# ECONOMY

# \*\*Econ Solves War- Top Level\*\*

## Econ Good- Extinction

### Economic collapse causes nuclear war- extinction

Broward 9 ((Member of Triond) http://newsflavor.com/opinions/will-an-economic-collapse-kill-you/)

Now its time to look at the consequences of a failing world economy. With five offical nations having nuclear weapons, and four more likely to have them there could be major consequences of another world war. The first thing that will happen after an economic collapse will be war over resources. The United States currency will become useless and will have no way of securing reserves. The United States has little to no capacity to produce oil, it is totatlly dependent on foreign oil. If the United States stopped getting foreign oil, the government would go to no ends to secure more, if there were a war with any other major power over oil, like Russia or China, these wars would most likely involve nuclear weapons. Once one nation launches a nuclear weapon, there would of course be retaliation, and with five or more countries with nuclear weapons there would most likely be a world nuclear war. The risk is so high that acting to save the economy is the most important issue facing us in the 21st century.

## Econ Good- War

### Economic downturn causes war

Mead 9 (Henry , Sr fellow in U.S. Foreign Policy at the Council on Foreign Relations, *The New Republic*, 2/4/09, http://www.tnr.com/politics/story.html?id=571cbbb9-2887-4d81-8542-92e83915f5f8&p=2) ET

So far, such half-hearted experiments not only have failed to work; they have left the societies that have tried them in a progressively worse position, farther behind the front-runners as time goes by. Argentina has lost ground to Chile; Russian development has fallen farther behind that of the Baltic states and Central Europe. Frequently, the crisis has weakened the power of the merchants, industrialists, financiers, and professionals who want to develop a liberal capitalist society integrated into the world. Crisis can also strengthen the hand of religious extremists, populist radicals, or authoritarian traditionalists who are determined to resist liberal capitalist society for a variety of reasons. Meanwhile, the companies and banks based in these societies are often less established and more vulnerable to the consequences of a financial crisis than more established firms in wealthier societies. As a result, developing countries and countries where capitalism has relatively recent and shallow roots tend to suffer greater economic and political damage when crisis strikes--as, inevitably, it does. And, consequently, financial crises often reinforce rather than challenge the global distribution of power and wealth. This may be happening yet again. None of which means that we can just sit back and enjoy the recession. History may suggest that financial crises actually help capitalist great powers maintain their leads--but it has other, less reassuring messages as well. If financial crises have been a normal part of life during the 300-year rise of the liberal capitalist system under the Anglophone powers, so has war. The wars of the League of Augsburg and the Spanish Succession; the Seven Years War; the American Revolution; the Napoleonic Wars; the two World Wars; the cold war: The list of wars is almost as long as the list of financial crises. Bad economic times can breed wars. Europe was a pretty peaceful place in 1928, but the Depression poisoned German public opinion and helped bring Adolf Hitler to power. If the current crisis turns into a depression, what rough beasts might start slouching toward Moscow, Karachi, Beijing, or New Delhi to be born? The United States may not, yet, decline, but, if we can't get the world economy back on track, we may still have to fight.

## Econ Good-Primacy/Resurgence Module

### 1. Economic collapse kills all aspects of U.S. primacy and leads to international conflict with China, India, Iran and Russia

McCoy 2010 [Alfred W., Professor of History at the University of Wisconsin-Madison, “How America will collapse (by 2025),” 12/6/10, <http://www.salon.com/news/feature/2010/12/06/america_collapse_2025>]

Such negative trends are encouraging increasingly sharp criticism of the dollar's role as the world’s reserve currency. "Other countries are no longer willing to buy into the idea that the U.S. knows best on economic policy," observed Kenneth S. Rogoff, a former chief economist at the International Monetary Fund. In mid-2009, with the world's central banks holding an astronomical $4 trillion in U.S. Treasury notes, Russian president Dimitri Medvedev insisted that it was time to end "the artificially maintained unipolar system" based on "one formerly strong reserve currency." Simultaneously, China's central bank governor suggested that the future might lie with a global reserve currency "disconnected from individual nations" (that is, the U.S. dollar). Take these as signposts of a world to come, and of a possible attempt, as economist Michael Hudson has argued, "to hasten the bankruptcy of the U.S. financial-military world order." Economic Decline: Scenario 2020 After years of swelling deficits fed by incessant warfare in distant lands, in 2020, as long expected, the U.S. dollar finally loses its special status as the world's reserve currency. Suddenly, the cost of imports soars. Unable to pay for swelling deficits by selling now-devalued Treasury notes abroad, Washington is finally forced to slash its bloated military budget. Under pressure at home and abroad, Washington slowly pulls U.S. forces back from hundreds of overseas bases to a continental perimeter. By now, however, it is far too late. Faced with a fading superpower incapable of paying the bills, China, India, Iran, Russia, and other powers, great and regional, provocatively challenge U.S. dominion over the oceans, space, and cyberspace. Meanwhile, amid soaring prices, ever-rising unemployment, and a continuing decline in real wages, domestic divisions widen into violent clashes and divisive debates, often over remarkably irrelevant issues. Riding a political tide of disillusionment and despair, a far-right patriot captures the presidency with thundering rhetoric, demanding respect for American authority and threatening military retaliation or economic reprisal. The world pays next to no attention as the American Century ends in silence.

### 2. Creates a stable political, democratic, and open foundation to prevent the risk of conflict. Our evidence cites empirics

Delong 6 (J Bradfold Delong, Harvard Magazine, “Growth is Good,” <http://harvardmagazine.com/2006/01/growth-is-good.html>)

Benjamin M. Friedman ’66, Jf ’71, Ph.D. ’71, Maier professor of political economy, now fills in this gap: he makes a powerful argument that—politically and sociologically—modern society is a bicycle, with economic growth being the forward momentum that keeps the wheels spinning. As long as the wheels of a bicycle are spinning rapidly, it is a very stable vehicle indeed. But, he argues, when the wheels stop—even as the result of economic stagnation, rather than a downturn or a depression—political democracy, individual liberty, and social tolerance are then greatly at risk even in countries where the absolute level of material prosperity remains high. Consider just one of his examples—a calculation he picks up from his colleague Alberto Alesina, Ropes professor of political economy, and others: in an average country in the late twentieth century, real per capita income is falling by 1.4 percent in the year in which a military coup occurs; it is rising by 1.4 percent in the year in which there is a legitimate constitutional transfer of political power; and it is rising by 2.7 percent in the year in which no major transfer of political power takes place. If you want all kinds of non-economic good things, Friedman says—like openness of opportunity, tolerance, economic and social mobility, fairness, and democracy—rapid economic growth makes it much, much easier to get them; and economic stagnation makes getting and maintaining them nearly impossible. The book is a delight to read, probing relatively deeply into individual topics and yet managing to hurry along from discussions of political order in Africa to economic growth and the environment, to growth and equality, to the Enlightenment thinkers of eighteenth-century Europe, to the twentieth-century histories of the major European countries, to a host of other subjects. Yet each topic’s relationship to the central thesis of the book is clear: the subchapters show the virtuous circles (by which economic growth and sociopolitical progress and liberty reinforce each other) and the vicious circles (by which stagnation breeds violence and dictatorship) in action. Where growth is rapid, the movement toward democracy is easier and societies become freer and more tolerant. And societies that are free and more tolerant (albeit not necessarily democratic) find it easier to attain rapid economic growth. Friedman is not afraid to charge head-on at the major twentieth-century counterexample to his thesis: the Great Depression in the United States. Elsewhere in the world, that catastrophe offers no challenge to his point of view. Rising unemployment and declining incomes in Japan in the 1930s certainly played a role in the assassinations and silent coups by which that country went from a functioning constitutional monarchy with representative institutions in 1930 to a fascist military dictatorship in 1940—a dictatorship that, tied down in a quagmire of a land war in Asia as a result of its attack on China, thought it was a good idea to attack, and thus add to its enemies, the two superpowers of Britain and the United States. In western Europe the calculus is equally simple: no Great Depression, no Hitler. The saddest book on my shelf is a 1928 volume called Republican Germany: An Economic and Political Survey, the thesis of which is that after a decade of post-World War I political turmoil, Germany had finally become a stable, legitimate, democratic republic. And only the fact that the Great Depression came and offered Hitler his opportunity made it wrong.

## 2NC/1AR Econ Solves Primacy/Resurgence War (XT)

### Economic collapse reduces the incentive for war, prefer McCoy and Delong, they cite PhDs in history and economics that better understand the relationship between conflict and economic downturns –

**A. Revisionism – countries will take advantage of the United States inability to pay for a global military posture and loss of economic power.**

**B. Stability – better focus on democracy and trade during times of growth makes countries actions accountable and interdependent, prevents rash decision-making by those that need to rally up political power in times of recession**

**C. Empirics – cites numerous instances like WW2 where depressions resulted in great power conflict.**

### **Downturns create incentives to grab resources and incites proxy war**

**Auslin and Lachman 9** (Michael, AEI's [American Enterprise Institute] director of Japan Studies, was an associate professor of history and senior research fellow at the MacMillan Center, and Desmond, AEI fellow, former deputy director in the International Monetary Fund's Policy Development and Review Department, “The Global Economy Unravels” Forbes, 3-6, http://www.forbes.com/2009/03/06/global-economy-unravels-opinions-contributors-g20.html)

What do these trends mean in the short and medium term? The Great Depression showed how social and global chaos followed hard on economic collapse. The mere fact that parliaments across the globe, from America to Japan, are unable to make responsible, economically sound recovery plans suggests that they do not know what to do and are simply hoping for the least disruption. Equally worrisome is the adoption of more statist economic programs around the globe, and the concurrent decline of trust in free-market systems. The threat of instability is a pressing concern. China, until last year the world's fastest growing economy, just reported that 20 million migrant laborers lost their jobs. Even in the flush times of recent years, China faced upward of 70,000 labor uprisings a year. A sustained downturn poses grave and possibly immediate threats to Chinese internal stability. The regime in Beijing may be faced with a choice of repressing its own people or diverting their energies outward, leading to conflict with China's neighbors. Russia, an oil state completely dependent on energy sales, has had to put down riots in its Far East as well as in downtown Moscow. Vladimir Putin's rule has been predicated on squeezing civil liberties while providing economic largesse. If that devil's bargain falls apart, then wide-scale repression inside Russia, along with a continuing threatening posture toward Russia's neighbors, is likely. Even apparently stable societies face increasing risk and the threat of internal or possibly external conflict. As Japan's exports have plummeted by nearly 50%, one-third of the country's prefectures have passed emergency economic stabilization plans. Hundreds of thousands of temporary employees hired during the first part of this decade are being laid off. Spain's unemployment rate is expected to climb to nearly 20% by the end of 2010; Spanish unions are already protesting the lack of jobs, and the specter of violence, as occurred in the 1980s, is haunting the country. Meanwhile, in Greece, workers have already taken to the streets. Europe as a whole will face dangerously increasing tensions between native citizens and immigrants, largely from poorer Muslim nations, who have increased the labor pool in the past several decades. Spain has absorbed five million immigrants since 1999, while nearly 9% of Germany's residents have foreign citizenship, including almost 2 million Turks. The xenophobic labor strikes in the U.K. do not bode well for the rest of Europe. A prolonged global downturn, let alone a collapse, would dramatically raise tensions inside these countries. Couple that with possible protectionist legislation in the United States, unresolved ethnic and territorial disputes in all regions of the globe and a loss of confidence that world leaders actually know what they are doing. **The result may be a series of small explosions that coalesce into a big bang.**

## Econ Solves War (XT)

### **Growth good – democracy, values, and modern society, prevents conflict.**

Mandel 5 (Michael Mandel, Bloomberg Business, “Whats So Good About Growth?,” <http://www.businessweek.com/magazine/content/05_45/b3958122.htm>)

The real benefit of growth, Friedman argues, is that it encourages a wide range of social virtues, including dedication to democracy, tolerance of diversity, social mobility, and commitment to fairness. By contrast, he writes, "when living standards stagnate or decline, most societies make little if any progress toward any of these goals, and in all too many instances they plainly retrogress." The book, at almost 600 pages, is too long and quite repetitive in spots. And it doesn't pack the punch of Friedman's influential 1988 book, Day of Reckoning: The Consequences of American Economic Policy Under Reagan and After, which warned that massive budget deficits were going to badly damage the U.S. economy. But in this book Friedman has scored a dead-center hit on the critical question: Why do we value economic growth? The usual argument is that a bigger GDP -- more goods and services -- leads to happier, more satisfied citizens. But that apparently simple proposition turns out to be far more complicated. As Friedman notes, there is plenty of evidence that people judge their well-being by comparing themselves to others. As the average income in a country goes up, so do expectations. As a result, the level of GDP per person in a country, taken alone, doesn't necessarily say much about the level of happiness. The lack of a direct link between personal satisfaction and the level of GDP per person seems to undercut the purely economic arguments in favor of growth. After all, why should we undergo all the turmoil of technological change and economic restructuring if more gadgets and bigger homes aren't going to make us happier in the end? Friedman argues that economic growth has a key additional benefit: As long as people see their own income rising, they worry less about doing better than others. And that in turn creates a more favorable environment for political and social advances. To demonstrate this point, he draws on economic studies and historical examples, both American and global. In the 1700s, he points out, it became accepted that the rise of commercial and trading activity was a force for positive legal and institutional change. Adam Smith, for one, believed that moral progress went hand in hand with economic progress, as voluntary exchange replaced the use of force. Friedman points to the the Ku Klux Klan in the U.S. and the Nazis in Germany as examples of what can happen when growth vanishes. And he worries that "rising intolerance and incivility and the eroding generosity and openness...have been, in significant part, a consequence of the stagnation of American middle class living standards during much of the last quarter of the twentieth century."

## AT: Non-Unique- Collapse Happening Now

Hasn’t collapsed enough to trigger the impacts – continued anxiety sparks conflict

Klare 9 (Michael, Five Colleges Professor of Peace and World Security Studies, “Economic Crash Will Fuel Social Unrest,” Live Wire Edition, February 25, http://thepinehillsnews.com/wp/2009/02/25/economic-crash-will-fuel-social-unrest/)

As people lose confidence in the ability of markets and governments to solve the global crisis, they are likely to erupt into violent protests or to assault others they deem responsible for their plight, including government officials, plant managers, landlords, immigrants, and ethnic minorities. (The list could, in the future, prove long and unnerving.) If the present economic disaster turns into what President Obama [has referred to](http://www.nytimes.com/2009/02/09/us/politics/09text-obama.html) as a “lost decade,” the result could be a global landscape filled with economically-fueled upheavals.

Indeed, if you want to be grimly impressed, hang a world map on your wall and start inserting red pins where violent episodes have already occurred. Athens (Greece), Longnan (China), Port-au-Prince (Haiti), Riga (Latvia), Santa Cruz (Bolivia), Sofia (Bulgaria), Vilnius (Lithuania), and Vladivostok (Russia) would be a start. Many other cities from Reykjavik, Paris, Rome, and Zaragoza to Moscow and Dublin have witnessed huge protests over rising unemployment and falling wages that remained orderly thanks in part to the presence of vast numbers of riot police. If you inserted orange pins at these locations — none as yet in the United States — your map would already look aflame with activity. And if you’re a gambling man or woman, it’s a safe bet that this map will soon be far better populated with red and orange pins.

For the most part, such upheavals, even when violent, are likely to remain localized in nature, and disorganized enough that government forces will be able to bring them under control within days or weeks, even if — as with Athens for six days last December — urban paralysis sets in due to rioting, tear gas, and police cordons. That, at least, has been the case so far. It is entirely possible, however, that, as the economic crisis worsens, some of these incidents will metastasize into far more intense and long-lasting events: armed rebellions, military takeovers, civil conflicts, even economically fueled wars between states. Every outbreak of violence has its own distinctive origins and characteristics. All, however, are driven by a similar combination of anxiety about the future and lack of confidence in the ability of established institutions to deal with the problems at hand. And just as the economic crisis has proven global in ways not seen before, so local incidents — especially given the almost instantaneous nature of modern communications — have a potential to spark others in far-off places, linked only in a virtual sense.

# \*\*Econ Doesn’t Solve War\*\*

## 1NC/2NC Impact Take Outs

### Alt cause –

### A. Debt, entitlement spending, taxes

Eshoo, 7/7/11 [Rep. Anna G., D-CA, Presented to Congress 7/6/11, “Cutting Our Debt and Deficit”, 7/7/11, available via ProQuest at <http://proquest.umi.com.proxy2.cl.msu.edu/pqdweb?index=11&did=2392565931&SrchMode=1&sid=1&Fmt=3&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1310686104&clientId=3552>]

Each one of us is justifiably concerned about our nation's debt and deficit. It weighs heavily on our collective well-being, and if left unaddressed, will dim the promise of America for future generations. As we consider this enormous challenge, it's important to examine how we got to where we are today, and what policies I believe we need to ensure America's future prosperity. When I first came to Congress in 1993, we passed the Deficit Reduction Act. This eliminated the deficit and lead to a decade of budget surpluses and economic prosperity. We balanced the budget for the first time since 1969, and eventually produced surpluses for four years. In fact, we had eight consecutive years between 1993 and 2000 with a declining deficit and an increasing surplus, setting a postwar record. Between 1998 and 2000, the publicly held debt declined by $363 billion-the largest three-year pay-down in American history. By comparison, under the previous two Administrations, the public debt quadrupled. By the time President Clinton left office, we were on track to pay off the entire debt by 2009. It's also worth noting that when he left office, the federal government was the smallest it had been since the Eisenhower Administration, with 377,000 fewer employees. On January 20, 2001, the Congressional Budget Office estimated the total budget surplus for 2002 through 2011 would be $5.6 trillion. A national debate about how to use the surplus ensued, with one side advocating a "lock box" to protect Social Security, and the other calling for tax cuts. In crafting the cuts, the Administration unfortunately ignored a looming problem with the Alternative Minimum Tax (AMT). We knew then more and more people would be subject to the tax each year without raising its minimum threshold, but the tax cuts included no such increase because it would have made the tax cuts appear far more expensive. As a result, since 2001, Congress has had to continually extend an AMT "patch" so that millions of taxpayers are not subjected to this outdated tax. The true cost of what was advertised as a $1.6 trillion tax cut is now $2.2 trillion because of these "patches" and the need to finance the debt created by the tax cuts. The other major contributors to our national debt are the two expensive wars in Iraq and Afghanistan, and the decision to once again cut taxes in the midst of these wars. The wars and the tax cuts were all charged to the national credit card and have added enormous amounts to the national debt. According to the Congressional Research Service, the total cost of the wars between 2001 and 2010 is $832.2 billion for Iraq, and $557.1 billion for Afghanistan. Together, they have cost us $1.4 trillion so far, plus the cost of added security at our military bases, and the substantial health costs associated with the care of our veterans. In addition, the nonpartisan Congressional Budget Office (CBO) estimates the cost of the wars over the next decade could be $500 billion to $1 trillion, depending on troop levels. It's almost impossible to overstate the staggering costs of these military engagements, every cent of which was financed with borrowed money. Yet another turning point came in 2003, with passage of the Medicare Part D prescription drug benefit. The cost of the benefit was advertised as $395 billion between 2004 and 2013, even as Medicare's chief actuary had concluded it would cost at least $534 billion over the same period. Over the next ten years, according to Republican economist Bruce Bartlett, the benefit will cost more than $1 trillion. This, too, is completely deficit-financed. Most people are not aware that the health reform bill President Obama signed into law last year is a deficit-reducer. According to the CBO, it will save $143 billion in the first decade and $1.2 trillion in the second. In 2000, our government ran a record $230 billion surplus. On January 20, 2009, the deficit was $485 billion and the debt was $10.6 trillion, a record debt for any Administration. Any honest assessment will point to these elective policies-two massive tax cuts and two wars waged with borrowed money, as the primary reasons. In late 2008, the end of the "housing bubble" and the Wall Street meltdown dealt our country catastrophic harm, precipitating the worst recession since the Great Depression. In 2009 alone, American households lost almost $8 trillion in stock market wealth and $6 trillion in the market value of their homes-the combined $14 trillion loss is comparable to the entire 2008 GDP. Out of necessity, the government took steps to stem these historic losses and begin to rebuild the economy, including passage of the Recovery Act, which created or saved millions of jobs. In the final days of the Bush Administration, Congress also passed the Troubled Assets Relief Program (TARP), which, though authorized at $700 billion, is now estimated to cost taxpayers about $19 billion in total. While still significant, this figure pales in comparison to the cost of a global economic meltdown. The reason for the lower amount is that the loans to the automobile industry and financial institutions have either been totally repaid to the taxpayers with interest, or the amounts owed have been substantially reduced. Today, to have any hope of addressing our unsustainable deficit and growing national debt, we must begin with a clear and honest understanding of how they were created. This burden is one we all bear and it is the responsibility of

## 1NC/2NC Impact Take Outs

### B. Oil prices

Hamilton 2011 [James D., Professor of Economics at University of California, San Diego, “Oil shocks and economic recessions”, 1/15/11, <http://www.econbrowser.com/archives/2011/01/oil_shocks_and_2.html>]

I've just completed a new research paper that surveys the history of the oil industry with a particular focus on the events associated with significant changes in the price of oil. Here I report the paper's summary of oil market disruptions and economic downturns since the Second World War. Every recession (with one exception) was preceded by an increase in oil prices, and every oil market disruption (with one exception) was followed by an economic recession. The table above itemizes the particular postwar events that are reviewed in detail in my paper. The paper also provides the following summary discussion: The first column indicates months in which there were contemporary accounts of consumer rationing of gasoline. Ramey and Vine have emphasized that non-price rationing can significantly amplify the economic dislocations associated with oil shocks. There were at least some such accounts for 5 of the 7 episodes prior to 1980, but none since then. The third column indicates whether price controls on crude oil or gasoline were in place at the time. This is relevant for a number of reasons. First, price controls are of course a major explanation for why non-price rationing such as reported in column 1 would be observed. And although there were no explicit price controls in effect in 1947, the threat that they might be imposed at any time was quite significant (Goodwin and Herren, 1975), and this is presumably one reason why reports of rationing are also associated with this episode. No price controls were in effect in the United States in 1956, but they do appear to have been in use in Europe, where the rationing at the time was reported. Second, price controls were sometimes an important factor contributing to the episode itself. Controls can inhibit markets from responding efficiently to the challenges and can be one cause of inadequate or misallocated supply. In addition, the lifting of price controls was often the explanation for the discrete jump eventually observed in prices, as was the case for example in June 1953 and February 1981. The gradual lifting of price ceilings was likewise a reason that events such as the exile of the Shah of Iran in January of 1979 showed up in oil prices only gradually over time. Price controls also complicate what one means by the magnitude of the observed price change associated with a given episode. Particularly during the 1970s, there was a very involved set of regulations with elaborate rules for different categories of crude oil. Commonly used measures of oil prices look quite different from each other over this period. Hamilton (2010) found that the producer price index for crude petroleum has a better correlation over this period with the prices consumers actually paid for gasoline than do other popular measures such as the price of West Texas Intermediate or the refiner acquisition cost. I have for this reason used the crude petroleum PPI over the period 1973-1981 as the basis for calculating the magnitude of the price change reported in the second column of Table 1. For all other dates the reported price change is based on the monthly WTI. The fourth column of Table 1 summarizes key contributing factors in each episode. Many of these episodes were associated with dramatic geopolitical developments arising out of conflicts in the Middle East. Strong demand confronting a limited supply response also contributed to many of these episodes. The table collects the price increases of 1973-74 together, though in many respects the shortages in the spring of 1973 and the winter of 1973-74 were distinct events with distinct causes. The modest price spikes of 1969 and 1970 have likewise been grouped together for purposes of the summary.... These historical episodes were often followed by economic recessions in the United States. The last column of Table 1 reports the starting date of U.S. recessions as determined by the National Bureau of Economic Research. All but one of the 11 postwar recessions were associated with an increase in the price of oil, the single exception being the recession of 1960. Likewise, all but one of the 12 oil price episodes listed in Table 1 were accompanied by U.S. recessions, the single exception being the 2003 oil price increase associated with the Venezuelan unrest and second Persian Gulf War. The correlation between oil shocks and economic recessions appears to be too strong to be just a coincidence (Hamilton, 1983a, 1985). And although demand pressure associated with the later stages of a business cycle expansion seems to have been a contributing factor in a number of these episodes, statistically one cannot predict the oil price changes prior to 1973 on the basis of prior developments in the U.S. economy (Hamilton, 1983a). Moreover, supply disruptions arising from dramatic geopolitical events are prominent causes of a number of the most important episodes. Insofar as events such as the Suez Crisis and first Persian Gulf War were not caused by U.S. business cycle dynamics, a correlation between these events and subsequent economic downturns should be viewed as causal. This is not to claim that the oil price increases themselves were the sole cause of most postwar recessions. Instead the indicated conclusion is that oil shocks were a contributing factor in at least some postwar recessions.

## 1NC/2NC Impact Take Outs

### The economy is resilient— financial crises spur stronger market structures and recovery— cites your author

Berg 2009 [Chris, Research Fellow with the Institute of Public Affairs, “From the Author”, March 2009, available on ProQuest at <http://proquest.umi.com.proxy1.cl.msu.edu/pqdweb?index=16&did=1883609371&SrchMode=1&sid=1&Fmt=3&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1310687487&clientId=3552>]

Congress and the Administration to address these fiscal challenges. Is this the biggest financial crisis since 1987? Since the 1970s? Since the Second World War? Since the Great Depression? Since the word 'finance' was coined? Who knows - my economist can beat up your economist Like those American political commentators who try to predict the results of elections with absurd comparisons - 'A two-term Senator from Texas who hasn't ever been a three- term Governor has never taken the White House in a year divisible by 32' - history too often distorts our understanding of contemporary events more than it enlightens. What historical comparisons do show, however, is that the last three hundred years of liberal capitalism have been a never-ending series of crises and crashes. The economic history of the United States reads like a slapstick cartoon: there was the panic of 1797, the depression of 1807, panics in 1819, 1837, 1857 and 1873, the 'Long Depression between 1873 and 1896, further panics in 1893 and 1907, a recession following the First World War, the Great Depression, recessions in 1953 and 1957, and an oil crisis in 1973. A recession has opened each decade since the 1980s. In Australia, when the financial journalist Trevor Sykes documented the continuous corporate failures that have dominated our history, that experience led him to tide his book on the topic Two Centuries of Panic. More recendy the former Reserve Bank Chairman Ian Macfarlane has described seven financial downturns since 1980. When Walter Russell Mead delivered the 2008 CD Kemp Lecture for the Institute of Public Affairs in Melbourne in December, he made an important point: our long history of crashes, depressions, panics and recessions are an integral part of the system. When firms fail - even when entire market structures fail, as it appears they have for the more aggressive Wall Street trading firms - we discover better ways to manage risks, better ways to seek profit. Mead argued that the history of liberal capitalism is the history of markets gaining complex- ity until they were beyond our understanding, leading to a spectacular crash, followed by a recovery based on what we have learnt went wrong, and then an- other, inevitable building up of complexity. Mead pointed out that since the Dutch tulip mania of the 1630s, none of these crises had fundamentally shifted the West off its path of liberal economic development. Markets crash, and markets recover.

