufficiently productive. In contrast to the typical pattern—initially large multipliers that decline over time—the multiplier for government investment under implementation delays can be much smaller in the short run than in the long run.

#### No multipliers

Johnny Munkhammar, adjunct scholar at the American Enterprise Institute and MP in Sweden, 6-27-2012, “The End of Stimulus Policy,” American Enterprise Institute, http://www.aei.org/files/2012/06/27/-the-end-of-stimulus-policy\_173446935952.pdf

The potential growth effect of stimulus policy – the size of the so-called “multiplier” – is highly debated as well.14 An increase in public spending might increase growth in the short term, but many believe this effect to be very limited even before the possibility of rising deficits and debt is added to the discussion. The effects in the long term are even more difficult to predict, but estimates are generally more pessimistic. Jonathan Leightner, for instance, finds that the government multiplier for US spending drops steeply when spending increases significantly in any given quarter (2010). As Kanda (2011) found, the much-debated size of the multiplier also has an effect on the ability of politicians to reach compromise over consolidations or stimulus. One main reason for this effect is that many forms of fiscal stimulus detract from productivity. Companies receiving government stimulus money in order to make it through a downturn have less incentive to improve productivity by innovating, rationalizing, finding new consumers or developing their products. Consequently, stimulus projects derail productivity gains and might hurt the real prosperity generators in society.

### AT: Stimulus – Unemployment

#### Spending steals workers from existing projects, rather than hiring unemployed workers

Garret Jones and Daniel M. Rothschild, professors of economics at George Mason University and senior research fellows at the Mercatus Center, September 2011, “Did stimulus dollars hire the unemployed? Answers to questions about the American Recovery and reinvestment act,” Mercatus Center, http://mercatus.org/sites/default/files/publication/Did\_Stimulus\_Dollars\_Hire\_The\_Unemployed\_Jones\_Rothschild\_WP34.pdf

Keynesian theory requires strong conditions to work: In the words of Lawrence Summers, stimulus spending must be “targeted” at unemployed workers and underused organizations.17 Roughly half of the new hires and one-third of the organizations in our sample fit the description. That means that almost half of ARRA jobs in our sample went to workers hired away from other organizations and two-thirds of our organizations already had plenty of work to do before receiving ARRA funds. This is far from the ideal prescribed by Keynesian macroeconomics. In the Keynesian ideal, spending should be targeted toward the slack sectors, and workers should overwhelmingly be hired away from unemployment lines. Instead, the direct job-to-job shifts for ARRA-receiving organizations were similar to the average job-to-job shift rates in the U.S. during normal economic times. ARRA was implemented at time when the Keynesian model had every chance of succeeding on its own terms. The high level of unemployment and the rapid deadline for spending created both the supply of workers and the demand for workers. If the job market results are so lackluster in this setting, economists should expect even weaker stimulative results during more modest recessions. As economists and policy makers calculate the short-run effects of government spending, they should consider the immediate effect of that spending on hiring decisions. This survey and its companion interview-based paper (Jones and Rothschild 2011) provide the first broad-based evidence that hiring good, unemployed workers on short notice is harder and rarer than most would expect. We hope that government agencies will ask past and future stimulus recipients some of the questions we asked, including: “How many of your new workers already had a job elsewhere when you hired them?”

#### Spending poaches jobs

Veronique de Rugy and Matthew Mitchell, professors of economics at George Mason University and senior research fellows at the Mercatus Center, September 2011, “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?” Mercatus Center, http://mercatus.org/sites/default/files/publication/infrastructure\_deRugy\_WP\_9-12-11.pdf

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.