No impact – micro-recessions check econ collapse

David Leonhardt, 10-8-2005, New York Times, http://www.nytimes.com/2005/10/08/business/08fedex.html?ex=1136696400&en=f1fd879411772cc6&ei=5070

The recent birth of that small fleet, at a multimillion-dollar price tag, explains a lot about how the nation's economy has become so much more resilient. Think of it as the FedEx economy, a system that constantly recalibrates itself to cope with surprises. The United States has endured an almost biblical series of calamities in recent years - wars, hurricanes, financial scandals, soaring oil prices and rising interest rates - but the economy keeps chugging along at an annual growth rate of roughly 3 percent. It has been able to do so with the help of technology that allows businesses to react ever more quickly to changes. But with little notice, those reactions have also created a new feature of the business cycle: the micro-recession. When one of them strikes, activity slows for a few weeks, sometimes in just certain sectors or regions, as companies adjust to a dip in demand. It has happened much more often in the last few years than in earlier expansions, but growth has picked up each time, thanks in part to the adjustments that businesses have made. No company embodies this change, for better and worse, quite like FedEx. When Alan Greenspan, the Federal Reserve chairman, sees Frederick W. Smith, FedEx's chief executive, during halftime of Washington Redskins games, Mr. Greenspan uses the company's vast reach to check in on the economy. "He always asks, 'We still O.K.?' " said Mr. Smith, a part-owner of the team whose stadium suite abuts the one Mr. Greenspan uses. More formally, Federal Reserve staff members rely on FedEx and the nearly six million packages it delivers every day for real-time data that helps set interest rate policy. The company's around-the-world flights - fuller coming from Asia than going to it - are the shipping lanes of the global economy, bringing goods from Chinese factories to American shelves in just days. FedEx technology helps Procter & Gamble managers send more Crest to Wal-Mart whenever somebody buys a tube, and the managers can then watch the replacement move through the supply chain from their computer screens. All this - combined with financial innovations that allow companies to hedge their bets and, some say, the deregulation of pivotal transportation industries - has helped mute the economy's swings. The business cycle has certainly not been eliminated, as some dreamers suggested during the 1990's boom, but recessions really do seem to happen less often. There have been only two recessions in the last two decades. From the late 1960's through the early 80's, the economy endured four of them, including two of the deepest in decades, which left millions of people out of work. "The more flexible an economy, the greater its ability to self-correct after inevitable, often unanticipated disturbances," Mr. Greenspan argued in a recent speech. "The impressive performance of the U.S. economy over the past couple of decades, despite shocks that in the past would have surely produced marked economic contraction, offers the clearest evidence of the benefits of increased market flexibility."

Safeguards prevent a depression

Atlanta Journal Constitution, November 17th 2002

In place now are regulatory agencies, stock market safeguards and social safety nets that did not exist in the 1930s to cushion the Depression's impact. They exist now because of what happened in the '30s. No one says "it can't happen again," but most strategists believe another depression is improbable. "If you look at the world economy, at stock valuations and earnings, the chances we will continue to spiral down as in the 1930s are pretty slim," says SunTrust Robinson Humphrey analyst Gary Tapp. "The government isn't likely to make the major policy mistakes that we had then." Different Fed strategy This time, the Federal Reserve has gone to the opposite extreme from its policies during a comparable period of the 1930s. It has lowered interest rates a dozen times over two years and increased the money supply to stimulate the sluggish economy. In the '30s, the conventional wisdom held that government intervention was not necessary to right a weak economy.

## Ext. Econ Resilient

### Economic recovery is sustainable and resilient— global rebalancing, ability to absorb shocks, record profits, and expansionary financial conditions- assumes current trends

Fels, 5/16/11[Joachim, co-head of Morgan Stanley’s Global Economics Team, 5/16/11, “http://www.investmentpostcards.com/2011/05/16/resilience-rebalancing-and-repression/”

Investors have growing doubts about the sustainability of global economic recovery, fuelled by weaker US data over the first few months of this year, the surge in oil prices before the recent correction, and the tightening by central banks in many EM countries and the euro area in response to higher inflation. On the back of these doubts, government bonds have rallied and risky assets have wobbled. We don’t share these doubts: Our big-picture view on growth remains unchanged from last month. We are constructive on economic growth; we think the global economy is quite resilient to the shocks we’ve seen; and we think that this recovery will be quite sustainable because of global rebalancing. Being constructive on growth does not mean we are blindly bullish. We don’t believe that global GDP will continue to grow at the 5% snapback pace we saw in 2010. Rather, we expect GDP to moderate to a little over 4% this year (4.2% to be precise) and we look for 4.6% next year. The important point is that we look for global growth to be above its long-term trend rate, which is 3.6% for the last 40 years. Too young to die: Keep in mind that this global recovery is only two years old – it only started in the middle of 2009. On average, recoveries in the global economy have lasted a little more than six years. The shortest one over the past 40 years took place in the second half of the 1970s and lasted only four years. The longest one was in the 1980s and ended after eight years. Recoveries typically end when major imbalances in an economy have developed and become unsustainable – such as overinvestment in the late 1990s or overconsumption in the late 2000s – and when monetary policy becomes very tight. Neither is true now. The global economy is relatively resilient: Despite the oil price shock, initial conditions are favourable because household and corporate balance sheets have improved since the financial crisis. Balance sheet clean-up and repair in the private sector has partly come at the expense of the public sector balance sheet, but that’s another story. Personal savings rates have increased in former bubble economies like the US and the UK, and corporate profit margins have widened to record highs. This implies that the capacity of both households and companies to absorb shocks from higher oil and commodity prices has increased. Global monetary and fiscal conditions are still very expansionary: Most governments are shying away from tightening fiscal policy despite large deficits. The global real short-term interest rate is still negative and way below the growth rate of the economy, indicating very easy monetary policies. Long-term interest rates are also very low and have eased further recently. As for the monetary policy tightening in China and other EM countries, we think that much of this is not genuine tightening. For example, the many increases in banks’ required reserves imposed by the People’s Bank of China are largely aimed at neutralising the hot money inflows that pump up domestic liquidity. This is not a genuine tightening, but rather an attempt to make sure that liquidity doesn’t get even more abundant. Moreover, while many central banks have been raising nominal interest rates, in most cases the increases in policy rates have lagged behind the increase in inflation. So, real rates have eased further in many cases. In short, monetary and fiscal conditions are still very easy around the world and should make the recovery quite resilient for now. Global rebalancing is a powerful underlying trend: Global rebalancing means that the big consumers in the world economy are becoming savers, the big importers are becoming exporters, the big exporters are becoming importers and the big savers are becoming consumers. Global rebalancing requires new capital spending: the US export sector doesn’t have enough capacity and needs to expand – one reason why we have been seeing strong spending on equipment in the US. Conversely, China needs to direct more resources into the domestic economy. So, global capex is likely to be supported over the next several years, and companies have enough cash on their balance sheet to finance this spending. With the global imbalances that built up in the credit-fuelled boom of the 2000s diminishing and global capex being supported, this recovery look set to be more sustainable over time.

## 1NC/2NC Impact Take Outs

Doesn’t cause war- studies prove

Lloyd deMause,director of The Institute for Psychohistory, “Nuclear War as an Anti-Sexual Group Fantasy” Updated December 18th 2002, http://www.geocities.com/kidhistory/ja/nucsex.htm

The nation "turns inward" during this depressed phase of the cycle. Empirical studies have clearly demonstrated that major economic downswings are accompanied by "introverted" foreign policy moods, characterized by fewer armed expeditions, less interest in foreign affairs in the speeches of leaders, reduced military expenditures, etc. (Klingberg, 1952; Holmes, 1985). Just as depressed people experience little conscious rage--feeling "I deserve to be killed" rather than "I want to kill others" (Fenichel, 1945, p. 393)--interest in military adventures during the depressed phase wanes, arms expeditures decrease and peace treaties multiply.

-No correlation

Morris Miller, Professor of Administration at the University of Ottawa, former Professor at the World Bank's Economic Development Institute, Winter 2000, Interdisciplinary Science Reviews, “Poverty as a cause of wars?” V. 25, Iss. 4, p pq

The question may be reformulated. Do wars spring from a popular reaction to a sudden economic crisis that exacerbates poverty and growing disparities in wealth and incomes? Perhaps one could argue, as some scholars do, that it is some dramatic event or sequence of such events leading to the exacerbation of poverty that, in turn, leads to this deplorable denouement. This exogenous factor might act as a catalyst for a violent reaction on the part of the people or on the part of the political leadership who would then possibly be tempted to seek a diversion by finding or, if need be, fabricating an enemy and setting in train the process leading to war. According to a study undertaken by Minxin Pei and Ariel Adesnik of the Carnegie Endowment for International Peace, there would not appear to be any merit in this hypothesis. After studying ninety-three episodes of economic crisis in twenty-two countries in Latin America and Asia in the years since the Second World War they concluded that:19 Much of the conventional wisdom about the political impact of economic crises may be wrong ... The severity of economic crisis - as measured in terms of inflation and negative growth - bore no relationship to the collapse of regimes ... (or, in democratic states, rarely) to an outbreak of violence ... In the cases of dictatorships and semidemocracies, the ruling elites responded to crises by increasing repression (thereby using one form of violence to abort another).

-No lashout

Morris Miller, Professor of Administration at the University of Ottawa, former Professor at the World Bank's Economic Development Institute, Winter 2000, Interdisciplinary Science Reviews, “Poverty as a cause of wars?” V. 25, Iss. 4, p pq

If armed violence is not correlated or caused by economic crisis and the ensuing exacerbation of poverty, the explanation might be found in the fact that the challenged leaders suffered a loss of ability in an economic crisis to find the financial resources to make war and/or to persuade the populace that making war is an acceptable option, and/or to face down an opposition that may be too numerous and well organized to be humbled by the fear of repression. By contrast, a condition of affluence provides the political leadership more options including the choice of preparing for war by amassing weaponry even when this course of action is inimical to the interests of the population-at-large. Thus, we find that the antagonists in the major wars of the century were relatively wealthy in the sense that the leaders had at their command the very considerable resources necessary both to build up their armaments and their armies and to propagandize and repress to gain acceptance for policies that would use those weapons.

# \*\*US Key To Global Economy\*\*

## US K/T Global Econ

### The U.S. is still critical- trade, investment, jobs, and remittance exportation make this true – this article is ASSUMPTIVE of decoupling

Kohn6/26/08 (Donald L., PhD – Econ “Global Economic Integration and Decoupling” http://www.federalreserve.gov/newsevents/speech/kohn20080626a.htm) MFR

Global Integration through Trade and Finance Undoubtedly, economies have become more integrated in recent decades. For example, U.S. imports of goods and services have risen relative to the U.S. gross domestic product (GDP), from 10 percent in the second half of the 1980s to nearly 18 percent today. U.S. trade with other industrialized countries has more than doubled over this same period. Industrialized country trade with emerging market economies has experienced a far more dramatic increase.2 These increases in trade are the natural result of various forces. Transport costs have been a big factor. Air shipping costs have declined over time, although some of this has been eroded recently with greater security costs and the rise in fuel prices. Costs of ocean shipping have come down, due to containerization, bulk shipping, and other efficiencies.3 Policy-induced barriers, such as tariffs and other means of restraining international trade, also have declined, with progress especially marked in developing Asia and in Eastern Europe after the breakup of the Soviet Union. Additionally, information about production opportunities in foreign countries has become easier to attain, promoted in part by immigrants and multinational companies facilitating networking and by the enhanced availability of information through the Internet. These developments have led to expanded trade in traditional manufactured goods, but also have led to an expanded breadth of types of traded goods and especially services. As a consequence of these developments, internationally integrated production has risen. From the U.S. perspective, this rise has primarily occurred through growth in the import share of intermediate inputs used across all private industries. In the last decade alone, the imported input share rose from around 8-1/4 percent in 1997 to 10-1/2 percent by 2006. The international movement of workers leads to macroeconomic consequences, particularly for smaller developing countries. In 2007, an estimated $240 billion in remittances went to developing countries, more than double the flow in 2001. These remittances represent a significant source of developing country income and broaden the scope for cyclical spillovers.4 Another area of impressive growth in international linkages has been in financial services. We've seen increased cross-listings of stocks and more cross-border ownership and control of exchanges, banks, and securities settlement systems. Outside of the United States, in 1997, 15 percent of the assets in private equity portfolios were in foreign equities. A decade later, this share has risen to 24 percent. For U.S. investors, the comparable shares grew from 9 percent of total equity portfolios to 19 percent. Bond portfolios have also become more international, especially for foreign investors. While financial integration has occurred globally, this growth has been uneven. Integration among industrialized countries, measured by the ratio of the sum of their foreign assets and liabilities to GDP, has tripled since 1990, while an analogous measure for emerging and developing economies has increased only about 50 percent.5 One result of this financial integration is that the financial channels are growing in importance in the transmission of shocks between economies.6 The extent of this integration has become painfully evident to investors and financial institutions during the current episode of financial turmoil, with the collapse of the subprime mortgage market in the United Statesspreading losses and funding pressures to many corners of the globe. Recent analysis of the size and sources of spillovers between the United States, the euro area, Japan, and other industrial countries finds a central role for international trade. But spillovers also occur through commodity prices and through financial variables such as short- and long-term interest rates and equity prices.7 For example, when liquidity conditions tighten in one country, globally active banks may attempt to pull liquidity from overseas affiliates, reducing the liquidity consequences at home but simultaneously transmitting the shock abroad.8 What is particularly interesting is that in some cases, financial linkages might now be more important for transmission than the traditional trade linkages.

### Several reasons why the U.S. economy is still relevant

Helbling et al 2007 (\*Thomas, advisor in the IMF's Research Department where he focuses on commodity market prospects \*Peter Berezin, Ph. D in Economics from the University of Toronto, a Master of Science (Economics) from the London School of Economics and a Bachelor of Arts (Economics) from McMaster University. He has extensive experience in analyzing global economic and financial market trends \*Ayhan Kose Ph.D. in Economics, H. B. Tippie College of Business, University of Iowa. \*Michael Kumhof, PhD at Stanford in Econ \*Doug Laxton, the Head of the Economic Modeling Unit of the IMF's Research Department. \*Nikola Spatafora, Senior Economist in the Research Department, Development Macroeconomics Division, of the IMF “Decoupling the Train? Spillovers and Cycles in the Global Economy” <http://www.contexto.org/pdfs/FMIecdecouplingUS.pdf>) MFR

As a starting point, it is useful to establish some basic facts about the relative size of the U.S. economy and its linkages with other regions. • The United States remains by far the world’s largest economy (Table 4.1). When measured at PPP exchange rates, the U.S. economy accounts for about one-fifth of global GDP. In terms of market exchange rates, it accounts for slightly less than one-third of global GDP. These ratios have not changed much in the past three decades. • The United States is the largest importer in the global economy. It has been importing, on average, about one-fifth of all internationally traded goods since 1970. It is the second largest exporter after the euro area. • In line with the generally rapid growth in intraregional trade, the share of trade with the United States has greatly increased in the Western Hemisphere region, including in neighboring countries—Canada and Mexico— and some others in Central and South America (Figure 4.2). Compared with the euro area and Japan, the United States has seen a larger increase in trade with emerging market and other developing countries in general, not just with countries in the Western Hemisphere. Export exposure to the United States—the share of exports to the United States as a percent of GDP—has generally continued to increase, even for countries where the U.S. share of total exports has declined, as trade openness has increased everywhere (Table 4.2). Export exposure to the United States also tends to be larger than that to the euro area and Japan, except in neighboring regions. • Overall, U.S. financial markets have been and remain by far the largest, reflecting not only the size of the economy but also their depth. Changes in U.S. asset prices tend to have strong signaling effects worldwide, and spillovers from U.S. financial markets have been important, especially during periods of market stress. In particular, correlations across national stock markets are highest when the U.S. stock market is declining (Box 4.1). • Reflecting the size and depth of its financial markets, as well as its increasing net external liabilities, claims on the United States typically account for the lion’s share of extra-regional foreign portfolio assets of the rest of the world (Table 4.3). At the same time, the share of foreign portfolio liabilities held by U.S. investors typically also exceeds the holdings of investors elsewhere, except for the euro area, where intraregional holdings are more important. This illustrates the extent of important international financial linkages with U.S. markets.

## US Dollar K/T Global Econ

### The U.S. dollar is critical to the global economy

Gochoco-Bautista 2009 (Maria Socorro, PhD Econ, University of the Philippines“Global Crises and Reform of the International Monetary System” <http://pes.org.ph/dp2/index.php/dp/article/viewFile/10/8>) MFR

As the US dollar is the principal reserve currency in the world, however, the US faces very few incentives to correct its large external deficit. The same is true of surplus countries, especially countries like China, who have substantial (dollar-denominated) external surpluses. In contrast, non-reserve deficit countries face tremendous pressure to adjust and correct their external imbalances. Asymmetric adjustment between deficit and surplus countries and constraints on the policy space for such adjustment give rise to the problem of insufficient global aggregate demand. There is also a related yet distinct problem of adequate provision of global liquidity by the US. Being the principal issuer of world money, the US needs to meet the incremental demand for reserves from the rest of the world in order to provide adequate liquidity. 2 The US BOP deficit is the pipeline that feeds reserves to the rest of the world. Problems of inadequate global aggregate demand and inadequate liquidity provision have been recurring themes in global crises. If the rest of the world attempts to run current account surpluses (or if deficit countries attempt to improve their external balance), both global aggregate demand and income will decline, unless the US provides the desired global liquidity by spending and running current account deficits. We have a situation in which the global economic system is stable only to the extent that the US is willing to be the “deficit country of last resort” and carry the burden of sustaining global aggregate demand. The US will have to run external deficits to keep the global economy going. Ideally, as the principal global reserve-issuing country, the US would need to invest abroad an amount equal to the incremental demand for reserves in the rest of the world for it to be able maintain a balanced external account.

## A2: Decoupling

### Decoupling only happened for a bit, recoupling occurred so the U.S. is key

Gochoco-Bautista 2009 (Maria Socorro, PhD Econ, University of the Philippines“Global Crises and Reform of the International Monetary System” <http://pes.org.ph/dp2/index.php/dp/article/viewFile/10/8>) MFR

Our review of the financial indicators lends support to the view that markets were decoupled from the U.S. for a period of time, but linkages dramatically reemerged (recoupled) by late summer or early fall 2008, with a remarkably uniform timing across most emerging markets. Volatility also rose dramatically starting in fall 2008. Simple correlations between (percent) price changes in the U.S. equity market (SP500) and those in emerging markets also show an increase after August 2008, oftentimes substantially so, in 9 of the 11 selected emerging markets investigated. It is clear that U.S. financial and real news transmitted strongly to emerging markets over the whole sample period, as reflected in 5-year CDS spreads on sovereign bonds. We identified a wide set of U.S. news announcements such as write-downs of financial institutions and news on the U.S. real economy that systemically moved CDS spreads in most emerging markets. We also identified several types of news announcements, such as the Lehman bankruptcy and swap arrangements, that had uniformly large effects across all of the emerging markets in our sample. By contrast, major news announcements by the Federal Reserve and U.S. Treasury on plans to stabilize the U.S. financial system had little effect on emerging market CDS spreads. But has this responsiveness changed since fall 2008? We cannot investigate this issue using news announcements since there is a relative paucity of news in the early part of the sample. Rather, we consider the linkages between U.S. equity markets and the equity market in one emerging market—Mexico—with close financial and economic ties with the U.S. Using VAR methods, we find that the linkages between these two equity markets have become much stronger since fall 2008 when the U.S. financial crisis grew to critical proportions. On balance, we find evidence for the decoupling–recoupling hypothesis. Using several approaches to investigate this issue, we find that emerging markets appeared to be largely insulated and decoupled from developments in U.S. financial markets from early 2007 to summer 2008. From that point on, however, emerging markets responded very strongly to the deteriorating situation in the U.S. financial system and real economy. Policy measures taken in emerging markets to insulate themselves from global financial developments proved inadequate in the face of strong international recoupling of the international financial system.

**We use the best data**

Gochoco-Bautista 2009 (Maria Socorro, PhD Econ, University of the Philippines“Global Crises and Reform of the International Monetary System” <http://pes.org.ph/dp2/index.php/dp/article/viewFile/10/8>) MFR

Our sample consists of a very diverse set of emerging market economies with a variety of idiosyncratic economic and political developments influencing CDS spreads and with quite different degrees of financial linkages with U.S. markets. Nonetheless, the transmission of news announcements to these markets was rapid and there are several factors that affected CDS markets almost uniformly. One event that was common to all emerging markets in our sample was Lehman Brothers Bankruptcy (LEHMAN) news and associated announcements. LEHMAN is associated with four news announcements in the sample. Each LEHMAN announcement (on average) raised CDS immediately by between 7 basis points (China) and over 100 basis points (Argentina), with all 14 countries being significantly affected. China and Chile were the least affected, and Argentina and Russia were the most affected. Write-downs of equity (WD) in U.S. financial institutions, housing market developments in the U.S. (HD) and the cancellation of the TARP plan to purchase mortgage-related securities also were important factors that systemically raised CDS spreads. WD news adversely affected CDS markets (rise in spreads) in all 14 countries and the effect was statistically significant in 10 cases. HD news adversely affected CDS spreads in all 14 countries (statistically significant in 7 cases). TARP\_CANCEL news also adversely affected emerging market CDS spreads in 13 of 14 cases, with Argentina as the outlier, of which the coefficients in 9 countries are statistically significant. On the positive side, announcements of the two Federal Reserve swap arrangements with emerging markets (FSE) and developed countries (FSD), as well as positive real-side developments in the U.S. economy had the effect of lowering CDS spreads. In particular, FSE announcements significantly lowered CDS spreads in 13 of the 14 countries (with Argentina as the exception). The drop in CDS spreads ranged from 22 basis points in Chile and the Czech Republic to a drop of 183 basis points in South Korea. Results are similar with FSD. Positive real-side economic developments in the U.S. (REALPLUS) are also associated with lower CDS spreads in emerging markets in 13 instances, of which 7 coefficients are statistically significant. Argentina is again the exception. Three types of news announcements in the U.S. which surprisingly did not uniformly play a role in emerging market CDS spreads were major policy actions taken by the U.S. Treasury and Federal Reserve to shore up the financial system (TBS, FBS and REG). These events attracted much news attention but did not generally transmit to emerging markets. In particular, CDS spreads in only three of the eleven countries were significantly reduced by TBS announcements (Brazil, Mexico and Turkey). Surprisingly, CDS spreads rose significantly in response to FBS announcements in China and Malaysia – presumably providing bad news to the market about the extent of the liquidity problems facing U.S. banks and credit markets rather than good news about the Fed program – and were not significantly affected elsewhere.6 Similarly, important changes in financial system regulations (REG) lowered spreads significantly in only one case (Chile) and significantly raised spreads in four cases.7 On balance, news about the financial crisis and real economic activity emanating from the U.S. has played a significant role in moving CDS spreads in emerging markets. A series of write-downs, reported losses and downgrades of U.S. financial institutions, as well as the Lehman bankruptcy announcement, caused significant jumps in the CDS spreads, while positive news announcements on real economic activity in the U.S. buoyed emerging markets and lowered spreads. The critical policy developments moving these spreads downward have been a series of news announcements of foreign exchange swap agreements with emerging markets. But the major program announcements by the Treasury, Federal Reserve and other U.S. government agencies, including increases in deposit insurance coverage, the Fed's commercial paper funding facility (CPFF), the FDIC's new Temporary Liquidity Guarantee Program and dozens of other announcements supporting the financial system, did little to reduce CDS spreads in emerging markets. 4. Market dynamics: emerging markets in the financial crisis The preceding section demonstrated that news events from the U.S. have had large impacts on CDS spreads in emerging markets, effectively transmitting the financial crisis in the U.S. to markets abroad. It is not clear, however, whether the channels of transmission are stronger or whether the frequency, nature and import of the U.S. shocks have changed around mid-year 2008. Further insights on this issue may be gained by evaluating the dynamics of financial market changes in emerging markets, and the interaction amongst markets, in relation to several big news events in the U.S.

## A2: Recession Proves Your Wrong (Decoupling)

### The U.S. is key, the sub-prime mortgage crisis wasn’t a systematic shock, worsening degrees of economic instability would prevent any decoupling or fill-in effect

Helbling et al 2007 (\*Thomas, advisor in the IMF's Research Department where he focuses on commodity market prospects \*Peter Berezin, Ph. D in Economics from the University of Toronto, a Master of Science (Economics) from the London School of Economics and a Bachelor of Arts (Economics) from McMaster University. He has extensive experience in analyzing global economic and financial market trends \*Ayhan Kose Ph.D. in Economics, H. B. Tippie College of Business, University of Iowa. \*Michael Kumhof, PhD at Stanford in Econ \*Doug Laxton, the Head of the Economic Modeling Unit of the IMF's Research Department. \*Nikola Spatafora, Senior Economist in the Research Department, Development Macroeconomics Division, of the IMF“Decoupling the Train? Spillovers and Cycles in the Global Economy” <http://www.contexto.org/pdfs/FMIecdecouplingUS.pdf>) MFR

Over the past year, there has been considerable debate about how the slowing of the U.S. economy could affect other countries. The concerns of investors and policymakers alike must be seen against the history of past U.S. recessions usually coinciding with significant reductions in global growth (Figure 4.1). This experience is often summed up by the saying, “If the United States sneezes, the rest of the world catches a cold.” So far, however, the U.S. slowdown has had little discernible effect on growth in most other countries. Observers have suggested a number of reasons to explain this outcome. First, the slowdown has been related to U.S.-specific sectoral developments—corrections in the housing and manufacturing sectors—rather than to broad-based, common factors such as oil price or equity market developments that were often behind earlier downturns. Second, implications for global demand may have diminished because trade linkages with the United States have become progressively less important for many countries. Third, some commentators have suggested that with the strengthening momentum of domestic demand in both advanced economies other than the United States and emerging markets, global growth should be more resilient at present than during earlier U.S. downturns. Nevertheless, **concerns about possibly larger spillover effects remain** for a number of reasons. First, growth slowdowns often are the precursors to turning points in economic activity. As is well known, cyclical turning points are difficult to forecast, and the risk remains that the correction in the U.S. housing market could be deeper than expected and the current U.S. slowdown could intensify, with likely larger spillovers into other countries. Second, the relative decline in trade linkages with the United States must be balanced against the rapidly increasing cross-border financial linkages and the fact that the United States remains at the core of the global financial system. Third, the U.S. economy remains the world’s largest, and while other advanced economies, in particular in Europe, have gained cyclical momentum, there remain questions about their underlying dynamism. Fourth, while the five largest emerging market economies now account for onefourth of global GDP on a purchasing power parity (PPP) basis, their role in global trade is not yet commensurate (about one-seventh), and it is difficult to argue that they could entirely replace the U.S. economy as an engine for global growth.

### Decoupling is irrelevant – the subprime mortgage crisis is not a credible way to assess the situation

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This chapter has analyzed how the U.S. economy affects international business cycle fluctuations, with a view to identifying the factors that influence the extent of U.S. spillovers into other countries. The analysis suggests that the limited global impact of the current U.S. slowdown so far is not surprising since the slowdown has been driven by U.S.-specific developments—primarily in housing and manufacturing—rather than by broader factors that are highly correlated across the major industrial countries. Given the characteristics of the U.S. slowdown to date, the transmission to other countries operates primarily through demand channels, that is, through the effects on other countries exports to the United States, which, by themselves, tend to be modest. In this respect, the fact that the import content in the housing sector is relatively small has helped to mitigate the spillover effects on other countries. In contrast, if the transmission had also involved asset price spillovers or confidence channels, the impact would likely have been larger. Overall, these factors suggest that most countries should be in a position to “decouple” from the U.S. economy and sustain strong growth if the U.S. slowdown remains as moderate as expected, although countries with strong trade linkages with the United States in specific sectors may experience some drag on their growth. However, if the U.S. economy experienced a sharper slowdown because of a broader-thanexpected impact of the housing sector difficulties, the spillover effects into other economies would be larger, and decoupling would be more difficult. Nevertheless, with increasingly flexible macroeconomic policy frameworks in many countries, monetary policy should be well positioned to cushion the potential contractionary effects on economic activity. In addition to these conclusions about the global implications of the current slowdown, the chapter’s other main findings about the role of the U.S. economy in international business cycle fluctuations are as follows. • The old saying, “If the United States sneezes, the rest of the world catches a cold,” remains relevant since the analysis shows that recessions in the United States (and, to a lesser extent, in other large economies) can exert significant spillovers on both advanced and developing economies. However, it also is an exaggeration because the estimated spillovers, as measured by the declines in output growth, are generally considerably smaller than the output decrease in the United States itself, particularly in the context of midcycle slowdowns. • The influence of the U.S. economy on other economies does not appear to have diminished. On the contrary, indications are that the magnitudes of spillovers have increased over time, 6 past episodes with large synchronized declines in global growth were characterized by common disturbances that were either truly global in nature (e.g., abrupt oil price changes), were correlated across countries (e.g., disinflationary policies during the early 1980s), or involved global movements in asset prices (e.g., the synchronous equity price declines during 2000–01). In other words, past episodes of highly synchronized growth declines were not primarily the result of spillovers as defined in this chapter, but of common (or correlated) disturbances. • During the past two decades, common global factors have become somewhat less important drivers of national business cycle fluctuations. At the same time, the importance of regional factors among the highly integrated economies in North America, western Europe, and emerging Asia appears to have increased. These contrasting developments reflect that global disturbances have become less frequent and smaller, while intraregional trade and financial linkages have, in general, risen more rapidly than extraregional ones. Overall, compared with the 1970s and early 1980s, the world economy may thus continue to see less synchronized international business cycles at the global level unless it is subjected to the common disturbances that were the hallmark of earlier episodes.

## A2: Asia

### **U.S. economic interdependence with Asian countries means sustainability is necessary**

Nye 10 (Joseph S., University Distinguished Service Professor at Harvard University and author of the forthcoming book The Future of Power “American and Chinese Power after the Financial Crisis” THE WASHINGTON QUARTERLY OCTOBER 2010 <http://www.twq.com/10october/docs/10oct_Nye.pdf>) MFR

Some analysts believe that China’s impressive success in overcoming the financial crisis and its increased holdings of dollars have greatly increased its power over the United States. But a careful analysis looks more closely at interdependence and power. Interdependence involves short-run sensitivity and long-term vulnerability.20 Sensitivity refers to the amount and pace of the effects of mutual dependence; that is, how quickly does change in one part of the system bring about change in another part? For example, in 1998, weakness in emerging markets in Asia had a contagious effect that undercut other emerging markets as distant as Brazil and Russia. Similarly, in September 2008, the collapse of Lehman Brothers in New York quickly affected markets around the world. A high level of sensitivity, however, is not the same as a high level of vulnerability. Vulnerability refers to the relative costs of changing the structure of a system of interdependence. Vulnerability produces more power in relationships than does sensitivity. The less vulnerable of two countries is not necessarily the less sensitive, but rather the one that would incur lower costs from altering the situation. In 1998, the United States was sensitive but not vulnerable to East Asian economic conditions. The financial crisis there cut half a percent off the U.S. growth rate, but with a booming economy the United States could afford it. Indonesia, on the other hand, was both sensitive and vulnerable to changes in global trade and investment patterns. Its economy suffered severely and that in turn led to internal political conflict. Vulnerability also involves degree. In 2008, given the bubble conditions in its subprime mortgage market and its growing deficits, the United States proved more vulnerable than it had been when its market was flourishing a decade earlier. Symmetry refers to situations of relatively balanced, as opposed to unbalanced, dependence. Being less dependent can be a source of power. If two parties are interdependent but one is less so than the other, the less dependent party has a source of power as long as both value the interdependent relationship. Manipulating the asymmetries of interdependence is an important dimension of economic power. Perfect symmetry is quite rare; so most cases of economic interdependence also involve a potential power relationship. In the 1980s when President Ronald Reagan cut taxes and raised expenditures, the United States became dependent on imported Japanese capital to balance its federal government budget. Some argued that this gave Japan tremendous power over the United States. But the other side of the coin was that Japan would hurt itself as well as the United States if it stopped lending to the Americans. Japan’s economy was little more than half the size of the U.S. economy, and that meant the Japanese needed the U.S. market for their exports more than the United States needed Japan, although both needed each other and both benefited from the interdependence. A similar relationship has developed today between the United States and China. The United States accepts Chinese imports, pays China in dollars, and China holds the U.S. dollars and bonds, in effect making a loan to the United States. China has amassed $2.5 trillion of foreign exchange reserves, much of it held in U.S. Treasury securities. Some observers have described this as a great shift in the global balance of power because China could bring the United States to its knees by threatening to sell its dollars. But in doing so, China would not only reduce the value of its reserves as the price of the dollar fell, but it would also jeopardize U.S. willingness to continue to import cheap Chinese goods, which would mean job loss and instability in China. If it dumped its dollars, China would bring the United States to its knees, but might also bring itself to its ankles.

### Your evidence assumes phase one of the crisis – later credit issues have influence unstable economic factors in emerging markets

Dooleya and Hutchison 8/12/09 (\*Michael, PhD Econ \*Michael, PhD Econ. “Transmission of the U.S. subprime crisis to emerging markets: Evidence on the decoupling–recoupling hypothesis” – Journal of International Money and Finance

Volume 28, Issue 8, December 2009, Pages 1331-1349) MFR

Our interpretation of phases 1 and 2 is that during phase 1 emerging markets were plausibly decoupled from the financial crisis that was developing in the U.S. and Europe. EM banks held very little subprime exposure and in most cases recent crises had led to very strict regulation of their banking systems. But in phase 2 there was **no plausible reason** to believe that emerging markets had decoupled from a potential collapse in economic activity in the U.S. and other industrial countries. From Lehman Day to year end 2008, EM and U.S. equity markets fell together to levels forty percent below their pre-crisis levels. During this third phase of the crisis EM currencies also declined by about ten percent. EM and US credit spreads increased very sharply after September and by late October had reached crisis levels. As discussed elsewhere in this issue, phase 3 was largely unanticipated and quite different as compared to phase 1 or 2 or any previous historical experience. In particular, the freezing of credit markets that reached crisis proportions with runs on U.S. money market funds in late October appears to have had a direct effect on EM domestic credit markets. Anecdotal evidence strongly suggests that this freeze included international trade financing.5 The contraction of world trade after September 2008 was remarkable both for its severity and for its uniformity across developed and emerging markets. Most countries saw a decline in both imports and exports of about 30% from September 2008 to January 2009. One plausible explanation is that in the post-Lehman phase even trade credit to support exports and imports was disrupted by the counter party risk and deleveraging generated by the bankruptcy of a major player in international credit markets. If this was indeed the case then the third phase of the crisis was a spectacular recoupling of financial markets in the U.S. and emerging markets. An optimistic interpretation of developments in 2009 is that as U.S. financial markets have unfrozen there is some hope that recovery of world trade will support economic recovery programs in industrial countries and emerging markets.

# \*\*US Not Key To Global Economy\*\*

## US Not K/T Global Econ

### The U.S is not key – Asia fill-in and decoupling

Xinbo 10 (Wu, a professor and deputy director of the Center for American Studies at Fudan University in Shanghai, and a member of TWQ’s editorial board“Understanding the Geopolitical Implications of the Global Financial Crisis” The Washington Quarterly – 33:4 pp. –155163http://www.twq.com/10october/docs/10oct\_Xinbo.pdf) MFR

While China suffered moderately from the crisis economically, it has gained remarkably in politico-economic terms. For one thing, the Chinese model of development\_ featured by a strong role of the state in economic development, stress on the real rather than the virtual economy, a high savings rate, measured financial market liberalization, etc.\_has empowered China to better resist the financial storm and minimize the losses associated with it. As a developing country, China’s experience appears more applicable to the developing world. For instance, as Alex Perry of Time magazine observed, ‘‘African governments look at Western economic instability over the past two years and find a better model in Asia’s extraordinary growth.’’8 In the post—ColdWar era, the U.S. model used to be hailed as the only way to economic prosperity. Now, the Chinese model seems to provide an alternative. To be sure, the Chinese model is not perfect and is actually confronted with many challenges such as a widening income gap, serious environment pollution, and rampant corruption. Yet, the record of tiding over two financial crises (the 1998—1999 Asian financial crisis and the 2008—2009 global financial crisis) and securing three decades of a high economic growth rate testifies to its strength. Unlike Washington, Beijing does not like to boast of its model and impose it on others, but the increased appeal of the Chinese experience will certainly enhance Beijing’s international status and augment its influence among developing countries. Even before the recent crisis, there was already discussion of decoupling Asian economies from the United States, given growing intra-Asian economic activities.9 The reality that China has already become the largest trading partner to some major regional economies, such as Japan, South Korea, and Taiwan, provided an additional incentive to further East Asian regional economic cooperation. Even in Japan, where the Democratic Party of Japan (DPJ) rose to power during the crisis in August 2009, Prime Minister Yukio Hatoyama noted that: [T]he recent financial crisis has suggested to many people that the era of American unilateralism may come to an end. It has also made people harbor doubts about the permanence of the dollar as the key global currency. I also feel that as a result of the failure of the Iraq war and the financial crisis, the era of US-led globalism is coming to an end and that we are moving away from a unipolar world toward an era of multipolarity.10 Hatoyama continued that, ‘‘Current developments show clearly that China, which has by far the world’s largest population, will become one of the world’s leading economic nations, while also continuing to expand its military power.’’11 He pledged to strengthen relations with Asian countries, particularly China, and work to build an East Asian Community. Behind this lies a recognition of China’s growing importance to Japan’s economic future. South Korea also expressed enthusiasm for forging a free trade agreement with China as early as possible. Taiwan signed the Economic Cooperation Framework Agreement (ECFA) with mainland China in June 2009, marking a major step forward in relations across the Taiwan Strait. The agreement, focusing on tariff concession and easier market access, will remove tariffs within two years on 539 Taiwan export items to the mainland worth $13.84 billion, as well as 267 mainland export items to Taiwan valued at $2.86 billion. The pact will also give Taiwan firms access to 11 service sectors on the mainland including banking, accounting, insurance, and hospitals.12 The financial crisis also prompted Beijing to boost its domestic consumption. As the great potential of its internal market is further released, it will serve both to thicken China’s economic ties with regional partners and to strengthen its role as an East Asian economic hub. In a nutshell, the financial and economic turmoil underscored China’s position as the engine of the Asian regional economy and even the global economy as well. In international politics, political and economic relations always follow each other. AfterWorldWar II, many regional members developed close economic ties with the United States, following tight political and security arrangements with Washington. By the same token, today and in the future, China’s deepening economic connections with its regional partners promise to expand its political clout in East Asia. Given China’s growing economic size and its excellent performance during the crisis, it is no surprise that the financial turmoil served to raise China’s status in global economic governance. The G-20 emerged from the crisis as the premier forum for international economic cooperation, shadowing the traditional role of the G-8 in world economy. China, as the world’s third largest economy and the largest foreign reserve holder, ascended to center stage within the G-20. The idea of a G-2, consisting of Beijing and Washington governing the world economy or managing international geopolitics, was tossed around among U.S. scholars and former government officials (although not endorsed by either Beijing or Washington), reflecting a recognition of China’s newly-accrued economic and geopolitical weight. In April 2010, the World Bank decided to increase China’s voting rights, making it the third largest voter in the institution. The IMF is also expected to raise China’s representation in its current round of reconstruction endeavors. All in all, the financial crisis benefited China by quickening the pace of the global economic and financial power transition, turning China from a peripheral member into a key player. Last but not least, the crisis gave credit to China’s currency Renminbi (RMB) for its strength and stability. Even before the crisis, the RMB was already used in some of China’s neighboring countries for settling accounts in border trade. The financial storm revealed the volatility of the U.S. dollar and highlighted the strength of the Chinese yuan. Although the RMB is not yet freely convertible, some of China’s major trading partners saw the desirability of increasing its holding as the U.S. dollar has been getting weaker, arousing concerns that an unstable dollar would lead to increased costs and risks for traders. Since the onset of the crisis, China has signed bilateral currency swap agreements with Argentina, Belarus, Iceland, Indonesia, Malaysia, Hong Kong, Singapore, and South Korea, with a total amount of 803.5 billion yuan (about $118.1 billion). Some countries also moved to take the RMB as one of its reserve currencies. It was the crisis that caused Beijing to think seriously about the regionalization of the RMB. To enhance that goal, the Chinese government undertook to push the RMB settlement pilots in the trade between China’s two most important exporting regions, Guangdong and the Yangtze River Delta, with Hong Kong and Macao, and between two Chinese provinces bordering Southeast Asia, Gaungxi and Yunnan, with the members of the Association of Southeast Asian Nations (ASEAN). In early 2009, Beijing also approved Shanghai’s ambitious goal of turning itself into an international financial center by 2020, matching China’s economic influence and the yuan’s international position. It will be a long journey for theRMBto become a major international reserve currency, but it seems that the global financial crisis has turned out to be its starting point.

### The world is creating new multilateral and regional initiatives to help out in times of crisis

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Third, the world is witnessing more serious efforts to search for new models for global governance, regional cooperation, and domestic development. Effective global governance calls for progressive concepts, such as ‘‘effective multilateralism,’’ ‘‘common but differentiated responsibility,’’ ‘‘win-win,’’ ‘‘balance of interests,’’ and ‘‘a harmonious world’’ along with the establishment of a fair, equitable, and stable international political and economic order that can best promote international cooperation in global governance. Regional cooperation is geared toward not only promoting economic growth, but also maintaining regional economic and financial stability. As for domestic politico-economic development, countries are walking away from the idea of embracing a universal model and are adopting a more pragmatic attitude, exploring ways most suitable for their own national conditions. The debate over different development paradigms will take place from time to time, but except for a handful of ideologues, such exchanges will be driven more by efficacy than by ideology.

## China Fill-in

### China will fill in and help other regional economies fill in

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Although the United States is still the most influential international actor, the process of global economic, political, and moral rebalancing is in motion. The views of Brazil, China, and India on how to encourage stable and sustained national growth, while recalibrating the balance between citizens, states, and markets have gained traction of late. The Chinese see virtue in a strong state, a disciplined society, stable economic growth, and national security over ‘‘imported’’ notions of human rights, democracy, and unregulated markets. In some enduring ways, China and India particularly share elements of postcolonial thinking, which reflect their specific historical experience. Memories in both countries of how their economies and societies were distorted in the past to serve the market and resource needs of colonial powers continue to shape their international strategic considerations. They have both faced a triple challenge of modern nation-building (national integration and forging a common national identity), state-building (the structures, institutions, and capacity of state), and economic development (poverty alleviation and economic modernization). China’s continuing rise and the more recent successes of Brazil and India, combined with a global financial crisis that began in the United States, have revived interest in a notion of a ‘‘developmental state,’’ with differing needs, strategies, and growth trajectories than the so-called ‘‘Anglo-American’’ model. The defining question for many countries watching today is which approach to balancing relations between citizens, society, market, state, and the global economy, and which international normative order can produce the greatest gains in the performance for their own country?With the statist model, the goals of strengthening state capacity, promoting social cohesion, maintaining territorial integrity as well as political independence, resisting encroachments on national sovereignty, achieving economic growth to bankroll material progress, and advancing the indicators of human development (e.g., gross domestic product per capita, maternal and infant mortality, life expectancy, literacy, etc.) receive top priority over human rights, democracy, and unregulated markets. . The shift in the balance of influence between the models has not only been driven by the developing world. Rather, a series of factors over the past decade, beginning with the tragic events of September 11, 2001, marked the beginning of a shift in the Western democracies themselves toward a heavier state hand. In the United States, the George W. Bush administration initiated a dramatic rise in internal state surveillance with the aim of protecting national security. This trend has morphed under the Obama administration into a greater regulatory role for the state over the national economy, and especially over the financial sector. Although U.S. national security analysts have focused on the differences between the U.S. ‘‘free market’’ versus the ‘‘authoritarian capitalism’’ of China and Russia,9 what is remarkable about today is the increased overall acceptance of a greater role for state regulation of markets in the aftermath of the 2007— 2009 global economic crisis. The political talk in Europe and the United States is about how to strengthen the regulatory framework for financial transactions in their respective sectors to avoid another massive taxpayer bailout. The fact that the current group of rising states went into the global crisis in a relatively strong and stable fiscal condition, and with large foreign currency reserves, coupled with their exit from the crisis earlier than others, has meant that states are paying closer attention to the policy ideas of the rising countries, both across the developing world and beyond. Some analysts are suggesting that Beijing offers a China model, while others have tried to resurrect the idea of a ‘‘Beijing Consensus.’’10 Chinese scholars have largely refuted the idea of ‘‘a’’ China model, arguing that the country is too regionally and culturally diverse to have a single coherent model, with some locales facing pre-modern challenges, such as in the far reaches of Western China, and others dealing with post-modern problems in parts of Beijing, Hong Kong, and Shanghai.11 Moreover, one Chinese observer perceptively notes that other countries cannot really be said to be adopting a Chinese model unless they are also willing to ‘‘establish their own Communist Party or a similar political system.’’12 The implicit point is that such an outcome is highly unlikely in other parts of the contemporary world. A close examination of China’s actual development experience, with its unique path dependence, reveals that it would be exceedingly difficult for other countries to replicate.13 It is basically sui generis in that China’s modernization success has been preconditioned by: 1) the country’s size; 2) the mediating role and purposeful coordination of the Chinese party state; 3) the specific policy trade-offs that were dictated by the backward situation of the Chinese economy at the start of the reform period in the late 1970s; and 4) the unique global conditions of expanding world markets and growth during the three-decade period from the early 1980s to the start of the twenty-first century.

## Decoupling Now

### Decoupling is happening – your evidence doesn’t assume emerging markets (EMs)

Kohn6/26/08 (Donald L., PhD – Econ “Global Economic Integration and Decoupling” http://www.federalreserve.gov/newsevents/speech/kohn20080626a.htm) MFR

I turn now to evidence regarding decoupling during the recent U.S. slowdown. Part of the reason the hypothesis of decoupling has gained so much traction is that the economies of the world had appeared particularly "coupled" during the last major downturn in the United States, the high-tech slowdown in 2001 and 2002. Over the two years prior, during 1999 and 2000, quarterly real GDP growth in the United States averaged about 3-1/2 percent at an annual rate; U.S. growth then slowed sharply to about 1 percent during 2001 and 2002 before recovering over the subsequent two years. In other major industrialized countries, average growth slowed similarly, but the recovery was slower.9 In the emerging market world, economic growth moved in tandem with U.S. growth, falling from more than 6 percent to about 3-1/2 percent, then recovering to more than 6-1/2 percent.10 What about our more recent experience? During the first three quarters of 2007, the U.S. economy was growing at a solid pace of about 3 percent at an annual rate. Over the next two quarters, U.S. growth slowed to an average of about 3/4 percent, while growth in other industrialized countries stayed much closer to trend rates at about 2-1/2 percent, and growth in the emerging market economies, at 6-1/2 percent, held up quite well. It is important to keep in mind, however, that we are still in the midst of the current episode. Financial markets remain stressed; housing markets in many countries are adjusting after a sharp run-up in prices; and the effects of the turmoil on economic activity in the United States and elsewhere are still working themselves out. Accordingly, it is too early to tell how correlated U.S. and foreign activity will have been in this period. One piece of research on business cycles in G-7 economies, done by staff at the Federal Reserve Board, shows how difficult it is to establish with any confidence that business cycles have become more synchronized in recent decades, despite trade and financial integration having clearly increased.11 Other research, which shows a modest convergence of business cycles across a larger group of industrial economies, fails to find an increase in the correlation of industrial country cycles with emerging market economy cycles.12 The other dimension of recent linkages is financial, where the evidence is clearer. First, few question the importance of financial linkages between the United States and other industrial economies, which is an area where decoupling clearly has not occurred during the recent episode. While industrial country markets for stocks and bonds have displayed a high degree of co-movement for years, in the current episode we are seeing notable new correlations across money markets, with disruptions in funding markets showing up in the euro area, Switzerland, the United Kingdom, and Canada, as well as in the United States. Some of the effects of the U.S. subprime mortgage crisis on financial markets in these countries occurred as a result of direct or indirect balance sheet exposures by their financial institutions to U.S. securities. Other adverse consequences for foreign financial institutions occurred when entire markets, such as that for asset-backed commercial paper, became impaired. In contrast, some have pointed to the apparent resilience of financial conditions in emerging market economies during the past year as an example of decoupling. In particular, the disruptions in the advanced economies have had only **limited impacts** on money markets in emerging market economies, and other financial market indicators in emerging market economies appear to have held up relatively well. For example, the spreads of emerging market sovereign bond yields over U.S. Treasury securities have risen since June of last year, but by only about 1/3 of the rise in the average U.S. corporate high-yield spread over U.S. Treasury securities. That rise is roughly half the average in several previous episodes of pressure on U.S. corporate bond prices over the period from 1998 to 2005; these episodes include, among others, the Russian and Long-Term Capital Management crisis of 1998, the 2002 surge in corporate defaults and bankruptcies, and growing concerns about U.S. auto companies in 2005. In addition, while stock prices in some emerging market countries have not performed well, a broad aggregate for these markets shows stock prices up over the past year, while the advanced economy indexes have exhibited double-digit declines, on average.13 Certainly, stock prices in the emerging market economies moved downward during acute periods of U.S. financial stress over the past year. However, these movements were similar in scale to those seen in industrial country equity markets, and during the intervening periods when global pressures were less intense, the prices of emerging market equities rebounded more substantially than those of industrial countries.

## No Washington Consensus

### No more Washington consensus – other countries feel alienated over the crisis

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From 1999 to 2001, U.S. annual gross domestic product (GDP) accounted for over 28 percent of world GDP, the highest in decades. Since 2002, however, the U.S. share of world GDP has been in relative decline due to the slowdown of its economic growth and the rise of the developing economies, with China and India at the forefront.1 The crisis merely highlighted the weakness of the U.S. economy and a major change in the international economic landscape because: 1) Washington heavily relied on the financial support of China and other countries to withstand it, 2) China and other developing economies had a better performance during the crisis in 2008—2009 than the United States, and 3) China and other developing economies, not the United States, took the lead in the recovery of world economy. Broadly speaking, however, the financial crisis may be only an episode in the long-term change of the world economy. It can be argued that the crisis did not start a new trend, but rather expedited a preceding one, exposing the depth and breadth of the changes that have been brought about. The United States, at the origin of the crisis, **drew widespread criticism for its development mode**l. The end of the Cold War and the economic boom of the 1990s had enhanced the U.S. status as the beacon of economic policy and performance, and Washington began to enthusiastically promote its development model labeled as the Washington Consensus. The core of the so-called Washington Consensus is the myth about the free market, which holds that the market can most effectively and efficiently generate economic growth, while the role of state and government in economic life should be kept to a minimum. The financial turmoil, however, revealed the unlimited greed and immense destructiveness of Wall Street, highlighting the ugly and dangerous face of the free market. The lesson is that the role of the state is not just to intervene and bailout the economy when it runs into deep trouble, but more importantly to keep a close watch on the market at any time.In addition to the lack of effective oversight of the financial market, over reliance on the virtual economy is also believed to be a major cause of the financial debacle. Since the 1970s, when the manufacturing industry in the United States accounted for 23.8 percent of U.S. GDP,2 that industry has been in decline, while the financial sector has become a more prominent part of overall U.S. economic output. In 2007, one year before the arrival of the financial crisis, the virtual economy already occupied around 8 percent of U.S. GDP, whereas the manufacturing industry was down to about 11.7 percent. (In China in the same year, these two figures were 4.4 percent and 43 percent, respectively.3) It was apparently a growing reliance on the virtual economy that created the huge financial bubble that finally burst in the fall of 2008. The financial turmoil also questioned the stability of the U.S. dollar, thus weakening the world’s confidence in its role as the single major reserve currency. On March 24, 2009, one week before the G-20 London summit, the governor of China’s Central Bank, Zhou Xiaochuan, called for the creation of a new currency, which would eventually replace the dollar as the world’s standard.4 He proposed to expand the use of Special Drawing Rights, a kind of synthetic currency created by the International Monetary Fund (IMF) in the 1960s, so as to move from the dollar reserve system to a global reserve system. Zhou’s proposal reflected China’s concern over the stability of the global financial system, which was shared by many other countries, such as Russia, and reiterated by a UN report that proposed that ‘‘[a] new global reserve system could be created, one that no longer relies on the United States dollar as the single major reserve currency.’’5 While the creation of a new international reserve currency is a long-term goal, China, which holds a significant amount of U.S. government bonds, called on Washington to pursue more responsible financial and economic policies to avoid further devaluation of the U.S. dollar. At the fourth G-20 summit in Toronto in June 2010, President Hu Jintao of China reiterated his remarks at the September 2009 Pittsburgh meeting, calling on the major reserve currency issuing countries to ‘‘take into account and balance the implications of their monetary policies for both their own economies and the world economy with a view to upholding stability of international financial markets.’’ He also stressed the need to ‘‘strengthen supervision on macroeconomic policies of all economies especially the major reserve currency issuing economies.’’6 In the past, it was Washington that often pointed a finger at others’ financial and economic policies. The financial turmoil has now given other countries the opportunity to shake their fingers at Washington. The crisis has not only weakened other countries’ confidence in the stability of the U.S. dollar, but also raised concern over the soundness of Washington’s macroeconomic policies. The global financial turmoil has also undermined U.S. influence in world economic governance. Many countries, particularly developing ones, attributed the crisis to the drawbacks of the U.S.-dominated international financial system, and called for a fair, equitable, inclusive, new, and more stable international financial order to be established. At the Pittsburgh G-20 summit, leaders designated the G-20 as ‘‘the premier forum for the international economic cooperation,’’ and promised a shift of at least five percent in the IMF quota share to emerging markets and developing countries, with an increase of at least three percent of voting power for developing countries and transition countries in the World Bank.7 For more than three decades, the Western countries had used the G-5, G-7, and G-8 to monopolize international macroeconomic policy coordination, andWashington, as the leader of the Western world, had been able to sell its ideas regarding international macroeconomic policy among its developed followers. Now, with the G-20 replacing the G-8 as the major platform for discussing the world economy, developing countries have a forum to voice their concerns more effectivelyand loudly. Unlike developed economies, they are more suspicious of the U.S. role as either a model of development or a leader in pursuing international economic governance. Although the U.S. voting power in the World Bank has not shrunknor will its quota in the IMF in the near future the increase of the weight of the emerging markets and developing countries in those institutions will make it more difficult for Washington to gain support for its positions in the future. The crisis has even aroused criticism of the U.S. lifestyle, characterized by over borrowing and low savings. It is widely believed that overconsumption, financed by excessive credit, is part of the problem behind the crisis. In fact, the credit card culture has caused many ordinary Americans to take overspending and low savings for granted. For too long, the symbol of the American Dream living in a big house and driving a fancy carlured people into enjoying a life beyond their means. For people outside of the United States, this is not just an individual’s financial issue, but an environmental and energy issue, as the United States consumes too many resources and produces too much greenhouse gas, in both aggregate and per capita terms. In the past, the U.S mode of life provided an attractive example of a modern lifestyle for people in the developing countries and galvanized them to work hard for economic prosperity and material abundance. Nowadays, however, as a simple and eco-friendly life becomes a more progressive fashion, the U.S. lifestyle is synonymous with extravagance as well as wasting resources and energy.

## A2: Integration/Globalization

### This is now irrelevant – new financial and economic factors and regional economies check this back and allow for ample decoupling room for emerging markets

Kohn6/26/08 (Donald L., PhD – Econ “Global Economic Integration and Decoupling” http://www.federalreserve.gov/newsevents/speech/kohn20080626a.htm) MFR

How do we reconcile the obvious expansion of international trade, labor, and financial flows with the evidence, albeit mixed, of decoupling in the recent period? Three different points can help us achieve this reconciliation. The first point is purely conceptual. The conventional wisdom is that greater international trade leads demand shocks to reverberate more intensely across international markets. However, we need to recognize that economic theory does not predict that greater economic and financial integration will necessarily result in increased co-movement of output across nations. One way in which integration might lead to less synchronization is through the tendency of international trade to promote specialization of production. If economies become more specialized, then their economic growth, and even equity markets, may be driven more by developments that are specific to the industries that have taken root in each country.14 The second point in this reconciliation stems from the observation that the correlation of business cycles will be specific to the shocks driving the cycles. In 2001 and 2002, the sharp decline in growth in the foreign countries soon after the U.S. economy slowed reflected the global nature of the bursting of the technology bubble and its worldwide transmission through equity markets and manufacturing. In the current slowdown, the implosion of the housing sector is playing the most prominent role in dragging down U.S. GDP growth. As construction utilizes local inputs and results in an output that is not traded internationally, **its spillovers abroad are more limited**. To be sure, a portion of the decline in domestic demand in the United States has been absorbed by foreign economies as our imports have fallen and exports have risen. However, these indirect spillovers are small compared with the more direct effects that would result from a shock in the tradable goods sector or from one of more global origin. Although the financial turmoil triggered by problems in the U.S. housing sector has been more international in scope, in particular with respect to other industrialized countries, its effects on the real side of foreign economies appears to have been limited, at least to date. The recent period also has been one of enhanced demand for commodities and sharp run-ups in many commodity prices, including for fuels, metals, and food. The actual increase in demand is benefiting many producers of commodities and is helping to offset the effect of weakening of export markets in industrial countries, thus contributing to the resilience of output in many emerging market economies. The third and final point is that structural changes in emerging market economies have helped these countries during the recent period. One change in particular is the strengthening of the policy environment. With improved economic and financial policies, emerging market economies are more flexible and less subject to internal and external shocks that scare investors and disrupt asset markets. Inflation rates have come down dramatically since 1995, in part as a result of better monetary policy, assisted in many cases by more flexible exchange rate regimes that allowed monetary authorities to focus more intensively on domestic price stability. In addition, structural progress has been made on the fiscal side in emerging markets. Fiscal balances are much improved, and many emerging market economies are running current account surpluses. Improvements in the policy environment have helped reinforce perceptions that emerging market assets, on average, are less risky than in the past and are less likely to be sold off in the event of financial disruptions and generalized retreats from risk, such as we have seen since August. As evidence of this, as I noted earlier, emerging market credit spreads have become less sensitive to movements in industrial country corporate spreads, and this trend has been ongoing even prior to the events of the last year.

# \*\*Econ Turns X \*\*

## Econ Turns Space Programs

### Economic collapse makes cuts inevitable over long term programs

O'Neill 12/12/08 (Ian, Universe Today, “What About the Space Exploration Crisis? NASA Budget Could be Cut to Save Money” <http://www.universetoday.com/22271/what-about-the-space-exploration-crisis-nasa-budget-could-be-cut-to-save-money/>) MFR

There’s no denying it, President-elect Barack Obama will have one of the toughest jobs in presidential history. The challenges the 44th President of the United States will face are deep and varied. Everything from the economy to housing, from health care to warfare, from energy to security; everything appears to be in a state of “crisis”. So, of the incoming administration’s priorities, getting man back to the Moon is low on the list. Unfortunately, the exploration of space is often viewed as a luxury rather than a necessity, **policy changes interfere with long-term projects**, and the NASA budget can become an easy target for cutbacks. It will come as no surprise then, that news is surfacing about some friction between Obama’s new administration and the existing top brass in NASA. Some reports point to direct non-cooperation by NASA Administrator Michael Griffin, an allegation that both NASA and the Obama transition team deny. Regardless, there is tension building, especially when it is becoming clear that the transition team may be eyeing up NASA budget cuts, postponing the Constellation program, possibly **putting long-term** US manned **access to space at serious risk.**

### There is a correlation between economic collapse and prevention of funding for space proposals

Augustine 10/1/10 (Norm, Former Lockheed Martin Chairman & CEO. “Gauging the Economy and NASA” <http://www.foxbusiness.com/on-air/cavuto/transcript/gauging-economy-and-nasa>) MFR

CAVUTO: Read them and, for the White House, weep. Not the polls that show at least seven out of 10 voters still think we're in a recession, but the ones showing about that many CEOs are still holding of on hiring because they're not at all convinced we aren't heading back into a recession. Few say it in public, but they're cash hoarding and reluctant investing proves it in practice. Former Lockheed Martin Chairman and CEO Norm Augustine says he knows where they're coming from. Norm, very good to have you. What is behind all this reticence? NORM AUGUSTINE, FMR. LOCKHEED MARTIN CHAIRMAN AND CEO: Thank you. It's nice to be here. I think the cooncern is not only where we're headed, but the uncertainty about where we're headed and the policies. My personal concern is less with the short-term than the long-term. I think we may be headed towards a period of very high unemployment on a very long, prolonged period. The reason being structural problems in our economy. As you may be aware, the National Academies of Engineering, Science and Medicine last week put out a report that showed that our ability to compete for jobs in the future has probably deteriorated in the last five years. That would be my real worry, that we can see this kind of unemployment go on and on. CAVUTO: What about the specter -- I talk to so many CEOs who privately pull me aside after an interview where I try to get out of them - - but they say, you know, this is a very intimidating environment, between taxes and regulations and a very brow-beating White House. So the better part of valor is to just stand back, collect your cash, wait for the dust to settle. What do you make of that? AUGUSTINE: Well, business hates uncertainty. And, frankly, it probably is a good time to collect one's cash. It would seem to me with the debt being what it is -- I was calculating the other day that if we stay on the course now, we're just 18 years from being where Greece is now, in terms of debt-to-GDP. So, with that kind of a situation, with our inability to compete for jobs abroad, it would seem like a very good time to save one's money. We're likely to see higher taxes, in the longer term. Inflation is always a threat. So I don't disagree with what most business people are doing. CAVUTO: You know, we mix messages, Norm, from a White House that says it values technology and advanced training, but is all but shutting down NASA and space technology. What does that tell you? Are you worried about that? AUGUSTINE: Well, I think we're taking a different course in space. NASA has a real conundrum. If they continue the shuttle program that they have been on for years, **they don't have enough money to begin the next generation systems**. So if you continue the shuttle, NASA is trapped in near-Earth orbit. If you want to go more interesting places, you have to shut the shuttle down. They are going to shut the shuttle down, apparently a year from now.

## Econ Turns Disease

### Economic decline causes pandemics

Alexander 9 (Brian, Staff Writer, “Recession may worsen spread of exotic diseases,” MSNBC, March 10 www.msnbc.msn.com/id/29599786)

Few believe Americans face a killer epidemic from tropical diseases. But scientists who specialize in emerging infectious diseases say such illnesses may become more common here as the economic downturn batters [an already weakened public health system](file://localhost/id/29013047/ns/health-infectious_diseases) , creating environmental conditions conducive to infectious diseases spread by insects or other animals. At the same time, such vector-borne diseases are capable of spreading around the world much more rapidly due to massive south-to-north immigration, rapid transportation, and global trade.“We truly did become a global village,” said Duane Gubler, Director of the Duke/NUS Graduate School of Medicine Emerging Infectious Disease Program in Singapore. “It has been a sequence of events over a period of 30 years and has come to a head in the last ten years. So we have sounded the alarm.”

### Economic collapse creates an insular focus as opposed to solving global health – makes disease rampant

Mohindra 4/21/10 (K. S., global health postdoctoral research fellow supported by the Canadian Institutes of Health Research. R.L. is supported through the Canada Research Chair program. “Making sense of the global economy: 10 resources for health promoters” Health Promot. Int. (2010) 25 (3): 355-362. doi: 10.1093/heapro/daq027 First published online: April 21, 2010) MFR

One of the most ‘globalized’ disease burdens of our time, and one that is increasingly wearing the face of women, is HIV/AIDS. Stephen Lewis' A Race Against Time (Lewis, 2005) is a passionate examination of HIV/AIDS in sub Saharan Africa and the underlying and globalization-related causes fuelling the epidemic. He has held a number of key humanitarian and diplomatic posts, with a lengthy experience with the United Nations (UN), most recently as the UN Secretary-General's special envoy for HIV/AIDS in Africa. Lewis provides an insider's look into the policy meetings and trade talks he attended, bringing a different perspective to Stiglitz's views. He is unapologetic in criticizing any organization, individual or policy that has acted as a barrier in preventing the transmission or HIV or reducing access to AIDS treatment, including IFIs, structural adjustment policies (SAPs), Western and African leaders and rock stars. Lewis offers a critical look at SAPs, which he argues continue to have a negative impact today, trade inequities and the lack of real commitment to ODA from the West—a lack of commitment already worsening with the more insular attention wealthier countries are paying to their own needs subsequent to the global financial crisis and recession. Lewis acknowledges that aid to Africa has failed to stimulate the economic growth and political reforms that can sustain development, although there is also evidence that aid is both effective in promoting health and education, and increasingly so. As with debt, the problems with aid have as much to do with the policies of the donor/lender nation as with the recipient/borrower country. Lewis exposes the devastating actions of various agencies and individuals on African countries, illuminating the needs of Africa's poor and vulnerable while also pointing out the strength and resilience of Africans. Lewis' short book presents an examination of globalization from the vantage of a specific health problem. Kelley Lee's Globalization and Health: An Introduction (2003) is a similarly brief overview that substitutes Lewis' passion with a more learned discussion of a wider range of globalization-related health topics. Unlike many of other writers cited in this paper, her approach to globalization is more agnostic. She offers a range of competing definitions before settling on a model that usefully elaborates three different dimensions: spatial (world geographies are being redrawn through regional and global economic agreements, while transport and communicative technology is shrinking its distance—at least to those with access to such technologies); temporal (a result of technology speeding everything up, from transport to capital to knowledge flows); and cognitive (the global diffusion of cultural images, notably but not exclusively Western). These dimensions are not unique to contemporary globalization, as Lee's interesting account of globalization's earlier epochs shows; but they do have unique features. Spatially, Lee focuses on the health implications of globalized pharmaceutical, food and tobacco industries, and the health effects of environmental and demographic shifts. Temporally, her attention is more on how the rapid pace of global change (from pandemic spread to fast food societies) is affecting us physically, and mentally. Cognitively, Lee expresses concern with the role of ‘global epistemic communities’ in promoting market-driven health sector reform, controlling scientific research (both topics and patentable products) and the marketing of pathogenic lifestyles. While she does not reduce globalization to economics alone, the important role of global markets and unregulated capital in shaping globalization's health effects is never far from her analysis. Her book is filled with short, illustrative case studies, and concludes with a discussion of an agenda for global health, including governance reforms that can better ensure more, and more fairly distributed, health opportunities for all. In today's world of international integration accompanied by growing inequalities in wealth, environmental degradation and human suffering, ‘global governance’ is becoming a matter of pressing concern. The financial crisis has shown how quickly nations can muster resources and (some) regulatory reform when their own immediate interests are at risk; but how can the larger and more longer term challenges of promoting equitable forms of global health and development be managed? The concept of GPG, one of Birdsall's priorities for a new global polity, has been offered as one new framework to promote international cooperation and collective action towards such an end. GPGs extend to the global level the economic notion of public goods, meaning those that can be used by one user without reducing the availability to another (non-rivalry) and that are equally available to all (non-excludability). The rationale behind public goods is that some resources, such as protection of air or water resources, are prone to market failures if left to private actors alone; unless all pay to protect, none will (the problem of the ‘free-rider’); protecting these resources is of benefit to all; and it is not ethically defensible to exclude access to such essential life resources to those personally too poor to pay themselves. Building on the work of the United Nations Development Programme (Kaul et al., 1999), Richard Smith et al. provide an in-depth analysis of the concept of global public goods for health (GPGH) in the edited volume Global Public Goods for Health: Health Economics and Public Health Perspectives (Smith et al., 2003). This book assesses if and how the concept can be utilized to address health. It is argued that while health per se is best viewed as a private good (with potential positive externalities), interventions to improve health internationally can be viewed as a GPG. Case studies authored by international experts are presented, demonstrating the utility of GPGH on issues ranging from specific diseases to the environment to public health knowledge to the prevention of global public ‘bads’ (e.g. increases in tobacco use) through such regulatory mechanisms (otherwise known as ‘intermediary global public goods’) as the Framework Convention on Tobacco Control (FCTC). The authors argue that the GPGH framework can serve as an important advocacy tool to help overcome the lack of incentives for the provision of GPGs across borders and to improve international collective action for population health.

## Econ Turns Warming

### The economy turns warming and the environment – several reasons

Richard 10/10/08 (Michael Graham, L.L.P, Law “4 Reasons Why Recession is BAD for the Environment”

<http://www.huffingtonpost.com/michael-graham-richard/4-reasons-why-recession-i_b_133564.html>) MFR

1) When squeezed, companies will reduce their investments into research & development and green programs. These are usually not short-term profit centers, so that is what's axed first. Some progress has been made in the past few years, it would be sad to lose ground now. 2) Average people, when money is tight, will look for less expensive products (duh). Right now, that usually means that greener products won't make it. Maybe someday if we start taxing "bads" instead of "goods" (pollution, carbon, toxins instead of labor, income, capital gains) the least expensive products will also be the greenest, but right now that's not the case. 3) There's less money going into the stock markets and bank loans are harder to get, which means that many small firms and startups working on the breakthrough green technologies of tomorrow can have trouble getting funds or can even go bankrupt, especially if their clients or backers decide to make cuts. 4) During economic crises, voters want the government to appear to be doing something about the economy (even if it's government that screwed things up in the first place). They'll accept all kinds of measures and laws, including those that aren't good for the environment. Massive corn subsidies anyone? **Don't even think about progress on global warming...**

## Econ Turns Environment

### Economic collapse turns the global environment – countries utilize methods to bounce back that are detrimental to the environment

Biello11/13/08 (David, Editor for the Scientific American. “Is a Global Recession Good for the Environment?” <http://www.scientificamerican.com/podcast/episode.cfm?id=is-a-global-recession-good-for-the-08-11-132>) MFR

Times are tough when a millionaire oil man can't get a wind farm built. T. Boone Pickens backed off of his much ballyhooed mega-wind project in Texas this week, citing the declining cost of natural gas. Fossil fuel burning power plants are still too good of a deal to bother investing $2 billion into wind turbines. A bear market might seem like a boon for the environment: less overall economic activity, like manufacturing and driving, means less overall pollution. Right? Actually, as the Pickens example proves, global economic downturns take a toll on the environment by restraining economic activity that could improve the situation. But that's not all. Over-farming and drought led to 400,000 square kilometers of prime top soil blowing away in the wind in the 1930s, exacerbating, and exacerbated by, the Great Depression. And the economic crises that crippled the economies of southeast Asia in the 1990s also set in motion a rapid uptick in environmentally damaging pursuits such as illegal logging and cyanide fishing, according to the World Bank. Even as I speak, economic worries have prompted some European countries to begin backpedaling on their commitments to cut back on global warming pollution. So an **economic downturn is no friend of the environment**. Brother, can you spare a turbine?

## Econ Turns Terrorism

### Economic collapse causes terrorism – data proves

### Sandler 3/28/11 (Todd, School of Economic, Political and Policy Sciences, University of Texas at Dallas “New frontiers of terrorism research: An introduction” [http://jpr.sagepub.com/content/48/3/279.full.pdf+html](http://jpr.sagepub.com/content/48/3/279.full.pdf%2Bhtml) Journal of Peace Research 2011 48: 279) MFR

The Piazza (2011) article returns to the elusive relationship between poverty and terrorism that was drawn by the Bush administration, the media, and commentators following 11 September 2001. As Piazza notes, the literature found mixed results: many studies demonstrated no relationship between aggregate income indicators and transnational terrorist events, while other studies tied poverty in a terrorist’s home country to terrorism in richer venue countries. Micro-level studies showed that terrorists are neither necessarily poor nor uneducated. Piazza takes a different approach by using measures to ascertain whether domestic terrorists come from social groups that are marginalized by government policies or adverse social conditions. That is, domestic terrorists may be aggrieved individuals from groups that experience economic discrimination with no remedial action by the government. In testing its hypotheses, this article is relying on less aggregate data to identify some root causes of terrorism. Piazza uses the division of GTD incidents into domestic and transnational terrorist events, engineered by Enders, Sandler & Gaibulloev (2011). However, Piazza uses only domestic terrorist event counts as his dependent variable in his reported runs. Three discrimination variables – the presence or absence of minority economic discrimination and government remediation of such discrimination – are drawn from Minorities at Risk (MAR) data, compiled by the Center for International Development and Conflict Management at the University of Maryland. Piazza’s main finding is that countries with minority groups that are subjected to economic discrimination will experience more domestic terrorist incidents. Moreover, remedial actions to reduce this discrimination limit domestic terrorism. These two important findings are robust to a set of standard controls. The zero-inflated results indicate that countries with no domestic terrorism generally do not have minority groups that suffer economic discrimination. The study also shows that aggregate poverty measures of income do not increase domestic terrorism. With panel estimates, the Gaibulloev & Sandler (2011) article investigates the impact of terrorism on income per capita growth for 51 African countries for 1970–2007, while accounting for cross-sectional (spatial) dependence and other forms of conflict (i.e. internal and external wars). The authors use Enders, Sandler & Gaibulloev’s (2011) division of GTD into domestic and transnational terrorist incidents to distinguish the differential impacts of the two types of terrorist events on growth. For their baseline fixed-effects models, the authors find that transnational terrorism had a significant, but modest, marginal influence on income per capita growth. An average sample country sustained an annual reduction of just 0.1% to its income per capita growth. The analysis also finds that domestic terrorism did not have a significant adverse effect on income per capita growth. Alternative terrorist variables (e.g. total number of incidents and lagged terrorism) are used with little change in the findings that transnational terrorism had a significant negative growth effect, while domestic terrorism did not have a significant growth impact. This finding holds despite the fact that domestic terrorist events far outnumbered transnational terrorist events.

### Poor economy exacerbates terrorism

Krieger and Meierrieks 1/14/10 (\*Tim, Phd, Econ \*Daniel, Department of Economics, University of Paderborn, “What causes terrorism?” Public Choice (2011) 147: 3–27) MFR

Some scholars suggest that terrorism is rooted in economic deprivation, i.e., in poverty and within-country inequality. Gurr (1970) puts forward the idea of ‘relative deprivation’, where violence is generated when there is a discrepancy between what individuals think they deserve and what they actually receive through the economic (distributive) process. Poor structural economic conditions create frustration, which in turn makes violence more likely. This link from economic deprivation to terrorism should matter to the source countries of terrorism. For instance, terrorist organizations should find it easier (less costly) to recruit frustrated followers or to receive funding from supporters when economic deprivation prevails. The lack of non-violent economic activities may also fill the ranks of terrorist organizations by lowering the opportunity costs of violence. Thus, relative economic deprivation is expected to lead to more terrorism by inciting frustration and lowering the (opportunity) costs of violence. With respect to the target countries of terrorism, economic success may attract attacks when economic deprivation is assessed globally (poor vs. rich countries).

### Economic collapse incentivizes joining terrorist organizations

Boucek 1/2/10 (Christopher, associate in the Middle East Program at the Carnegie Endowment for International Peace.“Yemen's deteriorating security, economy could fuel terrorism” <http://www.washingtonpost.com/wp-dyn/content/graphic/2010/01/02/GR2010010201243.html>) MFR

Yemen's problems are many, and some are already spreading beyond its borders. Security and stability are deteriorating. The population is growing rapidly. The economy is collapsing. There are few good options today; things will look worse tomorrow. Immediate and sustained international attention is needed to at least lessen the impact of some problems. Yemen is a weak state with little history of central government control. The government's first priorities have been a civil war in the north and a growing secessionist movement in the south; lower on the list has been confronting al-Qaeda, which is now resurgent. The government does not fully control all territory, nor does it have the authority or capacity to adequately deliver social services in many rural areas. Organizations inspired or directed by al-Qaeda have sought refuge in undergoverned spaces. Spending is not directed toward the root causes of instability but toward war costs, accelerating the economic collapse. Petroleum sales supply the bulk of government revenue, but oil reserves are shrinking and there has been little serious planning for a post-oil economy. A large deficit is forecast for next year, and foreign currency reserves are being spent at an alarming rate. Corruption is a major problem. Separately, mismanagement, rising consumption, increased urbanization and poor irrigation practices are contributing to dire water shortages. Sanaa may be the first capital in modern history to run out of water. The population, most of which is under 30, is expected to double in the next 20 years. Meanwhile, unemployment is on par with levels in the United States during the Depression. Yemen is often considered a failing state. Its stability should be a critical concern for the United States. The international community needs an integrated and comprehensive approach that addresses both the immediate security issues and the underlying sources of instability and militancy. While military and counterterrorism operations are critical, long-term development assistance is also necessary. The United States can support police reforms, help to professionalize the prison service, and assist in implementing effective counterterrorism laws. Coast guard and border officials also need quiet aid in controlling smuggling, trafficking and illicit migration. The international community needs to build local capacity in Yemen before it is too late.

## Econ Turns Hegemony (1)

### Financial crisis proves collapse of hege paves the way for multilateralism

Watson 2/18/10 (Allan, Department of Geography, Staffordshire University, UK “US Hegemony and the Obama Administration: Towards a New World Order?” Antipode Volume 42, Issue 2, pages 242–247, March 2010) MFR

However, the financial crisis of late 2008 and early 2009 has acted to undermine both the US and global economy. In an attempt to save the US economy from recession, the previous administration, led by the most right-wing president in living memory, took the unprecedented step of pursuing a “financial socialism” (Taylor et al 2009), rescuing private finance with public finance. The timing of this policy effectively forced the following Obama administration to continue down the same path, one which is fraught with difficulties. For the USA, the largest problem has been the state's own financial situation. When the $700 billion bailout package for private financial institutions was passed through Congress, the national deficit moved past the $10 trillion mark. A significant amount of this debt is held by foreign governments, predominantly Japan and China, along with a number of oil exporting countries. Relying on foreign governments in this way comes with risks that are now starting to bite. The US economy continues to be squeezed by the interest on the capital borrowed, and the fact that the largest potential rival to US hegemony in the twenty-first century, China, holds so much of the US debt, is something that will sit uncomfortably even with a less conservative Obama administration. The USA can no longer hope to keep China subordinate through economics alone. Given this, **it now seems that US hegemony is in decline**, economically and politically, and that we will begin to see the emergence of a new world order. It is difficult to see how one man, no matter how well supported, can change well-practised unilateral US foreign policies or solve deep-rooted national anxieties. The above discussion suggests that the fundamental principles of US engagement with the rest of the world will change very little under an Obama-led US administration. But I shall end this intervention on a note of optimism. The election of the first black president of the USA was after all an historic event, and undoubtedly the effects will continue to ripple around the world. It gives the USA a chance to re-invent itself as a more open and tolerant nation and practice what may be termed as a “moral hegemony” (see Kobayashi and Peake 2000), without the need to exercise the hard coercive unilateral military or economic power upon the rest of the world. From this perspective, the signing of the executive order to close the controversial Guantanamo Bay detention facility, and Obama's carefully crafted speech at Cairo University in June 2009 aimed at easing tensions with the Muslim world, both signalled a sharp break with the previous Bush administration and have strengthened the global wave of diplomatic and popular goodwill (see Black 2009; Finn 2008).

### Economic collapse means the U.S. will always have diminishing returns regarding the global order

Hadar 2/3/09 (Leon T., He earned his MA degrees from the schools of journalism and international affairs and the Middle East Institute at Columbia University, and his Ph.D. in international relations is from American University.“The US Is No Longer a Global Hegemon” <http://www.cato.org/pub_display.php?pub_id=9937&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+CatoRecentOpeds+%28Cato+Recent+Op-eds%29>) MFR

Changes in the status and power of nations, just like changes in economic conditions, are not always immediately apparent. There is, in the jargon of economics, a recognition lag between the time when an economic shock, such as a sudden boom or bust, occurs and the time when it is recognized by economists, central bankers and the government. Recognition lag explains why, for example, economists have only recently acknowledged the current economic recession - several months after it began. And recognition lag might well be why officials and pundits are now failing to recognize the detrimental impact of the combination of the Iraq war and the financial crisis on America's standing in the international system. Some attribute Washington's current difficulties in dictating global developments to the Bush administration's mismanagement of US diplomacy and national security policy. The conventional wisdom is that a more visionary and competent Obama administration will be able to reassert America's global leadership role - especially in the Middle East. According to that logic, a charismatic and cosmopolitan President Barack Obama, by re-energizing the United States' diplomatic influence and emphasizing Washington's commitment to play the role of an honest broker, will revive the dormant Israeli-Palestinian peace process, overcome the many obstacles to a political settlement, and help bring peace to the Holy Land. (Some pundits seem to assume a similar peacemaking model can be implemented in other troubled regions as well, such as South Asia and the Caucasus.) All that is lacking, supposedly, is enlightened leadership and American willpower. Such assumptions about US omnipotence are woefully out of touch with reality. The mess the Bush administration made in the Middle East, where US military power was overstretched to the maximum, **coupled with the dramatic loss of American financial resources,** has produced a long-term transformation in the balance of power in the region and worldwide. The confluence of these negative factors has **significantly eroded Washington's diplomatic and political clout.** The increasing wariness of the American public regarding new US military interventions, as a consequence of the Iraq war, will reinforce this trend. This is not the first time there has been a lag between when an international crisis, such as a military conflict or a loss of geostrategic standing, takes place and the time when officials, pundits and the public recognize its effect on the global balance of power. In the aftermath of World War II, which devastated the military and economic power of Britain and France, the two leading imperial powers, officials and journalists continued to refer to those two declining nation-states as Great Powers. It was not until the late 1950s that the diminished status of Great Britain and France was widely recognized and the adjective "great" was finally dropped when the two countries were mentioned. That the US has already been losing some of its leverage has been demonstrated by Washington's failure to contain the rising power of Iran and Tehran's growing influence through surrogates in Iraq, Lebanon, and the Palestinian territories. Notwithstanding strong opposition from Washington, Israel decided to open negotiations with Syria, while Hizbullah was once again invited to join the government in Lebanon. While the US does not now occupy the same kind of drastically weakened geopolitical position that Britain and France did after World War II, we must recognize that it is no longer a global hegemon, as it was during the first decade or so after the end of the Cold War. Even the most visionary and competent US president will be that much more constrained in his ability to "do something" when an international crisis takes place. In 2000, the United States was at the apex of international power in a unipolar world, and the Israelis and the Palestinians were led by strong and more moderate leaderships than today. Even at that time, Washington could not significantly advance an Israeli-Palestinian peace process. There is little reason to expect that Obama will be an exception, and an effective Holy Land peacemaker, in 2009. With an overstretched military and an economy in recession, the incoming president, like others in Washington, will be forced to recognize that reality sooner or later.

## Econ Turns Hegemony (2)

### International perception of economic failures leads to multipolarity.

David Ropkopf 08. Rothkopf is chairman of the National Strategic Investment Forum Dialogue, a forum convening leading institutional investors for discussions about critical issues of investment strategy. “9/11 Was Big. This Is Bigger.” URL: [http://www.washingtonpost.com/wp dyn/content/article/2008/10/03/AR2008100301969.html](http://www.washingtonpost.com/wp%20dyn/content/article/2008/10/03/AR2008100301969.html). DA:7/14/11.

On Sept. 16, 2001, President Bush addressed the nation to express his faith in the American people and "the resiliency" of the U.S. economy. Seven years later, the president again spoke to a country in crisis, using eerily similar language to try to shore up concerns about the market. This time, however, he felt compelled to go further. During a prime-time broadcast to the nation, the president of the richest and most powerful nation on Earth felt compelled to offer a defense of the free-market capitalism whose final and enduring triumph we had been celebrating only a few years earlier after the fall of our Soviet foes. "Despite corrections in the marketplace and instances of abuse," Bush said, "democratic capitalism is the best system ever devised." To many around the world, however, the president's words were not so reassuring. Not only did his argument ring hollow to those who felt anxiety and rage over Wall Street's ineptitude and greed, its attempt to buoy American capitalism by lashing it to the virtues of democracy contrasted uncomfortably with a chorus of critical assessments from leaders in democracies worldwide. French President Nicolas Sarkozy concluded recently that the world has seen the end to free-market economies. "Laissez-faire, it's finished. The all-powerful market that is always right, it's finished," he said. We would, he added, need "to rebuild the entire global financial and monetary system from the bottom up, the way it was done at Bretton Woods after World War II." Germany's finance minister offered a similar perspective in remarks to his parliamentary colleagues. "The U.S. will lose its status as the superpower of the world financial system," Peer Steinbrück declared. "This world will become multipolar. The world will never be the same again." Governments long criticized by the United States for intervening in their own economies were reveling in the spectacle of U.S. policymakers wading into their own financial markets in ways that even some socialist leaders would never have dreamt of.

### A strong economy is key to ensuring stable global hegemony, FTAs prove.

Jim Owens 10. Owens is a chairman and chief executive officer of Caterpillar Inc. “Will the U.S. Stay Globally Competitive? It Depends” URL: <http://knowledge.wpcarey.asu.edu/article.cfm?articleid=189>. DA: 7/14/11.

"The trade unions have convinced everyone that trade is a bad thing," Owens said. "It isn't." Trade is good, according to Owens, not only for the average American family, but for American businesses and for American consumers as well. "If policymakers want Caterpillar to offer American consumers a lower-quality tractor at a higher price, then they should put up trade barriers," Owens said. Freer trade policies, in contrast, "ensure American businesses the opportunity to compete to sell their products around the world. They help to ensure that American manufacturers stay competitive" because they can't hide behind a veil of national protection -- they know they have to compete on the global stage with companies from Germany, Japan, China, and everywhere else. Owens made the importance of global trade to the U.S. economy clear. "Trade accounts for more than a quarter of the U.S. GDP," he said. One in five of the best-paying American jobs is attributable to free trade. At the same time, 95 percent of the world's customers are outside of the U.S. Developing countries like China and India are growing huge middle classes that represent a gold mine of new customers for competitive businesses. So U.S. policymakers need to ask, then, how the laws they pass (or don't pass) impact American businesses' ability to compete. It's a question, Owens said, that will affect not only American businesses' economic competitiveness, but the United States' leadership on the world stage, as well. "We need to be globally competitive to maintain our global economic and political leadership." Creating opportunities At the end of the day, for Owens it's all about jobs. "What I'm really focused on, quite frankly, is that the wealth of nations is a function of the opportunities we create for our children and our grandchildren. If we don't have great jobs for people here, we're no longer going to be a great country. And America can't be a world leader without a great economy." America's reign as a "great country" is all about competitiveness, Owens said. Yet despite the very clear importance of American competitiveness in the global economy and the clear effect that U.S. policies have on that competitiveness (and, by extension, on U.S. jobs), Owens said it's a subject hardly discussed in Washington, D.C.

## Econ Turns Middle East Peace

### Economic collapse overstretches Obama’s priorities – prevents focus on the Middle East Peace process

Hadar 10/28/09 (Leon T., He earned his MA degrees from the schools of journalism and international affairs and the Middle East Institute at Columbia University, and his Ph.D. in international relations is from American University. “The Shape of Things to Come: War before Peace in the Mideast” [http://www.cato.org/pub\_display.php?pub\_id=10710&utm\_source=feedburner&utm\_medium=feed&utm\_campaign=Feed%3A+CatoRecentOpeds+%28Cato+Recent+Op-eds%29)](http://www.cato.org/pub_display.php?pub_id=10710&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+CatoRecentOpeds+%28Cato+Recent+Op-eds%29)M) MFR

In the aftermath of the electoral victory of Obama, I had experienced an acute case of foreign policy schizophrenia. The Realpolitik side of my persona remained skeptical about the new president's ability to revive the dormant Israeli-Palestinian peace process. I recalled that in 2000, when Washington had embarked on its last Mideast peace processing, the United States was at the apex of international power in a unipolar world, and the Israelis and the Palestinians were led by strong and more moderate leaderships than today. But even at that time, the Clinton Administration could not significantly advance Israeli-Palestinian. Hence, there was little reason to expect that Obama, leading an overstretched military and an economy in recession, would become an effective peacemaker in 2009.

## Econ Turns Trade

### Economic collapse turns trade - creates an incentive to utilize an insular focus

The Economist 12/18/08 (“Fare well, free trade” <http://www.economist.com/node/12815617>) MFR

THIS Christmas the world economy offers few reasons for good cheer. As credit contracts and asset prices plunge, demand across the globe is shrivelling. Rich countries collectively face the severest recession since the second world war: this week’s cut in the target for the federal funds rate to between zero and 0.25% (see article) shows how fearful America’s policymakers are. And conditions are deteriorating fast too in emerging economies, which have been whacked by tumbling exports and the drying-up of foreign finance. This news is bad enough in itself; but it also poses the biggest threat to open markets in the modern era of globalisation. For the first time in more than a generation, two of the engines of global integration—trade and capital flows—are simultaneously **shifting into reverse**. The World Bank says that net private capital flows to emerging economies in 2009 are likely to be only half the record $1 trillion of 2007, while global trade volumes will shrink for the first time since 1982 (see article). This twin shift will force wrenching adjustments. Countries that have relied on exports to drive growth, from China to Germany, will slump unless they can boost domestic demand quickly. The flight of private capital means emerging economies with current-account deficits face a drought of financing as well as export earnings. There is a risk that in their discomfort governments turn to an old, but false, friend: protectionism. Integration has less appeal when pain rather than prosperity is ricocheting across borders. It will be tempting to prop up domestic jobs and incomes by diverting demand from abroad with export subsidies, tariffs and cheaper currencies. The lessons of history, though, are clear. The economic isolationism of the 1930s, epitomised by America’s Smoot-Hawley tariff (see article), cruelly intensified the Depression. To be sure, the World Trade Organisation (WTO) and its multilateral trading rules are a bulwark against protection on that scale. But today’s globalised economy, with far-flung supply chains and just-in-time delivery, could be disrupted by policies much less dramatic than the Smoot-Hawley act. A modest shift away from openness—well within the WTO’s rules—would be enough to turn the recession of 2009 much nastier. Incremental protection of that sort is, alas, all too plausible. Fair-weather free-traders In many countries politicians’ fealty to open markets is already more rhetorical than real. In November the leaders of the G20 group of big rich and emerging economies promised to eschew any new trade barriers for a year and to work hard for agreement on the Doha round of trade talks by the end of December. Within days, two of the G20 countries, Russia and India, raised tariffs on cars and steel respectively. And the year is ending with no Doha breakthrough in sight. **As economies weaken, popular scepticism of open markets will surely grow**. Among rich countries, that danger is greatest in America, where grumbles were heard long before recession set in. The new Congress, with bigger Democratic majorities, has a decidedly less trade-friendly hue. Barack Obama’s campaign rhetoric left an impression of a man in two minds about trade, which he has since done nothing to dispel. Now that their exports are faltering, emerging economies too may become less keen on trade. The WTO’s rules allow them plenty of scope: after two decades of unilateral tariff-cutting most of their tariffs are well below their “bound” rates, the ceilings agreed in the trade club. On average they could triple their import levies without breaking the rules. Handouts to the ready Politicians from Washington to Beijing are being pressed to help troubled industries, regardless of the consequences for trade. A bail-out of Detroit’s carmakers, whatever its final extent, will be a discriminatory subsidy. As China’s exporters go bust by the thousand, industries from textiles to steel have been promised handouts and rebates. Subsidies will beget more subsidies: Nicolas Sarkozy, France’s president, says that Europe will turn into an “industrial wasteland” if it too does not prop up its manufacturers. They will also invite retaliation. With China’s bilateral trade surplus at a record high even as America’s economy slumps, Congress will not take kindly to Beijing’s bolstering of its exporters. Exchange-rate movements could also prompt protectionist responses. Chinese officials have said publicly that they will not push down the yuan, and their currency has risen in trade-weighted terms. However, it did slip against the dollar in late November. Viewed from America, China still seems to be following a cheap-yuan policy. A Sino-American trade spat is all too plausible. Add all this together and it is hard for a free-trader not to worry. So what is to be done? The first requirement is political leadership, especially from America and China. At a minimum, both must avoid beggar-thy-neighbour policies. Second, a conclusion of the Doha round would help. A deal would reduce the risk of broader backsliding by cutting many countries’ bound tariffs—and it would establish Mr Obama’s multilateral credentials. Third—Doha deal or not—is greater transparency. A good recent idea is that the WTO publicise any new barriers, whether or not they are allowed by its rules.

## Econ Turns Democracy (1)

### Increasing wealth is the only way to produce democracy, several empirical claims prove.

Irwin Stelzer 94. Irwin is an American economist who is the U.S. economic and business columnist for the Sunday Times, the Courier-Mail, the Guardian and a contributing editor of the Weekly Standard. “A question of linkage: capitalism, prosperity, democracy…” URL: http://findarticles.com/p/articles/mi\_m2751/is\_n35/ai\_15353275/. DA: 7/14/11.

The simultaneous explosion of economic growth in still-authoritarian China and economic collapse in increasingly democratic Russia rekindles an old debate concerning the relationship between democracy, capitalism, free markets,and economic development. There can be little doubt that the economy and the polity interact with each other**,** but the nature of that interaction is elusive. We begin with the conventional, conservative formulation. Crudely stated, it goes something like this. Market capitalism is the greatest engine for economic development the world has ever seen, what Peter Berger calls a "horn of plenty that heaped...immense material wealth and an entrepreneurial class, on the countries in which it originated." By creating a thrusting entrepreneurial class, impatient with government restrictions on its adventures, and a middle class clamoring for consumer goods, education and choice, capitalism creates counterpoises to government authority, eventually forcing the acceptance of democratic institutions. In short, byproducing economic wealth and an entrepreneurial class, capitalisminevitably produces democracy.And since democracies don't start wars or have expansionist proclivities--forget, for the moment, Theodore Roosevelt and imperialist Britain--capitalist-democratic development contributes to security and to world peace. There is much to be said for this view, especially that portion that relates prosperity to market capitalism. Certainly, it seems to be validated by our own recent experience. Entrepreneurial capitalism became more dominant in the America of Ronald Reagan than it had been before, and job growth and record-breaking prosperity followed. In Britain, Margaret Thatcher reversed almost four decades of socialism--only the pace, but not the direction, of increasing government involvement in economic affairs changed when pre-Thatcher Tories alternated with Labour as Her Majesty's ministers--and changed her country from the sick man of Europe into one positioned for long-term, non-inflationary growth. Meanwhile, the Soviet economy was shown to be like the Wizard of Oz--an imposing facade, but impotent and powerless at its core. Put these events together and you have an unassailable proof that capitalism produces a level of economic welfare that a planned economy simply cannot emulate. Add to that the apparent relationship between capitalism, prosperity, and democracy, and you have reason for self-satisfaction with the American political-economic system, at least in the broad. After all, in recent years a more-or-less free marketcapitalismin Chile, South Korea and Taiwan has produced, first, prosperity and, then, democratization. In Russia it may be the other way around: democratization (glasnost) preceded economic restructuring (perestroika). No matter: it all comes out well in the end--capitalism,democracy and prosperity march hand-in-hand into a bright, and therefore secure, future. Knowledge (or faith) that this is so informsseveral aspects of domesticand foreignpolicy**.**

### Democratic societies fail when economies do, empirics prove.

Remmer 91. Karen L. Remmer received her B.A. in political science from Wellesley College and her Ph.D. from the University of Chicago. Remmer joined the Duke faculty in 2001 as a professor of Political Science. “The Political Impact of Economic Crisis in Latin America in the 1980s”. URL: <http://www.jstor.org/stable/pdfplus/1963850.pdf>. DA: 7/14/11.

The comparative politics literature is replete with analyses of the relationship between economic conditions and democratic politics. The research is severely bifurcated, however, with scholars specializing in the study of different world regions asking very different sets of theoretical questions. For students of West European and U.S. politics, the electoral implications of economic performance have been a major concern, with debate focused on such issues as the existence of a "political business cycle" or the relative strength of economic and noneconomic voting (e.g., Alt and Chrystal 1983; Beck 1982; Bellucci 1984; Eulau and Lewis-Beck 1985; Franz 1986; Hibbs and Fassbender 1981; Lewis-Beck1 988; Tufte 1978;V isser and Wijnhoven 1990; Whiteley 1986). For analysts of Latin America and other parts of the Third World, on the other hand, electoral issues have been of secondary. interest. Scholarly attention has focused instead on the linkage between economic conditions and democratic breakdown, with theoretical controversy revolving around such questions as the relationship betweene conomicu nderdevelopmenat nd coups d'6tat (O'Kane 1981, 1983; Londregan and Poole 1990; McGowan and Johnson 1984; Midlarsky and Tanter 1967; Putnam 1967), the political implications of economic dependency (Cardoso and Faletto 1979; Evans 1979), and the nexus between the exhaustion of import substitution industrialization and the rise of bureaucratic authoritarianism (Collier 1979; O'Donnell 1973, 1978; Remmer and Merkx 1982). Whereas hypotheses about politics in the North Atlantic have been formulated predominantly with reference to conditions of relative economic prosperity and stability, the political impact of economic crisis and deprivation have figured prominently in this second body of literature. South, the existing theoretical division of labor has left comparativists with an impoverished understanding of the impact of economic conditions on democratic governance. Those studying electoral outcomes have largely ignored the impact of economic crises and developed empirical generalizationst hat apply to but a limited range of economic conditions. Those emphasizing the political significance of economic crises, on the other hand, have devoted little attention to elections. Zimmermann and Saalfeld, whose work represents a major exception to broader research trends, recently underlined this division of labor when they characterized the comparative analysis of the breakdown of European democracy in the 1930s as "among the most underresearched areas in political science" (1988, 305). The same might be said of the comparative study of electoral outcomes in the Third World. Inasmuch as a key purpose of comparative research is to define "the limits of generalization by specifying the conditions under which hypotheses are valid" (Antal, Dierkes, and Weiler 1987, 14), bridging the theoretical chasm dividing research on the political implications of economic conditions into two distinct bodies of literature is likely to yield significant dividends. This study attempts to take a preliminary step in this direction by addressing a series of questions about the electoral effects of economic crisis: Do the political effects of major economic setbacks parallel the effects of minor ones? Do generalizationsa bout the link between economic conditions and electoral outcomes fit the political experience of nonOECD nations? What factors explain varying political responses to crisis conditions? Economic Crisis and Politics in Latin America To link the study of economic crisis with research on democratic elections, the subsequent analysis focuses specifically upon the Latin American experience of the 1980s. During that decade, the region underwent a far-reaching process of political transformation that resulted in the largest and most extended series of competitive elections in its entire history. Simultaneously, however, Latin America was struck by its worst economic crisis since the Great Depression. Following Mexico's mid-1982 declaration of financial insolvency, countries throughout the region began facing acute problems in servicing relatively high levels of accumulated debt with only limited access to fresh external finance. Living standards and investment capacity plummeted in response. As the 1980s drew to a close, the average per capita product of Latin America was 8% lower than at the beginning of the decade, average inflation had surgedt o the unprecedentedle vel of nearly 1,000%, and the net transfer of resources abroad was continuing at an annual rate of U.S. $25 billion (Economic Commission for Latin America and the Caribbean 1989; hereafter ECLA). With few exceptions, these economic trends provoked regional specialists to paint a dismal picture of the future of Latin American democracy. Electoral pressures have been seen as undermining the capacity of democratic governments to implement the policies necessary to cope with economic crisis, while lowered living standards, high levels of inflation, and other economic difficulties associated with the net transfer of resources abroad have been linked with the prospect of declining support for democratic rule (e.g., Inter-AmericanD ialogue 1989, ix).

## Econ Turns Democracy (2)

### Democratic regimes fail during economic downturns – Latin America proves. Leads to authoritarianism.

Cambridge University Press 90**.** “Democracy and Economic Crisis: The Latin American Experience”. URL: http://www.jstor.org/stable/pdfplus/2010414.pdf?acceptTC=true. DA: 7/14/11.

Policies designed to cope with acute economic crises stand out as a key exception to these generalizations about research trends. Beginning with Thomas E. Skidmore's seminal study of economic stabilization,4 scholars have repeatedly stressed the significance of regime characteristics for understanding the capacity of governments to manage serious economic disequilibria.5 Either because economic austerity is seen as posing differ- ent kinds of risks for democratic and authoritarian governments or be- cause the capacity to impose unpopular adjustment programs is assumed to vary with regime type, authoritarianism has been repeatedly linked with the successful management of economic crises, and democracy with failure. The first line of theoretical argument is represented by a recent work on the debt crisis, which asserts that "a democracy which is not accompanied by social and economic betterments for the population at large is putting its survival at risk."6 A quotation from another recent work on Latin America illustrates the complementary argument- namely, that democracies are unable to administer the economic medi- cine required by crisis conditions. "Present economic policy ... demands decision-making centers able to impose policies resisted by almost all segments of society. This is a task that prior cycles show is beyond the capacity of open democratic regimes in Latin America."7 Authoritarian rule, which implies less dependence on popular support and more capacity.

## Econ Turn Prolif

### Economic decline causes proliferation

Burrows and Windram 94 (William & Robert, Critical Mass, p. 491-492) LL

Economics is in many respects proliferation’s catalyst. As we have noted, economic desperation drives Russia and some of the former Warsaw Pact nations to peddle weapons and technology. The possibility of considerable profits or at least balanced international payments also prompts Third World countries like China, Brazil, and Israel to do the same. Economics, as well as such related issues as overpopulation, drive proliferation just as surely as do purely political motives. Unfortunately, that subject is beyond the scope of this book. Suffice it to say that, all things being equal, well-of, relatively secure societies like today’s Japan are less likely to buy or sell superweapon technology than those that are insecure, needy, or desperate. Ultimately, solving economic problems, especially as they are driven by population pressure, is the surest way to defuse proliferation and enhance true national security.

## Econ Turns Racism

### Economic downturn fuels racism.

Associated Press 09**.** “U.N. Chief: Bad Economy Threatens More Racism”. URL: [http://www.foxnews.com/story/0,2933,517127,00.html](http://www.foxnews.com/story/0%2C2933%2C517127%2C00.html). DA: 7/14/11.

U.N. Secretary-General Ban Ki-moon urged the world Monday to rally against the threat that intolerance could rise as a result of the economic crisis, saying "the time is now" to stamp out racism. Ban, opening the global body's first racism conference in eight years, said racism including anti-Semitism and Islamophobia needed to be tackled. "I fear that today's economic crisis, if not handled properly, could evolve into a full-scale political crisis marked by social unrest, weakened governments and angry publics who have lost faith in their leaders and their own future," the U.N. chief said. "In such circumstances, the consequences for communities already victimized by prejudice or exclusion could be frightening." He also said he regretted the absence of the United States and eight other Western nations that have pulled out because of fears Muslim nations will dominate the conference with calls for to denounce Israel and for a global ban on criticizing Islam. "There comes a time to reaffirm our faith in fundamental human rights and the dignity and worth of us all," Ban told the gathering of thousands of ministers, diplomats and dignitaries at the U.N.'s European headquarters in Geneva. The administration of Barack Obama, America's first black president, announced Saturday it would boycott the weeklong meeting because it makes reference to a declaration made in 2001 at the global body's first racism conference in Durban, South Africa. That document was agreed after the United States and Israel walked out over attempts to liken Zionism — the movement to establish a Jewish state in the Holy Land — to racism. Organizers have sought to steer clear of the controversies that marred the Durban meeting, but have run into many of the same contentious issues. Australia, Canada, Germany, Israel, Italy, Netherlands, New Zealand and Poland are also not participating, while Iran's hardline President Mahmoud Ahmadinejad is scheduled to take the floor later Monday. The major sticking points in the draft final declaration prepared for the current meeting concern its implied criticism of Israel and an attempt by Muslim governments to ban all criticism of Islam, Sharia law, the prophet Muhammad and other tenets of their faith. Obama, speaking in Trinidad on Sunday after attending the Summit of the Americas, said: "I would love to be involved in a useful conference that addressed continuing issues of racism and discrimination around the globe." But he said the language of the U.N.'s draft declaration risked a reprise of Durban, during which "folks expressed antagonism toward Israel in ways that were often times completely hypocritical and counterproductive." "We expressed in the run-up to this conference our concerns that if you adopted all of the language from 2001, that's not something we can sign up for," Obama said. Ban said no society — rich or poor, large or small — is immune to the dangers of racism, which he called a "denial of human rights, pure and simple." Addressing intolerance in its various forms, Ban said racism "may be institutionalized, as the Holocaust will always remind us," but that it may manifest itself in more subtle forms through the "hatred of a particular people or a class — as anti-Semitism, for example, or the newer Islamophobia." Many Muslim nations want curbs to free speech to prevent insults to Islam they claim have proliferated since the terrorist attacks in the United States on Sept. 11, 2001. They cite the 2005 cartoons of Muhammad published by a Danish newspaper that sparked riots in the Muslim world, and allegations that authorities in the West have targeted innocent Muslims through anti-terror and other police action. Those demands had been largely resisted by the United States and other Western nations, some of whom are participating in the conference. Ban steered clear of the issue of a global ban on religious defamation, as demanded by Muslim nations, but urged action against a "new politics of xenophobia" that is on the rise and could become dramatically worse as a result of new technologies that proliferate hatred.

# \*\*A2: Econ Turns X\*\*

## A2: Econ Turns Space Programs

### Investing in space technology is a stimulator to the economy

Messier 3/14/09 (Doug, “Congressman Urges More NASA Funding to Stimulate Economy” http://www.parabolicarc.com/2009/03/14/3152/

Former NASA Administrator Michael Griffin recently stated that these technologies contribute an estimated $220 billion per year to the economy. Moreover, according to the Coalition for Space Exploration, NASA programs and the contractors who support them represent approximately a half-million highly skilled and highly paid American jobs. One program that could measurably help our economy and advance NASAâ€™s spaceflight capabilities is the successor to the Space Shuttle. As ranking member of the Science and Technology Committee, I am particularly concerned that NASA is on a path to retire the Space Shuttle without having developed, in a timely manner, the next generation of Constellation launch systems. Without additional funding, Constellation cannot be ready before 2015, at the earliest. During this five-year gap, America will make cash payments to Russia to provide transportation for our astronauts and our partners to the International Space Station. During this workforce transition, we stand to lose thousands of skilled aerospace jobs that will be difficult and costly to replace. Accelerating development of the Constellation system would keep American tax dollars working for us here at home and have a **multiplier effect** throughout the economy by stimulating high-tech manufacturing and networks of suppliers around the country. This would expand our economic output and help our industries remain competitive in the global marketplace. By fostering this kind of innovation, the U.S. has earned a leadership role in human spaceflight, the economic benefits of which are far-reaching.

### **Space economy key to heg and the economy**

Oxford Analytica 8 (Oxford Analytica – a scholarly network of over 1,000 contributors providing analysis to the World Bank, UN, and the EU Commission, and more, “Understanding the Space Economy: A Study for NASA”, http://spaceeconomy.gmu.edu/studies/judgments.pdf)

Within 15 years the global space industry is expected by some specialists to be worth over one trillion dollars.\* Winning a large share of this business will generate direct returns to a national economy. But the benefits of developing space technology, the first application of new services and the creation of whole new businesses based on space, cascade throughout the whole society. 4. Many of the things we take for granted – global telecommunications, instant worldwide TV coverage, accurate weather forecasts, and precision navigation systems – would be impossible without access to space and orbital satellites. Space makes a massive contribution to national security and the physical well being of billions of people. 5. Getting to space and staying there is not cheap. Public funding has been essential since the dawn of the space age. While the private sector plays an increasing role in expanding the space economy, many areas will still require public funding and market testing by public sector players such as national and regional space agencies. 6. Space is a strategic arena. It is not just because of the national security dimension, but because many states want to claim a leading role in exploiting space. They do so for economic and wider social benefits such as improved terrestrial transport, national resource management and the catalytic effects of developing space technology. 7. While the US is presently the leading space player, others, notably Russia, China, Japan and India, as well as Europe, are determined to expand their presence. Space offers each one the potential to aggregate political and economic power – both hard and soft – at the domestic, regional and global level. But serious government investment is essential to optimize development of the space economy.

### Space economy key to US economic growth – key driver.

Rutkowski 9 (Ryan Rutkowski – masters candidate at JHU, “The US Economy and Space Technology,” <http://rrutkows.blogspot.com/2009/02/us-economy-and-space-technology.html>)

The development and application of space-based technologies is a key component of the U.S. economy. Since the launch of Sputnik in 1959, the space economy has been of the fastest growing and most lucrative industries in the world. The U.S. government has helped to stimulate the growth of this industry with investment in NASA and military space programs. The success of NASA in driving technology to achieve goals in the manned-space program has had numerous spillovers into technological growth that has propelled the growth of the U.S. economy over the past several decades. NASA’s work has also stimulated the growth of a significant private market for satellite launch focused on providing telecommunications and information services across industries. The U.S. government’s continued investment in advancing manned-space flight will facilitate the growth of space technology that will serve has the foundation for future of the U.S. economy.

## A2: Econ Turns Democracy

### There is no link between economic collapse and loss of democracy – ignore their unwarranted claims.

The American Political Science Review 90. “Democracy and Economic Crisis: The Latin American Experience”. URL: http://www.jstor.org/stable/pdfplus/2010414.pdf?acceptTC=true. DA: 7/14/11.

To date, comparative research has provided only limited support for this line of analysis, and most of that support has been drawn from the historical experience of the three largest Latin American states. To the extent that researchers have considered a broader variety of cases, evi- dence of any strong linkage between regime characteristics and policy performance in the area of economic stabilization has remained distinctly elusive. A i986 study, which presented both diachronic and cross-sec- tional analyses of IMF standby programs in Latin America over a thirty- year period, concluded that democratic regimes have been no less likely to introduce stabilization programs than authoritarian ones, no more likely to break down in response to their political costs, and no less rig- orous in their implementation of austerity measures. If anything, the ev- idence suggested that the edge with respect to program implementation was with the democracies.8 Studies encompassing other areas of the third world have arrived at similar findings. According to Stephan Haggard's study of IMF Extended Fund Facility programs between I975 and i984, the capacity to adjust to economic crisis depends less on regime characteristics than on other var- iables, including the economic ideologies of governing elites, the impor- tance of political clientelism, and the existence of a cohesive group of economic technocrats.9

## A2: Econ Turns Terrorism

### And there’s no conclusive evidence that growth solves terrorism

Krieger and Meierrieks 1/14/10 (\*Tim, Phd, Econ \*Daniel, Department of Economics, University of Paderborn, “What causes terrorism?” Public Choice (2011) 147: 3–27) MFR

One controversial subject is whether terrorism originates in poor economic conditions. Evidence on this issue **is conflicting**. On the one hand, the findings of Blomberg and Hess (2008a), Azam and Delacroix (2006), Lai (2007) and Azam and Thelen (2008) suggest that successful economic development (measured in real GDP per capita) significantly reduces the genesis of terrorism. On the other hand, empirical results by Krueger and Maleckova (2003), Kurrild-Klitgaard et al. (2006), Basuchoudhary and Shughart (2010), Plümper and Neumayer (2010), Krueger and Laitin (2008) and Freytag et al. (2008) generally point at only **weak links** between economic development and terrorism. Furthermore, KurrildKlitgaard et al. (2006) find no significant links between income poverty, income inequality and terrorism. In other words, **there is only limited evidence to support the hypothesis that economic deprivation causes terrorism** (GH1). As we shall see later, poor economic conditions matter less to terrorism once it is controlled for institutional and political factors. The notion that economic deprivation is not a strong catalyst of terrorism is also supported by the micro evidence of Krueger and Maleckova (2003) and Berrebi (2007). Neither study finds a negative relationship between wealth and terrorism. A study using aggregated data by Piazza (2007) for the Middle East for the period 1972 to 2003 returns similar findings. At best, we may hypothesize that a combination of poor economic and institutional conditions may matter to the genesis of terror, e.g., when poverty is accompanied by low opportunities to escape it (as poor institutions constrain political and economic participation). However, such an assumption only stresses that poverty and inequality do not translate into terrorism of their own accord.

## Terrorism Turns Econ

### Terrorism turns the economy

Abadie and Gardeazabal 7 (\*Alberto, Harvard University and NBER \*Javier, University of the Basque Country “Terrorism and the World Economy” Harvard Kennedy School) MFR

It has been argued that terrorism should not have a large eﬀect on economic activity, because terrorist attacks destroy only a small fraction of the stock of capital of a country (see, e.g., Becker and Murphy, 2001). In contrast, empirical estimates of the consequences of terrorism typically suggest large eﬀects on economic outcomes (see, e.g., Abadie and Gardeazabal, 2003). The main theme of this article is that mobility of productive capital in an open economy may account for much of the diﬀerence between the direct and the equilibrium impact of terrorism. We use a simple economic model to show that terrorism may have a large impact on the allocation of productive capital across countries, even if it represents a small fraction of the overall economic risk. The model emphasizes that, in addition to increasing uncertainty, terrorism reduces the expected return to investment. As a result, changes in the intensity of terrorism may cause large movements of capital across countries if the world economy is suﬃciently open, so international investors are able to diversify other types of country risks. Using a unique dataset on terrorism and other country risks, we ﬁnd that, in accordance with the predictions of the model, higher levels of terrorist risks are associated with lower levels of net foreign direct investment positions, even after controlling for other types of country risks. On average, a standard deviation increase in the terrorist risk is associated with a fall in the net foreign direct investment position of about 5 percent of GDP. The magnitude of the estimated eﬀect is large, which suggests that the “open-economy channel” impact of terrorism may be substantial.

### 4 Reasons why terrorism destroys the global economy – we use the best models

Abadie and Gardeazabal 7 (\*Alberto, Harvard University and NBER \*Javier, University of the Basque Country “Terrorism and the World Economy” Harvard Kennedy School) MFR

This paper analyzes the eﬀects of terrorism in an integrated world economy. From an economic standpoint, terrorism has been described to have four main eﬀects (see, e.g., US Congress, Joint Economic Committee, 2002). First, the capital stock (human and physical) of a country is reduced as a result of terrorist attacks. Second, the terrorist threat induces higher levels of uncertainty. Third, terrorism promotes increases in counter-terrorism ex penditures, drawing resources from productive sectors for use in security. Fourth, terrorism is known to aﬀect negatively speciﬁc industries such as tourism.1 However, this classiﬁcation does not include the potential eﬀects of increased terrorist threats in an open economy. In this article, we use a stylized macroeconomic model of the world economy and inter national data on terrorism and the stock of foreign direct investment (FDI) assets and liabilities to study the economic eﬀects of terrorism in an integrated world economy. The motivation to study the impact of terrorism in an open world economy is the fol lowing. It has been documented that the direct impact of terrorist attacks on productive capital is relatively modest. This seems to be true even for events of catastrophic terror ism. For example, Becker and Murphy (2001) estimated that the September 11th terrorist attacks resulted in a loss of 0.06 percent of the total productive assets of the US economy. In consequence, after taking into account the four channels mentioned in the previous para graph, some authors have argued that terrorism is unlikely to exert a signiﬁcant inﬂuence on economic activity in the long-run. The calculations in Becker and Murphy (2001) bound the long-run eﬀect of the September 11th attacks to 0.3 percent of GDP (see also IMF, 2001a and OECD, 2001).2 In contrast, reduced-form estimates of the economic eﬀects of terrorism typically suggest much larger eﬀects, at least in those areas where the risk of terrorism is particularly severe or sustained. For example, in our previous study of the impact of terrorism in the Basque Country, we ﬁnd a 10 percent drop in per capita GDP which emerges during a period of two decades and that is attributable to the terrorist conﬂict (Abadie and Gardeazabal, 2003). Chen and Siems (2004), Enders and Sandler (1996), and Pshisva and Suarez (2006), among others, similarly ﬁnd large eﬀects of terrorism on economic variables.3 However, as noted by Becker and Rubinstein (2004), the question of why terrorism may have a large eﬀect on the economy, even if it represents a small fraction of the total economic risk, has attracted much less attention in the academic literature. The main theme of this paper is that mobility of productive factors in an open economy may account for much of the diﬀerence between the direct eﬀect and the equilibrium eﬀect of terrorism on the economy. If terrorism is a local phenomenon, capital will tend to ﬂow to destinations without a terrorist threat, reducing net foreign investment in the economies aﬀected by terrorism. Even if terrorism is a global threat, international investment will respond to diﬀerences in the expected intensity of terrorism across countries. In fact, because the optimal allocation of capital across countries depends not only on the level of terrorism but also on other country factors that aﬀect the distributions of the returns to capital, variations in the overall level of terrorism in the world may induce a re-allocation of capital across countries even if the relative intensity of terrorist risk across countries remains unchanged. The amounts of foreign direct investment in the U.S. before and after the September 11th attacks provide some suggestive evidence of the open-economy channel of terrorism. In the year 2000, the year before the terrorist attacks, foreign direct investment inﬂows represented about 15.8 percent of the Gross Fixed Capital Formation in the U.S. This ﬁgure decreased to only 1.5 percent in 2003, two years after the attacks. Conversely, foreign direct investment outﬂows from the U.S. increased from about 7.2 percent of the Gross Fixed Capital Formation for the U.S. in 2000 to 7.5 percent in 2003 (see UNCTAD, 2004). Of course, not all this variation in FDI can be attributed to the eﬀect of the September 11th attacks. As of September 2001 foreign direct investment inﬂows had fallen from its 2000 peak not only in the U.S. but also in other developed economies (see UNCTAD, 2002). These ﬁgures, however, motivate the question of to which extent an increase in the perceived level of terrorism was responsible for the drop in FDI in the U.S. that followed the events of September 11th. Surveys of international corporate investors provide direct evidence of the importance of terrorism on foreign investment. Corporate investors rate terrorism as one of the most important factors inﬂuencing their foreign direct investment decisions (see Global Business Policy Council, 2004). To illustrate the importance of the “open-economy channel” of terrorism we use a stochastic version of the AK endogenous growth model (see, e.g., Obtsfeld, 1994, and Turnovsky, 1997). We extend this model by introducing terrorism as a stochastic Poisson process, with events that destroy some fraction of the capital stock of a country. The model emphasizes that beyond increasing uncertainty, terrorism reduces the ex pected return to investment. As a result, changes in the intensity of terrorism have an ambiguous eﬀect on the overall investment position of the world (investments over wealth), but they may cause large movements of capital across countries if the world economy is suﬃciently open, so international investors are diversiﬁed against other types of country risks. One of the predictions of our model is that, like any other risk, terrorism should aﬀect the stock of international investment in any particular country. Therefore, it is possible to obtain empirical evidence on the “open-economy channel” of terrorism by looking at the relationship between the stock of net foreign investment and terrorism in the cross-section of countries, as long as we account for other factors that aﬀect international investment positions, particularly other country risks which may be correlated with terrorism levels. For this purpose, we use a unique international dataset on terrorism risk and other types of country risks. We ﬁnd that terrorism has a negative and sizeable impact on foreign investment positions.

## A2: Econ Turns Trade

### Economic collapse won’t turn protectionism – new exchange-rate cooperation prevents an onslaught against globalization, they have an incentive to not make the situation worse.

**Oatley** 20**10** (Thomas, Associate Professor of Political Science“Real Exchange Rates and Trade Protectionism” Volume 12, Issue 2 2010 Article 1 <http://www.bepress.com/cgi/viewcontent.cgi?article=1309&context=bap>) MFR

As the recent financial crisis pushed the global economy into recession, policymakers began to fear resurgent trade protectionism. World Bank President Robert Zoellick succinctly summarized the concern: "As the recession deepens, **leaders will be under pressure to protect home markets**…A retreat to protectionism would be the type of negative shock that would pull you back into a 1930s scenario."1 Zoellick’s concern appears to have been **broadly-shared**. In November of 2008 and again in April 2009**, G-20 governments pledged themselves to resist protectionist pressures**.2 Pascal Lamy, Director General of the World Trade Organization, dedicated substantial energy to monitoring the spread of protectionism.3 Prominent economists urged governments to resist protectionist demands.4 Concern strengthened when the World Bank reported that seventeen G-20 governments had implemented forty six trade restrictions by the end of the first quarter of 2009.5 These contemporary events reveal just how dark is the shadow history casts upon the present. Eighty years after the Smoot-Hawley Tariff Act first passed in the House of Representatives, policymakers remain haunted by the errors of their predecessors. Should they be? That is, is it reasonable for policymakers to believe that the contemporary global recession will trigger widespread protectionism? There are good reasons to reconsider what lesson we should draw from the 1930s. On the one hand, existing research does not strongly support the claim that the business cycle and protectionism are related systematically. Theoretical models developed in this research program struggle to explain why firms that always benefit from protection only seek protection during economic downturns or why firms that benefit protection during downturns relinquish these rents during the recovery phase.6 Empirical models of the relationship between the business cycle and protection fare little better, as they fail to identify a robust empirical relationship between macroeconomic activity and protectionism.7

## Trade Turns Econ

### Multiple reasons trade turns the economy

Griswold 1/5/**10** (Daniel, bachelor's degree in journalism from the University of Wisconsin at Madison and a diploma in economics and a master's degree in the Politics of the World Economy from the London School of Economics.“Why Populists Are Wrong About Impact of Free Trade” <http://www.cato.org/pub_display.php?pub_id=11107&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+CatoRecentOpeds+%28Cato+Recent+Op-eds%29>) MFR

Tune in to cable TV, talk radio or the blogosphere in Florida and you will soon be hit over the head with the message that free trade is destroying America. According to the economic populists on the left and right, imports and outsourcing threaten the wages, jobs and futures of Main Street Americans. On trade, as on so much else, **the populists have it wrong again**. Free trade and globalization are great blessings to families in Naples and across America. Trade is delivering lower prices and more variety to consumers while creating **better-paying jobs** for the middle class. Beyond our shores, the spread of economic openness is building a more peaceful, democratic and humane world for our children. Now may seem an odd moment to tout the benefits of trade. After all, unemployment is 10 percent and housing and manufacturing remain in a slump. The great recession of 2008-09 was not caused by trade, however, but by misguided monetary and housing policies that were "Made in the USA." During difficult economic times, import competition allows more American families to keep their heads above water by delivering lower prices on staples such as food, clothing and shoes. The prices we pay for goods exposed to global trade tend to rise more slowly than inflation or even fall. The imported fresh fruit and vegetables, T-shirts and discounted sneakers sold at big-box retailers are especially important in the budgets of poor and middle-class families. Trade benefits producers by allowing Americans to sell our goods and services in growing markets abroad. Florida companies have been especially successful exporting to Brazil, Mexico and the rest of Latin America. Florida ranks fifth among states in total value of exports, with small and medium-sized companies accounting for almost two-thirds of state exports. For Americans worried about their jobs, it is a big lie that we have been surrendering middle-class manufacturing jobs for low-paying service jobs. In fact, since 1991, two-thirds of the net new jobs created in the U.S. economy have been in sectors such as health care, education and business and professional services where the average pay is higher than in manufacturing. Knock on doors in a typical middle-class neighborhood in southern Florida and you will meet teachers, managers, engineers, computer specialists, truck drivers, accountants, insurance and real-estate agents, registered nurses and other health-care professionals and self-employed business owners. These are the occupations that now form the backbone of the American middle class. Beyond American shores, the past three decades of expanding trade and globalization have witnessed dramatic global progress. Between 1981 and 2005, the share of the world's population living on the equivalent of $1.25 a day dropped by half, from 52 to 25 percent, according to the World Bank. During this same period, real gains have been made in life expectancy, infant survival, nutrition and literacy. The most dramatic gains against poverty have occurred in those countries, such as China and Chile, that have most aggressively opened themselves to the global economy. As a global middle class has emerged, so too have more democratic forms of government. Trade has spread tools of communication and spurred the growth of civil society as an alternative to authoritarian government. As a result, the share of the world's population living in countries that respect civil liberties and the right to vote has climbed from 35 percent in 1973 to 46 percent today, according to Freedom House. Fewer people are dying in wars today than in past decades, in large part because commerce has replaced military competition. Global commerce has allowed nations to gain access to resources through trade rather than conquest, while deeper economic integration has brought former enemies together and raised the cost of war. Even with the ongoing conflicts in Iraq and Afghanistan, young American adults living today are far less likely to fight and die in wars than their counterparts in the 1940s, '50s and '60s. America and the world face daunting tasks today, as in generations past, but expanding trade is part of the solution, not part of the problem. Americans should have the same warm feelings toward free trade and globalization as they do toward iPods, e-mail, online shopping, a well-fed child going off to school and peace on Earth.

### There’s a consensus on the benefits of trade to the economy

**White** 20**11** (Lawrence H., Economics Professor at George Mason University who teaches graduate level Monetary Theory and Policy “Free Trade, Protectionism, and Trade Deficits” <http://mercatus.org/sites/default/files/publication/wp1121-free-trade-protectionism-and-trade-deficits_1.pdf> Chapter 14 from The Clash of Economic Ideas No. 11-21 April 2011) MFR

Economists clash relatively little on the issue of international trade. From the premise that any voluntary trade benefits both parties as they see it (otherwise one party would have refused), and the premise that international trade is voluntary trade (between parties in different countries), it follows that international trade benefits both parties as they see it. A wide consensus among professional economists agrees that barriers to international trade harm prosperity. A scientific poll of professional economists asked for their responses to the following proposition: ―Tariffs and import quotas usually reduce general economic welfare.‖ **71.3 percent chose ―generally agree**,‖ 21.3 percent chose ―agree with provisos,‖ and only 6.5 percent chose ―generally disagree.‖5

## A2: Econ Turns Military Spending/Hard Power

### Military spending is a multiplier for the economy

Custers 10 (Peter, author of Questioning Globalized Militarism: nuclear and military production and critical economic theory “Military Keynesianism today: an innovative discourse” Race Class 2010 51: 79[http://rac.sagepub.com/content/51/4/79.full.pdf+html](http://rac.sagepub.com/content/51/4/79.full.pdf%2Bhtml)) MFR

The distinctions described above define six forms of military Keynesianism; the operation of each will be illustrated in the following sections. First, the pump primer and the longer-term multiplier forms can be epitomised with the example of George W. Bush’s policies from 2001 onwards. The war launched against Saddam Hussein’s Iraq served as a pump primer to get the US economy out of recession. In the very quarter of 2003 when the war was launched, the US economy picked up momentum, with international press reports indicating that as much as 60 per cent of the resumed growth was due to military allocations made by the US government in 2002–3. To generate the effect of pump priming, specific military allocations were made by the Pentagon for corporations in the information technology sector – which, during the previous decade, had driven the US business cycle.16 The role which pump priming played is very striking indeed. During the recession which hit the US economy at the beginning of the 2000–2009 decade, the US government consciously opted to raise the level of unproductive public military expenditure. Whereas the negative consequences of the policy were mass slaughter and a prolonged war in Iraq, the US economy and corporations enjoyed the start of a new (albeit rather short) business cycle. However, the expansion in US military allocations turned out to be no short-term or incidental matter. Since the end of the 1990s – that is, even before the beginning of the above-mentioned recession – the US government has consistently raised military spending every year. Therefore, for several key reasons, the George W. Bush government’s budgetary policies may be described as an example of the application of a longer-term multiplier. The total increase in the size of military allocations is huge: they rose from below $300 billion in 1998 to over $700 billion in 2008 (for the official military budget and all extra-budgetary war allocations). To the steady and substantial annual increases in US military expenditure must be added the fact that the government’s total military-related spending, which comprises at least $300 billion on top of the core spending of $700 billion, hovers at around 8 per cent of the Gross Domestic Product (GDP).17 Adding to these figures the effects of Keynes’s multiplier – noting that the government’s military-related investments will have triggered additional investments both in the ‘investment industries’ and in ‘consumer industries’ – it may be concluded that the George W. Bush government used military allocations not just as a pump primer but also as a longer-term multiplier to stimulate the US economy.

# \*\*Russian Growth Good\*\*

## 1NC/2AC Russian Growth Good- Central Asia

### Russian economy key to Central Asian stability – regional states can’t support their own security

Blank 95 (Stephen J Blank – Associate Professor in Soviet Studies, MA and PhD in Russian history, Strategic Studies Institute, “ENERGY, ECONOMICS AND SECURITY IN CENTRAL ASIA: RUSSIA AND ITS RIVALS,” <http://www.strategicstudiesinstitute.army.mil/pdffiles/pub119.pdf>)

Russia not only wants to preserve Central Asia's dependence upon its economy, it also seeks to codify a lasting privileged position for Russians in Central Asia. Kozyrev stated that Russia insisted on putting the Central Asian States into the CSCE so that they could be arraigned there, for failing to protect the civil rights of their Russian speaking minorities.30 In July 1994, Yeltsin's commission for questions of citizenship, helped by the Ministry of Foreign Affairs, drafted guidelines for Russian policy towards CIS states where Russians live. The draft went into effect in August and strictly tied economic and military cooperation with CIS states to observance of their Russian communities' rights and interests. It called for talks on establishing Russian language radio and TV service. Businesses with Russian workers and public Russian communal organizations should also receive Russian and local support. Additionally, a share of Russian credits to CIS members should go to support "Russian" factories, legalizing routine practice vis a-vis 8 Kyrgyzstan and Uzbekistan. This draft also represents extraterritoriality. 31 Finally, more tangible oil interests are also at stake. Lukoil's president, Vagit Alekperov, observed that if Russia did not take such control over the Caspian shelf, it "risks losing its positions on the Caspian Sea."32 This bluntness about the rivalry with Turkey is more credible than Russian or Turkish claims of concern for the environment.33 But Russia's policies must also be seen in their context of domestic pressure to support the Russian diaspora, or the imperatives of reform, or by both factors. For instance, ending energy and other subsidies for wasteful consumers and inflation trends involving the ruble are vital for Russia's own recovery. Since Russia, as the largest player in the CIS, cannot conduct an isolated economic policy, its major policies also have profound, sometimes unforeseen impacts, upon Central Asian states which also confront the contradiction between international responsibilities to each other and the CIS as part of economic interdependence and the imperative of domestic reform. All these contradictions can become intense, even irreconcilable, a fact rarely appreciated here or abroad.34 Shafiqul Islam notes: The R-5 agreement to create a new ruble zone and the CIS accord to create a new economic union are two concrete (and confused) responses to the conundrum that the Central Asian and other non-Russian republics of the former Soviet Union face: efforts to speed up the cessation of the former economic dependence on Mother Russia and the dismantling of the Union economy's centrally planned economic interdependence greatly compound the macroeconomic and social costs of building a national economy where economic interdependence is determined largely by market forces. (Emphasis in original)Similarly, objective economic conditions prevent Central Asian states from operating armies for defense against very real regional threats. Since they cannot provide for their own security they need foreign help.36 Naturally, he who pays calls the tune. However Russia shows its concerns about Central Asian trends, it cannot remain oblivious to and aloof from them. Russian soldiers are obviously one of many means of enforcing hegemony.

### Central Asian wars go nuclear

**Blank ‘99** (Stephen, Director of Strategic Studies Institute at US Army War College, “Every Shark East of Suez: Great Power Interests, Policies and Tactics in the Transcaspian Energy Wars”, Central Asian Survey (18; 2),)

 Past experience suggests Moscow will even threaten a Third World War if there is Turkish intervention in the Transcaucasus and the 1997 Russo-Armenian Treaty of Friendship, Cooperation, and Mutual Assistance and the 1994 Turkish-Azerbaijani Treaty of Friendship and Cooperation suggest just such a possibility. Conceivably, the two larger states could then be dragged in to rescue their allies from defeat. The Russo-Armenian treaty is a virtual bilateral military alliance against Baku, in that it reaffirms Russia’s lasting military presence in Armenia, commits Armenia not to join NATO, and could justify further fighting in Nagorno-Karabakh or further military pressure against Azerbaijan that will impede energy exploration and marketing. It also reconfirms Russia’s determination to resist an expanded U.S. presence and remain the exclusive regional hegemon. Thus, many structural conditions for conventional war or protracted ethnic conflict where third parties intervene now exist in the Transcaucasus. Many Third World conflicts generated by local structural factors have great potential for unintended escalation. Big powers often feel obliged to rescue their proxies and protégés. One or another big power may fail to grasp the stakes for the other side since interests here are not as clear as in Europe. Hence, commitments involving the use of nuclear weapons or perhaps even conventional war to prevent defeat of a client are not well established or clear as in Europe. For instance, in 1993 Turkish noises about intervening in the Karabakh War on behalf of Azerbaijan induced Russian leaders to threaten a nuclear war in such a case. This confirms the observations of Jim Hoagland, the international correspondent of the Washington Post, that “future wars involving Europe and America as allies will be fought either over resources in chaotic Third World locations or in ethnic upheavals on the southern fringe of Europe and Russia.” Unfortunately, many such causes for conflict prevail across the Transcaspian. Precisely because Turkey is a NATO ally but probably could not prevail in a long war against Russia, or if it could conceivably **t**rigger a potential nuclear blow (not a small possibility given the erratic nature of Russia’s declared nuclear strategies), the danger of major war is higher here than almost anywhere else in the CIS or the so-called arc of crisis from the Balkans to China.

## 1NC/2AC Russian Growth Good- Civil War

### Russian econ collapse causes Russian civil war – leads to global nuclear war

David 97 (Steven R David – Prof of IR at JHU, BA, MA, and PhD in pol sci, World Politics, “Internal War: causes and cures,” <https://muse.jhu.edu/journals/world_politics/related/v049/49.4er_brown.html>)

If internal war does strike Russia, economic deterioration will be a prime cause. From 1989 to the present, the GDP has fallen by 50 percent. In a society where, ten years ago, unemployment scarcely existed, it reached 9.5 percent in 1997 with many economists declaring the true figure to be much higher. Twenty-two percent of Russians live below the official poverty line (earning less than $ 70 a month). Modern Russia can neither collect taxes (it gathers only half the revenue it is due) nor significantly cut spending. Reformers tout privatization as the country's cure-all, but in a land without well-defined property rights or contract law and where subsidies remain a way of life, the prospects for transition to an American-style capitalist economy look remote at best. As the massive devaluation of the ruble and the current political crisis show, Russia's condition is even worse than most analysts feared. If conditions get worse, even the stoic Russian people will soon run out of patience. A future conflict would quickly draw in Russia's military. In the Soviet days civilian rule kept the powerful armed forces in check. But with the Communist Party out of office, what little civilian control remains relies on an exceedingly fragile foundation -- personal friendships between government leaders and military commanders. Meanwhile, the morale of Russian soldiers has fallen to a dangerous low. Drastic cuts in spending mean inadequate pay, housing, and medical care. A new emphasis on domestic missions has created an ideological split between the old and new guard in the military leadership, increasing the risk that disgruntled generals may enter the political fray and feeding the resentment of soldiers who dislike being used as a national police force. Newly enhanced ties between military units and local authorities pose another danger. Soldiers grow ever more dependent on local governments for housing, food, and wages. Draftees serve closer to home, and new laws have increased local control over the armed forces. Were a conflict to emerge between a regional power and Moscow, it is not at all clear which side the military would support. Divining the military's allegiance is crucial, however, since the structure of the Russian Federation makes it virtually certain that regional conflicts will continue to erupt. Russia's 89 republics, krais, and oblasts grow ever more independent in a system that does little to keep them together. As the central government finds itself unable to force its will beyond Moscow (if even that far), power devolves to the periphery. With the economy collapsing, republics feel less and less incentive to pay taxes to Moscow when they receive so little in return. Three-quarters of them already have their own constitutions, nearly all of which make some claim to sovereignty. Strong ethnic bonds promoted by shortsighted Soviet policies may motivate non-Russians to secede from the Federation. Chechnya's successful revolt against Russian control inspired similar movements for autonomy and independence throughout the country. If these rebellions spread and Moscow responds with force, civil war is likely. Should Russia succumb to internal war, the consequences for the United States and Europe will be severe. A major power like Russia -- even though in decline -- does not suffer civil war quietly or alone. An embattled Russian Federation might provoke opportunistic attacks from enemies such as China. Massive flows of refugees would pour into central and western Europe. Armed struggles in Russia could easily spill into its neighbors. Damage from the fighting, particularly attacks on nuclear plants, would poison the environment of much of Europe and Asia. Within Russia, the consequences would be even worse. Just as the sheer brutality of the last Russian civil war laid the basis for the privations of Soviet communism, a second civil war might produce another horrific regime. Most alarming is the real possibility that the violent disintegration of Russia could lead to loss of control over its nuclear arsenal. No nuclear state has ever fallen victim to civil war, but even without a clear precedent the grim consequences can be foreseen. Russia retains some 20,000 nuclear weapons and the raw material for tens of thousands more, in scores of sites scattered throughout the country. So far, the government has managed to prevent the loss of any weapons or much material. If war erupts, however, Moscow's already weak grip on nuclear sites will slacken, making weapons and supplies available to a wide range of anti-American groups and states. Such dispersal of nuclear weapons represents the greatest physical threat America now faces. And it is hard to think of anything that would increase this threat more than the chaos that would follow a Russian civil war.

## 1NC/2AC Russian Growth Good- Accidents

### Russian economic collapse causes accidental nuclear launch

Forden 1 (May 3, Geoffrey Forden, Policy Analysis, “Reducing a Common Danger: Improving Russia's Early-Warning System,” http://www.cato.org/pub\_display.php?pub\_id=1258)

Because of that need, Russia's continuing economic difficulties pose a clear and increasing danger to itself, the world at large, and the United States in particular. Russia no longer has the working fleet of early-warning satellites that reassured its leaders that they were not under attack during the most recent false alert--in 1995 when a scientific research rocket launched from Norway was, for a short time, mistaken for a U.S. nuclear launch. With decaying satellites, the possibility exists that, if a false alert occurs again, Russia might launch its nuclear-tipped missiles.

### Extinction

Helfand and Pastore 9 (March 31, Ira Hefland and John Pastore, “Ira Helfand/John Pastore: U.S.-Russia nuclear war still a threat,” <http://www.projo.com/opinion/contributors/content/CT_pastoreline_03-31-09_EODSCAO_v15.bbdf23.html>)

President Obama and Russian President Dimitri Medvedev are scheduled to Wednesday in London during the G-20 summit. They must not let the current economic crisis keep them from focusing on one of the greatest threats confronting humanity: the danger of nuclear war. Since the end of the Cold War, many have acted as though the danger of nuclear war has ended. It has not. There remain in the world more than 20,000 nuclear weapons. Alarmingly, more than 2,000 of these weapons in the U.S. and Russian arsenals remain on ready-alert status, commonly known as hair-trigger alert. They can be fired within five minutes and reach targets in the other country 30 minutes later. Just one of these weapons can destroy a city. A war involving a substantial number would cause devastation on a scale unprecedented in human history. A study conducted by Physicians for Social Responsibility in 2002 showed that if only 500 of the Russian weapons on high alert exploded over our cities, 100 million Americans would die in the first 30 minutes. An attack of this magnitude also would destroy the entire economic, communications and transportation infrastructure on which we all depend. Those who survived the initial attack would inhabit a nightmare landscape with huge swaths of the country blanketed with radioactive fallout and epidemic diseases rampant. They would have no food, no fuel, no electricity, no medicine, and certainly no organized health care. In the following months it is likely the vast majority of the U.S. population would die. Recent studies by the eminent climatologists Toon and Robock have shown that such a war would have a huge and immediate impact on climate world wide. If all of the warheads in the U.S. and Russian strategic arsenals were drawn into the conflict, the firestorms they caused would loft 180 million tons of soot and debris into the upper atmosphere — blotting out the sun. Temperatures across the globe would fall an average of 18 degrees Fahrenheit to levels not seen on earth since the depth of the last ice age, 18,000 years ago. Agriculture would stop, eco-systems would collapse, and many species, including perhaps our own, would become extinct. It is common to discuss nuclear war as a low-probabillity event. But is this true? We know of five occcasions during the last 30 years when either the U.S. or Russia believed it was under attack and prepared a counter-attack. The most recent of these near misses occurred after the end of the Cold War on Jan. 25, 1995, when the Russians mistook a U.S. weather rocket launched from Norway for a possible attack. Jan. 25, 1995, was an ordinary day with no major crisis involving the U.S. and Russia. But, unknown to almost every inhabitant on the planet, a misunderstanding led to the potential for a nuclear war. The ready alert status of nuclear weapons that existed in 1995 remains in place today.

## Russian Growth K/T U.S. Econ

### Russian econ key to US economy – key sectors and growth

Commission on America’s National Interests And Russia 3 (James R. Schlesinger, Graham Allison, Dimitri K. Simes, et al – prof of pol sci, members of the Nixon Center, members of the Belfer Center, “ADVANCING AMERICAN INTERESTS AND THE U.S.-RUSSIAN RELATIONSHIP,” <http://belfercenter.ksg.harvard.edu/files/advancing_american_interests.pdf>)

Prospects for such cooperation with Russia are often downplayed on the basis that Russia’s economy is comparable in size to that of the Netherlands. While this comparison may be accurate on the basis of existing statistics, it misses several important points. First, current statistics on the Russian economy substantially and systematically underestimate its size. There are several reasons for this; one of the most notable is that Russian companies still conceal much of their production to avoid paying taxes. Second, Russia’s economy is enjoying a period of rapid growth. Much recent growth can be attributed to high oil prices. But a top IMF official has declared President Putin’s goal of doubling Russia’s gross domestic product in the decade ahead “wholly achievable” if Russia makes necessary structural reforms. Third, Russia’s economy includes several key sectors—such as energy and potentially aerospace—that guarantee the country a seat at the table as a global player. Russia is very unlikely to unseat Saudi Arabia as the “swing producer” of oil in international markets, but its production decisions have a major impact that OPEC does not ignore. And, while new infrastructure would be necessary, Russia could provide a noticeable share of American oil and gas imports. At the same time, broader economic development could reduce Russian reliance on transactions that concern the U.S, like arms exports and technology sales.

### Russian economic collapse kills the US economy – market interrelations and oil dependence

Nichol 11 (June 13, Jim Nichol – Specialist in Russian and Eurasian Affairs, Coordinator of the Congressional Research Service, “Russian Political, Economic, and Security Issues and U.S. Interests,” <http://www.fas.org/sgp/crs/row/RL33407.pdf>)

The greater importance of Russia’s economic policies and prospects to the United States lies in their indirect effect on the overall economic and political environment in which the United States and Russia operate. From this perspective, Russia’s continuing economic stability and growth can be considered positive for the United States. Because financial markets are interrelated, chaos in even some of the smaller economies can cause uncertainty throughout the rest of the world. Such was the case during Russia’s financial meltdown in 1998 and more recently with the 2008-2009 crisis. Promotion of economic stability in Russia has been a basis for U.S. support for Russia’s membership in international economic organizations, including the IMF, the World Bank, and the WTO. As a major oil producer and exporter, Russia influences world oil prices that affect U.S. consumers.

## Russian Growth K/T World Econ

### Russian economy key to the world economy – key driver of growth

RIA Novosti 10 (March 6, “Russia to lead world in economic growth - Morgan Stanley head,” <http://en.rian.ru/russia/20100603/159285197.html>)

Morgan Stanley expects Russia's economy to be among the fastest-growing in the world this year despite trailing rivals in foreign investment, the firm's chairman said ahead of the International Economic Forum in St. Petersburg. "Our expectation is that the fastest rates of economic growth this year are expected to be in China, India, Brazil and Russia," John Mack said, adding that Russia had to overcome foreign investors' wariness. "Russia still has a very strong balance sheet and low overall leverage, which remain key advantages for the country. However, it continues to lag in investment due to the volatile macro environment and weak property rights," the head of the global financial services giant said. Mack will participate in a panel entitled "Rethinking Global Economic Trends" at the June 17-19 St. Petersburg International Economic Forum. "We will discuss how the BRIC economies - and in particular Russia - can play an important role in becoming drivers for global economic growth in the medium term," he said. Mack said he was looking forward to attending the annual forum, held this year under the slogan "Laying the Foundation for the Future." The Morgan Stanley chief said there were a number of important initiatives that would be discussed at the forum that could help to ensure that Russia remains a destination for global investment and stays on a path to long-term, sustainable growth.

### Emerging markets are key to the Global Economy, increased industry is what is key to their success.

CNBC 7-8-11 (News station, <http://www.moneycontrol.com/news/features/emerging-markets-to-drive-global-economy-king_563750.html> , date accessed: 7/13/11)

Despite a manufacturing slowdown in Russia, China and Brazil, emerging markets will be key to the recovery of the global economy, Stephen King, chief economist at HSBC told CNBC. "The longer term story is all about the connection between the emerging market countries and those trade flows beginning to expand from a very low base. These are going to transform emerging nations in the years ahead and even though the US and Europe are quite weak, emerging markets will drive global activity in the next few years," he said. King told CNBC that he expected these emerging countries to remain magnets for global capital, in particular for Asian investment in Latin America and Africa set to continue. While emerging markets have been insulated from the harshest aspects of the financial crisis and subsequent recession, the prolonged economic weakness has begun to impact on the BRIC (Brazil, Russia, India and China) countries and the pace of activity in these countries has faded. "The good news is that inflationary pressures have fallen back quite significantly partly because of these quantitative tightening policies that we`ve had," he added. Rising inflation has been a problem in emerging economies with both India and China having raised interest rates in the last few weeks. The HSBC Emerging Markets Index, which guages the economic performance of emerging markets, eased to 54.2 in the second quarter of 2011 as the fragile global economy and its 'soft patch' reached even these most resilient of markets. This was the weakest level in two years as the extraordinary events of the Japanese tsunami and continued weakness in the developed economies took their toll. Weaker manufacturing also impacted on overall activity growth in emerging markets, with the pace of expansion easing to the slowest in three quarters. There were reductions in new export orders in Brazil, Russia and China with India reporting the slowest pace of growth for one and a half years. Despite this India offered a glimmer of hope by recording the fastest rate of growth of all emerging market service sectors monitored by the index. Despite problems existing in the emerging markets - propelled by a growing population and expanding consumer base - they remain a stark contrast to the developed nations in the depths of austerity measures. "In China there are concerns about the property market and if that pops but it has popped elsewhere and not been a huge crisis, secondly China is becoming bigger and bigger and becoming more successful and the question is how does the rest of the world make room for this? The West faced with continuing stagnation and austerity is a much more protectionist environment as we`ve seen so far but China needs the west to be open for business," he said.

## \*A2: Russian Growth Good

## 1NC/2AC Russian Econ Frontline

### Russia’s economic growth slowing –

### A. Lack of R&D

The World Bank ’11 (The World Bank is a vital source of financial and technical assistance to developing countries around the world, June, “Russian Economic Report”, <http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/305499-1245838520910/6238985-1307524915973/RER25_ENG_JUNE_8.pdf>, date accessed: 7/13/11)

Russia has a long scientific tradition, but contribution of science to the economic activity has been limited because of a low level of entrepreneurship and application of science in Investments in R&D are relatively low (about US$141 per capita, compared to, for example, US$1,146 per capita in the United States), and the scientific performance (measured by the number of published articles per researcher) has systematically declined in the past decade. Furthermore, Russia lags in research productivity. Commercialization of public research though licensing, spinoffs, or contract research is only occasional. Part of the problem is a steep decline in the number of mid-career researchers who are more likely to be involved in research commercialization. Russia’s science base is threatened not only by a large share of science and engineering graduates studying overseas who do not return (77 percent of those studying in the United States) to Russia, but also by governance of public research organizations that does not encourage performance. More broadly, data show that Russia’s overall level of entrepreneurial activity is much lower than one would expect given its income level. A comprehensive competition policy would help establish a level playing field, facilitate entry of more efficient firms, and encourage orderly exit of less efficient firms, thereby contributing to increased productivity and export propensity. At its core, the policy should promote a reduction of state ownership; a more uniform, transparent, and result-oriented enforcement of state aid regulations; the simplification of the business environment in which firms operate; and the promotion of competition in service and network industries. As in the cases of Australia and the European Union, such a policy could help increase productivity and consolidate Russia’s domestic market, enabling domestic firms to benefit from additional gains from trade.

### B. Investor Confidence

CEMAT 6-13-11 (Aalto University School of Economics, CEMAT’s mission is to provide academic and applied research results useful to Finnish enterprises operating in rapidly emerging markets <http://cemat.aalto.fi/en/current/news/view/2011-06-13-002/>   “Russia’s Economic Prospects 1/2011 has been published: Economic growth in Russia remains a question mark, yet Finnish businesses are still going strong”, date accessed: 7-14-11)

The Russian economy grew at a rate of 4% in 2010, but the growth is expected to slightly slow down in the coming years. The upswing was triggered by rapid increase in industrial production, as well as growth in world prices for oil and other raw materials. Moreover, the increased demand for Russian oil due to the protests in the Middle East and the disaster at the Fukushima nuclear plant in Japan have further stimulated the recovery of the Russian economy from the recent global financial crisis. However, economic growth has brought back rising inflation as the greatest challenge for Russian economic policy. The main reason for the accelerating inflation was the rising cost of food due to the drought in 2010. In contrast, high unemployment that had been the main challenge in the economy during the crisis has decreased more rapidly than expected as a result of growth in industrial production. In the coming years, economic growth in Russia is overshadowed by volatile oil prices and a number of other factors. Investment demand, which stimulated economic growth in 2010, began to slow down in spring 2011; foreign direct investments are still low; and capital flight from Russia abroad gathered speed towards the end of 2010. According to the Central Bank of Russia, the net capital outflow from Russia in January-February 2011 amounted to 21.3 billion dollars. The uncertainty about economic development in Russia is reflected in the lack of confidence of economic actors: the main barometers, i.e. the purchasing manager and investor confidence indices went downwards in spring 2011. At the same time, consumer confidence in the Russian economy was decreasing, too, which however does not show in the consumer demand yet. The short-term views of Finnish firms on their Russian business are in general positive, although growth expectations have become more moderate. During the past six months, the turnover of Finnish manufacturing companies’ Russian operations decreased slightly, which may have resulted from the general slowdown in Russian investment demand in the first months of 2011. The Finnish service companies, in contrast, reported an increase in turnover during the same period, retailers being in the forefront of business expansion. Furthermore, the construction business which has until now suffered from the crisis, finally shows signs of recovery. Finnish construction companies have announced during 2011 new large-scale investments to the St. Petersburg housing construction market as well. Moreover, the shortage of qualified labor, which was temporarily alleviated during the crisis, has reappeared as a top challenge faced by foreign companies in Russia. The problems caused by the cumbersome bureaucracy have not diminished, either. On the positive side, Russia’s foreign trade grew rapidly in 2010. The value of exports was increased by the high price for oil, while also the volume of exports grew from the previous year. The growth in the value of imports was nearly as high as for the exports; in particular, the rise in industrial investments spurred the imports of investment goods. The Finnish total exports to Russia picked up as well in the second half of 2010. Nevertheless, this did not concern the most important export articles, machinery and equipment, the exports of which did not recover despite the rising investment demand in Russia. Moreover, transit exports via Finland to Russia increased nearly 20% in 2010, but were still far from the high figures of 2008. From the viewpoint of Finnish firms there are a number of question marks in the Russian economy, one of which is the increased protectionism of the Russian state. During the last year the state has intervened in the economy by, for example, controlling the domestic prices for fuel. In addition, the threshold to increase or decrease import duties in accordance with the needs of the domestic economy is low. Russia’s potential accession to the World Trade Organization which would bring stability in this respect still remains an open question. Finally, the approaching presidential election is expected to increase state interventions in the market in the name of restraining consumer price inflation.

## 1NC/2AC Russian Econ Frontline

Russia’s economy is resilient – strong foreign investment and reserves

**Garrels 2008** Roving foreign correspondent for NPR’s foreign desk. (Anne Garrels, “Russia Economy Strong Despite Commodity Fallout”, NPR, September 20, 2008, page 1, <http://www.npr.org/templates/story/story.php?storyId=94647099>)

For the past six years, Russia's economy has boomed in large part because of soaring prices for oil and metals. Russia is strong in these areas — too strong, though, for a balanced economy. Russian shares have bled almost 50 percent of their value since May, but many analysts say Russia still remains a resilient economy. And after the Georgia invasion and weeks of harsh, anti-western rhetoric, both Russian President Dmitri Medvedev and Prime Minister Vladimir Putin have tried to reassure foreign investors. When those commodities prices dropped, Russia's stock market was hit hard. "The question is if they fall significantly further," says James Fenkner with Red Star Assets in Moscow. Fenkner is one of the more cautious voices in Moscow, and other analysts like Roland Nash of Renaissance Capital look at other indicators, like direct foreign investment. "The level of foreign investment is twice the per capita of Brazil, four times that of China, and six times that of India this year," Nash says. "The market arguments for Russia are still very good and there is still a lot of money coming in." Too Dependent On Commodities The Russia government recognizes it is too dependent on commodities, and while their prices were high, it amassed huge reserves as a cushion. The country now has a balanced budget and financial analysts predict its economy will continue to grow at about six percent.

-empirics

Bruce Stokes. "Don't Ignore the Russian Bear." Council on Foreign Relations. 2008. <http://www.cfr.org/publication/3225/dont_ignore_the_russian_bear.html>

A little less than a year ago, August 17 to be precise, the post-Cold War Russian economic experiment imploded. The ruble collapsed and debt payments to foreigners were frozen. Wall Street lost billions of dollars. Long Term Capital Management, one of the world's biggest hedge funds, had to be taken over by its bankers. Once burned, international investors yanked their capital out of all emerging markets— from Latin America to East Asia— causing world interest rates to spike. The global economy teetered on the edge of depression. But, much to the surprise of most economic pundits, international markets quickly righted themselves. The Russian economy proved far more resilient than anticipated. And, in retrospect, the events of August, 1998 were little more than a very large bump in the road. The lessons of this "crisis that wasn't" are now clear: Russia is not too big to fail (the volume of its debts do not dictate special treatment by its creditors); the financial world can cope with such failure; and the Russian economy can bounce back without much overt help from the West. But the impending $4.5 billion loan to Russia by the International Monetary Fund— reflecting Washington's gratitude for Moscow's help in Kosovo, continued fear of Russian nuclear proliferation and concern about Russia's internal political stability— demonstrates that Russia still remains too important for the world to ignore. This contradiction— not too big to fail, but still too big to flounder— highlights the friction inherent when economic policy is used to further geo-political goals. Up until a year ago, the Clinton Administration argued that aid to Russia was needed, in part, to avoid global economic collapse. August, 1998 exposed that rationale as a charade. Now American support for assistance to Russia can only be justified for two reasons: to reinforce Russia's transition to a market economy or as ransom in Moscow's continued strategic blackmail of the West. Evidence to justify the former is dubious. Its time to own up to the latter. Last summer's fleeting economic fright reflected Russia's staggering economic collapse. The ruble fell by more than 70 per cent in a couple of weeks. The economy shrank by 4.3 per cent. Real wages fell 41 per cent. But the crisis was cathartic. "The shock accomplished what reform was intended to achieve," said Anders Aslund, a senior associate at the Carnegie Endowment for International Peace in Washington. The banking system now functions better. Barter is declining. Most important, there has been no reversion to central planning, government-directed lending, industrial subsidies or government reliance on simply printing money.

### Collapse inevitable long term- government control

Ria Novosti 6-17-11 (State owned Russian Newspaper, “[Slow economic growth masks stagnation says Medvede”v](http://en.rian.ru/russia/20110617/164676313.html)

<http://en.rian.ru/russia/20110617/164676313.html>, date accessed: 7/13/11)

Economic stability, something which Prime Minister Vladimir Putin's government considers as its major achievement, may be concealing stagnation, President Dmitry Medvedev said on Friday. He also said that a system under which everything that happens in the country originates from the Kremlin must be changed. "It is incorrect to focus on calm, slow growth. It is a mistake. This infamous stability can hide another period of stagnation," Medvedev told the St Petersburg Economic Forum. "This is why, we must quickly and deliberately change everything which hampers breakthrough development." Russia's critics say that its economic growth, expected at 4-5 percent this year, is too modest for an emerging country and point to other BRIC states where economies are expanding at around twice that rate. Some of them liken Putin's later years in power to those of Soviet leader Leonid Brezhnev whose reign in the 1970s was marked with economic stagnation. Medvedev, who faces re-election in March 2012, said that he sought "a serious renovation not only of old economic elements but also of all social agencies." "Here, not only pin-point changes are needed but systematic decisions. We should not drag our feet on saying goodbye to many bad habits," he said. "I am sure that this is the most modern policy worthy of Russia. We have enough strength to change the situation significantly in the next few years." Medvedev said economic growth should improve the quality of life in the next decade. The modern economy Russia needs is associated with healthy people, clean energy, intelligent networks, electronic services, convenient transportation, affordable housing, good education and a friendly environment for all, primarily children, pensioners and the disabled, he said. "I want to develope an economy of high quality life in the next decade in Russia. An economy which makes life comfortable and interesting. An economy which creates something that helps us be among world leaders," Medvedev said. "Here we still have a long way to go to get rid of the former system’s legacy, where a distribution mechanism exists for the privileged and minimal risks and rationing make the rest equal in poverty and injustice." Medvedev said that he was creating a special government group to prepare proposals on how to decentralise government authority, strongly concentrated in Moscow in the 12 years that Putin has been Russia's president and prime minister. "It is impossible and unnecessary to manage the country from one point," he said. "Especially, if we are talking of such a country as Russia. I'll go further and say if everything starts working and moving only after a signal from the Kremlin, it means that the system is unviable and if is requires adjustment for one person it means it must be changed." He also said the country's privatization plan was too modest and ordered the government to expand the sales list by August.

## Ext. Russian Econ Low Now

### GDP means Russia’s economy is low

[Aleksashenko](http://www.carnegieendowment.org/experts/?fa=expert_view&expert_id=460) ’10 (Sergei, December ’22 former deputy minister of finance of the Russian Federation and former deputy governor of the Russian central bank, “Russia Unstable economy and political Crisis”, <http://www.carnegieendowment.org/2010/12/22/russia-unstable-economy-and-political-crisis/dzf>, date accessed: 7/14/11)

The Ministry of Economic Development (Minecon) predicts that GDP will grow by 3.8 percent this year—slightly below its September forecast (4.2 percent) and significantly below IMF, World Bank, and varios investment bank estimates (4.5-5 percent). But even Minecon’s estimate looks too optimistic for several reasons. First, 3.8 percent annual growth would require a very strong economic performance this quarter. GDP—which grew by 3.7 percent in the first three quarters of this year—would have to outpace last year’s fourth quarter growth of 7.7 percent (q/q, annualized). Second, the economy has been extremely unstable all year—four of the first ten months showed signs of a recession, according to Minecon. And, though this summer’s drought hurt growth—reducing annual GDP by 0.65 percent—it cannot fully account for the country’s low growth rate. The economy’s loss of momentum and inability to find new drivers of growth is becoming increasingly obvious. Furthermore, given that last year’s recovery was V-shaped and the gap between annual and fourth quarter GDP levels is therefore larger than usual, 3.8 percent annual growth would translate to only 1.1 percent growth from the last quarter of 2009. Forecasts for 2011 are not optimistic, either. The government expects GDP to grow by 4.2 percent, driven by investments from state companies (Gazprom, Russian Railways, and the electric power industry), a recovery in inventories, and a higher oil price. However, many political opponents, as well as experts and business leaders, argue that a tax increase—set to begin in January, expected to gross 2 percent of GDP, and concentrated in the labor-consuming sectors—will reduce private investment and perpetuate the current economic structure, in which extraction and raw material exports remain the most attractive sectors. Furthermore, if carried out, planned budget cuts—which target investments and public demand—will also inhibit growth. The government cut spending by 2 percent of GDP this year and is planning to cut an additional 1.5 percent in 2011. The actual budget outlook is unclear, however, as discussed below. Finally, policy makers cannot expect an external environment as favorable as this year’s, which included oil price growth of approximately 20 percent. With China’s economy showing more and more signs of overheating, Beijing will likely reduce its external demand for raw materials, thereby lowering the world oil price. On the other hand, if the oil price continues to increase, it will eventually dampen economic recovery in the developed countries. Thus, the government’s forecast for 2011 is overly optimistic; 2–3 percent growth is more reasonable. If this estimate holds true, the economy will not return to its pre-crisis maximum (2nd quarter 2008) until mid-2013,[1](http://www.carnegieendowment.org/2010/12/22/russia-unstable-economy-and-political-crisis/dzf#1)leaving Russia the proud G20 winner of not only deepest economic decline during the crisis, but also of slowest post-crisis recovery.

### Russian econ declining now despite strength early in the year

Reuters 11 (June 26, Andrey Astroukh, “UPDATE 3-Russia faces elections with budget woes, firm rouble,” <http://www.reuters.com/article/2011/06/26/russia-rouble-official-hold-for-melissa-idUSLDE75P01V20110626>)

STRASBOURG, France, June 26 (Reuters) - Russia's government has promised voters more social spending than it can muster without threatening the country's fiscal stability as elections approach, a deputy finance minister warned on Sunday. With a parliamentary election due in December, and presidential poll in March 2012 in which Prime Minister Vladimir Putin or President Dmitry Medvedev could run, Russia has pledged extra funds for social programmes and domestic output. "If all programmes announced by the government are fulfilled the budget spending could reach 29 percent of GDP," Sergei Shatalov, a deputy to hawkish Finance Minister Alexei Kudrin, told the Russian Economic and Financial forum in Strasbourg. "And this is a serious danger for the financial stability of the state," he said, adding Russia is not ready to withdraw fiscal stimulus measures that helped the country out of the crisis of 2008-2009. In the first five months of the year, Russia, the world's largest oil producer, has been running a budget surplus thanks to rallying oil prices which have ensured inflows of dollars and support for the rouble despite weakening economic fundamentals. It has also underpinned a strong rouble which has made crucial imports cheaper for Russian consumers. "In the course of increasing rouble flexibility pledged by the central bank, and given the current account, the rouble's potential to firm is great, despite capital account dynamics," Deputy Economy Minister Andrei Klepach told the forum. The rouble has firmed 8 percent versus the dollar this year and could have gained more if not for net capital outflows of more than $50 billion in the past seven months. Russians appear to be behind the leakage. Uncertainty over who will be elected president in 2012, high levels of rouble liquidity, and yields lower than in recent years are factors that could be prompting outflows. Klepach said 2011 net capital flow balance could be "slightly negative". Russia had a current account surplus of $31.8 billion in the first quarter but maintaining a solid surplus will require higher revenue, which implies higher oil prices, as the stronger rouble spurs imports that eat away the surplus. "The current account surplus ... may entirely shrink by 2014," Klepach said, adding current policies could contribute to such a development. "I think it poses risks. The budget policy, forex policy are inclined to support the economy's growth and do not really match each other."

# \*\*Chinese Econ Growth Good\*\*

## China-Taiwan War

### Declines in China’s economic growth rate would lead to a number of impacts—global recession, civil unrest, and war with Taiwan.

[Dan Lewis, Research Director of the Economic Research Council, “The nightmare of a Chinese economic collapse”, 5/13/08, <http://www.worldfinance.com/news/finalbell/article117.html>]

A reduction in demand for imported Chinese goods would quickly entail a decline in China’s economic growth rate. That is alarming. It has been calculated that to keep China’s society stable – ie to manage the transition from a rural to an urban society without devastating unemployment - the minimum growth rate is 7.2 percent. Anything less than that and unemployment will rise and the massive shift in population from the country to the cities becomes unsustainable. This is when real discontent with communist party rule becomes vocal and hard to ignore. It doesn’t end there. That will at best bring a global recession. The crucial point is that communist authoritarian states have at least had some success in keeping a lid on ethnic tensions – so far. But when multi-ethnic communist countries fall apart from economic stress and the implosion of central power, history suggests that they don’t become successful democracies overnight. Far from it. There’s a very real chance that China might go the way of Yugoloslavia or the Soviet Union – chaos, civil unrest and internecine war. In the very worst case scenario, a Chinese government might seek to maintain national cohesion by going to war with Taiwan – whom America is pledged to defend. Today, people are looking at Chang’s book again. Contrary to popular belief, foreign investment has actually deferred political reform in the world’s oldest nation. China today is now far further from democracy than at any time since the Tianneman Square massacres in 1989. Chang’s pessimistic forecast for China was probably wrong. But my fear is there is at least a chance he was just early.

### China-Taiwan conflict goes nuclear

[Michael E**.** O’Hanlon, Senior Fellow in Foreign Policy at Brookings Institution, “The Risk of war over Taiwan is real”, 5/1/05, <http://www.brookings.edu/opinions/2005/0501asia_ohanlon.aspx>]

Does it really matter, in the end, what Europe does about its arms embargo on China? Robert Zoellick, US deputy secretary of state, recently suggested that for the European Union to sell arms or related technologies to China would amount to painting bull's-eyes on the backs of US troops. For many Europeans, such arguments may seem hyperbolic. Now that China has been slapped on the wrist for its antisecession law threatening war if Taiwan moves actively for independence, the EU will want to return to the issue at some point and lift its embargo. And Britain, which takes over the six-month EU presidency in June, will only be able to hold off such pressures for so long. The recent friendly visit by Lien Chan, the Taiwanese opposition leader, to mainland China may also suggest that the risk of war, and therefore the stakes in the EU arms embargo issue, are both rather low. Nonetheless, Mr Zoellick is more right than wrong. In the absence of strong constraints on future high-technology sales, lifting the European arms embargo on China would be a big mistake. There really is a chance of a Sino-US war over Taiwan, which may ebb and flow month to month but nonetheless remains quite real. And any European decision to lift the embargo could make any war more likely and more costly in lives and assets. The reasons are simple. First, China is serious about being willing to risk war to prevent Taiwan's secession. Second, although many in China as well as Europe cannot quite believe it, the US is just as serious about defending Taiwan. And third, even though American military power remains far superior to that of China, the Chinese do not need to equal US power to make any war over nearby Taiwan very challenging for American forces. Given the right catalyst from Taipei, therefore, US deterrence of China could fail and the world's first true war between nuclear weapons states could ensue. It is not just China's ruling communist party that considers Taiwan a part of China; an increasingly nationalistic population does as well. In fact, the Chinese see themselves as patient and restrained because they are simply demanding that Taiwan not secede, rather than insisting on immediate reunification. They worry that if Taiwan broke away, it would encourage other separatist movements in places such as Tibet and Xinjiang province, and weaken China strategically at the very moment it is poised to regain its status as a global power. China's leaders operate on the assumption that Taiwanese secession would doom their own prospects for holding on to power. At a minimum, they would have to show they had gone the extra mile to try to prevent secession, meaning that even an unsuccessful military operation might be preferable to inaction.

## Asian Instability

**Slow economic growth leads to political instability and internal breakup, jeopardizing stability of the entire Asian-Pacific region and triggering ethnic tensions.**

[Liow Boon **Chuang**, “A weak or strong China: which is better for the Asia Pacific region?”, Jan-Mar 2011, <http://www.mindef.gov.sg/safti/pointer/back/journals/2001/Vol27_1/7.htm>]

'In the past, a weak China, beset by social disorder, inflation and civil war attracted foreign intervention by the great powers. The result was turbulence and instability inside China and at its borders'. China was invaded twice and suffered from several decades of civil wars and occupation by Japan.25 A loosening of China's political system has already been brought about by economic liberalization, more will follow as communications and education improve with economic growth. Indeed, lessons from Europe and the Soviet Union have taught that a rapid political liberalization unsupported by economic growth can easily lead to social disintegration, which if it divides China, will jeopardize the stability of the whole Asia-Pacific.26 Slow growth of the economy could increase the level of social discontent that would result in political instability. Chinese leaders will attempt to implement the structural reforms necessary to provide a sound framework for sustained future economic growth while minimising political unrest. China's leadership understand that for China to achieve great power status, economic power with a commensurate amount of military power will be the key. It is commonly asserted that national leaders who are unable to overcome domestic difficulties sometimes pursue an aggressively extroverted foreign policy to distract their people from the problems at home. Samuel S. Kim seems to have this idea in mind when he argues that 'Today the main danger to the peace and stability of the Asia-Pacific region stems more from China's domestic weakness than from its external assertiveness a weak, reactive, insecure and fragmenting China is more unpredictable and dangerous than a strong, confident and cohesive China.'27 There are already signs of unrest and secessionist movements in China, and if China is weak economically and governed by a weak government that does not handle these problems well, an internal break-up could occur and it could precipitate the fall of the country. Controlling the widening income gap between city dwellers and peasants is one pressing problem the Chinese government has to tackle, and keeping the secessionist movement of Muslims in Xinjiang Province and the banned Falungong cult under control are some urgent tasks. A weak China would have a high unemployment rate. China may have up to 100 million people drifting across the country in search of work. This may have a spill- over effect that would affect the Asia-Pacific region. This floating population is also fertile ground for crime and people without a steady income is a threat to stability. Presently, the people in the inner provinces are feeling by-passed in their nation's rapid economic development. Widening economic opportunities have led to rampant official corruption, much of it in the countryside. The main concern is the possibility of millions of refugees flooding the region. Another concern is the loss of economic onDortunities for the region.

### Extinction

**Cerincione ’00** (Joseph, Director of the Non-Proliferation Project – Carnegie Endowment for International Peace, Foreign Policy, “The Asian nuclear reaction chain”, Issue 118, Spring, Proquest)

The blocks would fall quickest and hardest in Asia, where proliferation pressures are already building more quickly than anywhere else in the world. If a nuclear breakout takes place in Asia, then the international arms control agreements that have been painstakingly negotiated over the past 40 years will crumble. Moreover, the United States could find itself embroiled in its fourth war on the Asian continent in six decades--a costly rebuke to those who seek the safety of Fortress America by hiding behind national missile defenses. Consider what is already happening: North Korea continues to play guessing games with its nuclear and missile programs; South Korea wants its own missiles to match Pyongyang's; India and Pakistan shoot across borders while running a slow-motion nuclear arms race; China modernizes its nuclear arsenal amid tensions with Taiwan and the United States; Japan's vice defense minister is forced to resign after extolling the benefits of nuclear weapons; and Russia-whose Far East nuclear deployments alone make it the largest Asian nuclear power-struggles to maintain territorial coherence. Five of these states have nuclear weapons; the others are capable of constructing them. Like neutrons firing from a split atom, one nation's actions can trigger reactions throughout the region, which in turn, stimulate additional actions. These nations form an interlocking Asian nuclear reaction chain that vibrates dangerously with each new development. If the frequency and intensity of this reaction cycle increase, critical decisions taken by any one of these governments could cascade into the second great wave of nuclear-weapon proliferation, bringing regional and global economic and political instability and, perhaps, the first combat use of a nuclear weapon since 1945.

## Laundry List

### Good Chinese economy key to solving poverty, international disputes, and enforcing prosperity globally.

Qiao Xinsheng, China Daily 02/21/2011 (Debate: China's role, professor of law at Zhongnan University of Economics and Law in Wuhan, Hubei province, senior editor with the Study Times. <http://www.chinadaily.com.cn/cndy/2011-02/21/content_12046897.htm>)

A world to win and little to lose After China officially overtook Japan as the world's second largest economy, some countries have made a greater clamor that Beijing must undertake more international responsibilities. Some Chinese scholars believe that China's development is inseparable from that of the world, and global prosperity and stability cannot be realized without Beijing's contribution. But, as a responsible power, China should first handle its domestic affairs properly and reduce poverty at home. Second, it should fulfill its obligations to the Charter of the United Nations and the 300-plus international conventions it has signed. Third, it has to help solve the problems concerning world peace and development. And fourth, it should address the common challenges facing humanity as a whole. Frankly speaking, the responsibilities mentioned above are common to all UN members, not unique to China as a rising power. In fact, in recent years China has not only reduced poverty drastically at home, but also made huge contributions to the global fight against poverty. For example, food and other material assistance provided by China to countries in Africa has played a crucial role in alleviating humanitarian disaster. As a permanent member of the UN Security Council, China carries a special mission to defend the Charter of the UN. Whenever a war or conflict has broken out in any part of the world, China, under the guidance of the basic principles of the UN Charter, has mediated truce and promoted peaceful solution. To resolve burning issues in the region, China has participated in regional economic cooperation, promoted regional economic development and made efforts to create favorable conditions for the conflicting parties to hold talks. To deal with issues such as climate change, terrorism, extremism, separatism, infectious diseases and transnational crime, China not only joins hands with other countries to set up regional cooperative organizations, but also takes preventive measures against potential trouble. As is well known, the world political and economic system, led by the United States since the end of World War II, is an unbalanced order. For instance, the Bretton Woods system, initiated by the US in 1944, has established an international financial order with the US dollar as the reserve and settlement currency. The system has not only consolidated US domination over the world, but also kidnapped other countries' financial systems. To cite an example, when the US unilaterally terminated convertibility of the dollar to gold, the whole world fell into a financial crisis. Another example is the effect of the General Agreement on Tariffs and Trade (GATT) dominated by the US. Though GATT was said to promote fair trade and international trade growth by cutting tariffs, it in fact favored developed countries to get raw materials from and dump industrial goods on developing countries. After the developing countries became the world's factories, the US turned GATT into the World Trade Organization (WTO) to cement its dominance in world trade by emphasizing service trade and protection of intellectual property rights. Though the UN Security Council has established the principle of reaching consensus through consultation, the US, as the only superpower, prefers taking unilateral action to deal with international issues and regional conflicts. This has created latent danger for the world's peaceful development. China should not be satisfied only by conducting its own business well under the existing unfair international political and economic order. It should strive as much as possible to change the unfair global political, economic and military order. The spread of poverty and outbreak of wars have their roots in the unfair international order, established by several industrialized countries after World War II. It is because of this unfair order that the developed countries gradually marginalized the developing countries, reduced them to the lower chain of economic development and exploited them economically. The developed countries can use the international monetary system, which they still control, to shift their financial crises to the rest of the world. It is thus time that China joined hands with other UN members to change this order and make substantive contribution to world peace and development. Besides energetically calling for changes in WTO rules and a thorough reform of the International Monetary Fund's voting system, China should advocate the formation of a UN peacemaking force, setting up of isolation zones in hot spots of conflicts and providing the necessities for local people's survival and development to permanently resolve the issues left over by Western developed countries. On the whole, China must play a model role in resolving international disputes and defusing potential crises, which could otherwise lead to conflicts.

## Chinese Econ K/T World Econ

### Declines in China’s economic growth rate will lead to major declines in the world economy.

[Barry Eichengreen (Professor of Economics and Political Science at University of California, Berkeley), Donghyun Park (Principal economist for Asian Development Bank), AND Kwanho Shin (Professor in the Dept. of Economics at Korea Univ.), “When fast-growing economies slow down: International evidence and implications for China, Mar. 2011, <http://www.cec.zju.edu.cn/reod/proimg/201142818212680.pdf>]

While the implications of our study are by no means limited to a particular country or  countries, these issues have special resonance for China, for at least three reasons. First, the  country accounts for a substantial fraction of world popular. Therefore, the issue of when  China slows down will have major implications for the welfare of a significant share of  humanity.    In addition, the large and fast-growing Chinese economy is increasingly viewed as a  key engine of growth for the world economy. The advanced industrial countries, the  traditional engines of global growth, have inherited serious problems from the crisis:  weakened household balance sheets, increased public debts, and still troubled financial  systems. In contrast, China experienced few problems as a result of the crisis. There were few  bank and enterprise failures. At the height of the crisis in 2009, growth “slowed” just to 9.2  per cent. Both advanced and developing countries benefited from China’s resilience. Robust  Chinese demand lifted capital goods exports from Germany and Japan and commodity  exports from Africa and Latin America. In particular, demand from China contributed  substantially to recovery in East and Southeast Asia, which has close trade linkages with  China.     Finally, while China recovered faster than expected from the global crisis, its  policymakers are grappling with how to sustain growth in the medium and long terms. The  post-crisis external environment is likely to be less benign for a number of reasons. The  persistent sluggishness of growth in the advanced countries, which are among China’s key  export markets, weakens a traditionally important source of demand. The collapse of exports  and growth during the global crisis, especially fourth quarter of 2008 and first quarter of 2009,  highlights the risks of excessive dependence on external demand. This explains why  rebalancing growth toward domestic sources of growth has become a priority for Chinese  policymakers. And it is not yet clear whether structural adjustment in that direction will be  compatible with the maintenance of customary rates of growth. In addition, China faces other  medium term structural challenges, notably rapid population aging.

**Chinese economic growth key to the global economy.**

[Sandrine Rastello, “China’s Economic Growth Lifts Rest of World, IMF Study Says”, 12/9/10, <http://www.bloomberg.com/news/2010-12-09/china-s-growth-has-spillover-effect-lifting-rest-of-world-imf-study-says.html>]

Economic data suggest that a 1 percentage point increase in China’s growth rate sustained over five years means an extra 0.4 percentage point of growth for the rest of the world, two experts at the International Monetary Fund said after studying figures for the past two decades.  “Analysis of a longer time period -- 1963-2007 -- suggests that the spillover effect of China’s growth has increased over time. Geographic distance seems to affect the strength of the spillover effects, with a stronger impact the closer a country is to China,” Vivek Arora and Athanasios Vamvakidis wrote in the IMF’s Finance and Development magazine December issue. “But the estimates also suggest that the role of distance has diminished over time.”  The pace of economic growth in China has an impact on the rest of the world, first through trade channels and then through capital flows, tourism and business confidence, the two authors said. The magazine was posted on the IMF website today.  “A few decades ago, China’s expansion influenced growth only in neighboring countries; it now affects growth all over the world,” the two IMF experts wrote. The size of the impact “has increased from negligible levels until about two decades ago to a sizeable impact more recently.”  China’s economic growth slowed to a 9.6 percent annual pace in the third quarter from 11.9 percent in the first three months of this year. Even as the expansion moderates, China is set to overtake Japan this year to become the world’s second-biggest economy.

### The size and growth of the Chinese economy makes it the most influential for the global economy.

[Jing Gu, John Humphrey, and Dirk Messner, “Global governance and developing countries: the implications of the rise of China”, *World Development,* Vol. 36 No. 2, pp. 275-292, 2008, <http://www.bris.ac.uk/ceas/chinaintheworld/readings/Gu%20Humphrey%20and%20Messner.pdf>]

The extent of China’s impact on the global  economy has been widely documented. The size  and rapid growth of China, together with its  increasing assertiveness, represent a challenge  to the established order. If current growth rates  are projected forward a further 20 years, and if  the rapid growth of India and the other Asian  economies are put into the equation, then  clearly we are witnessing a fundamental shift  in power centers in the global economy, with  its consequences for global governance.  China’s impact on the world economy has  been both rapid and remarkably broad:  • The Chinese economy accounted for 2.9%  of global income in 1978, reached 4.7% of  global income in 2004 and is predicted to  reach 7.9% by 2020. Comparing China’s  growth process with other success stories in  history (such as the United States, United  Kingdom and Germany), Winter and Yusuf  conclude that ‘‘In terms of an expanding  share of world output, China’s growth spurt  has been much greater than any other yet

## Chinese Econ K/T U.S Econ

### Chinese economic growth benefits the US economy.

[Xinhua, “China’s economic development benefits US economy: American attorney”, 8/27/05, <http://english.peopledaily.com.cn/200508/27/eng20050827_204868.html>]

The US economy has benefited greatly from China's economic growth, and "simply blaming China will not solve issues relating to US economic transformation," an American expert on anti-dumping laws said Friday in an interview.  "China and the United States are the twin engines of world economic growth. China's economic development has numerous beneficial effects on the US economy," said Jeffrey S. Grimson, 38, Counsel and Chair of the China/International Trade Practice of Kaye Scholer LLP, an international law firm with over 500 lawyers on three continents.  Foremost, "Chinese goods have a reputation for being low-priced. The availability of low-priced goods has had a beneficial impact on the US economy, by enabling consumers to enhance their standard of living while keeping inflation down," said Grimson who have been working in the field of anti-dumping laws for 15 years.  Chinese products are moving up the scale of quality too, he added.  Also, economic prosperity in China means more potential customers for US goods and services, he said.  What's more, "the rise of China as a manufacturing superpower has pushed US business to modernize and achieve ever higher levels of efficiency and productivity," said Grimson.  Grimson holds that it is not right for US manufacturers to blame China for a decline in US manufacturing jobs, saying "the transformation of the US economy started long before the current 'crises' with China's trade imbalance, the currency, or textiles. Simply blaming China will not solve issues relating to US economic transformation."  According to statistics compiled by the US-China Business Council, he said, the US manufacturing sector's share of the US economy has fallen from 32 percent in 1960 to 22 percent in 1980, and to 14 percent in 2002.  Grimson noted that "in fact, the decline in the contribution of the US manufacturing sector to the overall economy began long before China's emergence" as a major trade power.  On the bilateral economic and trade relationship, Grimson said the overall economic and trade ties between China and the United States are built on a strong foundation of mutual benefit, and the fact that the relationship is not viewed in the United States as a "two-way street" is in part because the US-China trade statistics are typically viewed in isolation, rather than in broader regional terms.  For example, less than half of the US trade deficit in 2004 is related to trade with East Asian countries, including China, he said, while "overall, the US trade deficit with the rest of the world has increased nearly three times as much as the trade deficit with China over the past ten years."  Because of the negative perception of the US-China trading relationship, trade disputes that might otherwise be considered an expected consequence of such a large volume of trade take on a whole new political aspect, Grimson noted.

## A2: Unsustainable

### **China’s rapid-growing economy is sustainable**

Calvin Wong, November 14, 2010 (Is China’s Growth Sustainable?, The Diplomat, <http://the-diplomat.com/2010/11/14/is-chinas-growth-sustainable/4/>)

Fifteen years ago, APEC leaders meeting in Japan called for joint action ‘to ensure the region’s economic prosperity is sustainable.’ But is it realistic to believe that APEC’s largest member, China, can grow rapidly and sustainably? In 1978, Chinese leader Deng Xiaoping, frustrated by Mao Zedong’s class struggle-inspired politics, embarked on a series of economic reforms that helped China open up to the world. These reforms fuelled China’s dramatic economic rise over the past 32 years, while forming the foundation for China’s deeply-rooted belief in rapid growth. Subsequently reinforced by Zhu Rongji’s internationalization of China’s economic system and stewardship of the country into the World Trade Organization, and underscored by current President Hu Jintao’s declaration of a minimum 8 percent GDP growth rate, the Chinese leadership has always operated under the principle of 'get rich now — all other priorities can be taken care of later. Indeed, while China’s ruthless, seemingly single-minded pursuit of growth has produced an unprecedented annual GDP rise of 9.5 percent since Deng's reforms were initiated, many observers doubt if the concept of sustainability is really commensurate with the country's goals. The reality is, fortunately, far removed from such perceptions. Deng’s true genius lay in his recognition that any economic reforms had to be sustainable, in the sense that they had to provide tangible benefits to the people. Part of Deng’s economic development strategy was to ensure that China would achieve the per capita GDP of a medium-developed country by 2050. The country is arguably on its way to achieving this, with per capita GDP this year estimated at US$3,700, placing it in the middle tier of countries. Furthermore, while rapid economic growth was the only pragmatic way out for China in 1978, the current leadership has acknowledged the negative consequences of current economic development. Hu adjusted China’s economic development policy when he took over in 2003, defining the paramount task for the government and party as 'the building of a harmonious society'.

China’s economy is incredibly sustainable

Willy De Backer, 02/03/2011 (IS CHINA SHIFTING FROM BREAKNECK GROWTH TO SUSTAINABLE PROSPERITY? Head of the Greening Europe Forum,

<http://www.friendsofeurope.org/Contentnavigation/Library/Libraryoverview/tabid/1186/articleType/ArticleView/articleId/1822/Is-China-shifting-from-breakneck-growth-to-sustainable-prosperity.aspx>) There are some interesting signs that the Chinese government is ready to move its economic policies “beyond GDP”. Recent comments by Prime Minister Wen Jiabao and Environment Minister Zhou Shengxian indicate that the Chinese leaders are starting to understand the inescapable link between high economic growth, resource overconsumption and environmental chaos. Over the weekend, Mr Wen announced that China will set a lower annual growth target, warning that his country’s rapid growth may lead to “production capacity gluts and deepening pressure on the environment and resources so that economic development will be unsustainable”. Two days later environment minister Zhou published an article on the ministry’s website underlining the stark conflict between economic growth and the environment. “The depletion, deterioration and exhaustion of resources and the worsening ecological environment have become bottlenecks and grave impediments to the nation’s economic and social development”, Mr Zhou wrote. Damien Ma, China analyst at the EurAsia Group, claims in a thought-provoking article in The Atlantic that China might have the intention “to close the curtains on the era of ‘GDP fetish’”. Instead of focusing on GDP growth, Chinese leaders seem to be willing to focus on the “happiness” of its citizens and social equality, says Ma. He adds that some high-level Chinese economists are even openly pushing for the adoption of a Gross National Happiness Index similar to the one used by the small Kingdom of Bhutan. That said, Damien Ma remains realistic and says “much more needs to be done beyond sloganeering and catchphrases to actually achieve the happiness objective”. Pointing to the economic growth targets of China’s provinces, Ma has his doubts whether Beijing will be able to restrain its rapidly growing economy. Whatever the outcome of these developments, it is clear that the new “Beyond GDP” narrative which was started by the European Commission and was picked up by French President Sarkozy via the Stiglitz-Sen report, is now also influencing Chinese leaders. Is it possible that in a few years’ time China will have taken the global lead on redefining the green development model just like it did with its fast adoption of the clean energy technologies wave where it has overtaken Western economies?

## \*\*AT: Chinese Econ Growth Good\*\*

## A2: K/T Global Economy

### Decline in Chinese economic growth rate will not affect the global economy or create political instability—Japan proves.

[Michael Pettis, Prof. at Peking University’s Guanghua School of Management, specializing in Chinese financial markets, “What happens if Chinese growth slows?”, 11/18/10, <http://seekingalpha.com/article/237610-what-happens-if-chinese-growth-slows>]

Last week I suggested that slowly the consensus is shifting towards a recognition that Chinese growth may slow sharply in the next few years. When I discuss this prospect with analysts and investors, however, they almost always worry about two things. First, since China represents the largest component of global growth, it seems reasonable to expect that a sharp slowdown in China will also mean a sharp slowdown in global growth. Slowing Chinese growth, in other words, should be terrible for the world. Secondly, if growth does slow sharply, this should cause an equally sharp rise in social instability and, with it, rising political instability.  I disagree with both claims — not that they are necessarily wrong but rather that they are not obviously true, and depend heavily on the way China rebalances. To see why it is worth considering what happened to Japan in the past two decades.  In 1990, Japan was 17 percent of the global economy and was easily the second largest economy in the world. It also accounted for the largest share by far of global growth, having completed two ferocious decades during which time its economy had grown annually by eight to ten percent. Only the most skeptical doubted that within a decade or two Japan would overtake the US as the world’s largest economy.  Imagine at the time that you had been smart enough, and foolhardy enough, to predict that over the next two decades Japan’s growth rate would collapse to substantially less than one percent annually, and that by 2010 it would be less than one-third the size of the US. Had anyone believed you (and of course no one would have believed you), they would have almost certainly made two very obvious predictions.  First, a collapse of that magnitude in the Japanese growth rate would create an enormous drag for the rest of the world. Without Japan to power it, global growth would be anemic at best.  Second, the Japanese people would have been unwilling to accept with equanimity such a disaster. At the very least there would be a surge in social instability and Japanese voters would have revolted against their leaders.  Although the first prediction, about a dramatic slowdown in Japanese growth, would have turned out to be completely accurate, the two subsequent predictions would have been completely wrong. First, in spite of the virtual collapse of the Japanese growth machine, the world experienced robust growth in the 1990s. Second, the Japanese people turned out to be remarkably docile about the terrible turn the Japanese economy took.  Contributing to growth  It is worth considering why Japan did not fulfill what seems like such obvious predictions. The answer, it turns out, may depend crucially on the way the Japanese adjustment took place. Take Japan’s impact on global growth. Analysts too easily confuse a country’s share of global growth with its contribution to global growth, but they are very different.  Although Japan comprised a disproportionate share of global growth before 1990, this doesn’t mean that it contributed disproportionately to growth outside its borders. On the contrary, Japan had at the time the largest trade surplus ever recorded as a share of global GDP. This meant that it absorbed far more global demand than it provided.  Since I believe that it is largely demand that powers growth, Japan may well have been absorbing more growth from the rest of the world than it contributed. In that case the impact of Japan’s declining GDP growth would come about largely as a consequence of the change in net demand it provided to the rest of the world – would its trade surplus grow or shrink?  On that score it is pretty clear that Japan’s contribution in the past two decades to the rest of the world was positive. The combination of the small decline in Japan’s surplus as a share of GDP and the large decline in Japan’s GDP as a share of the world (Japan dropped from roughly 17% of the world in 1990 to 8% today) meant that from the late 1980s to the present, as a share of global GDP, the Japanese trade surplus dropped by more than half.  This means that Japan’s net demand more than doubled during this period as a share of global GDP, or more accurately, that its deficiency in net demand dropped by more than half. This would have provided an expansionary boost to the global economy. Perhaps this is why the world was so easily able to shrug off the almost unprecedented collapse in Japanese growth rates even though Japan was seemingly the great growth engine of the world.  But what about social instability – why were the Japanese so accepting of such a shocking contraction in growth? The answer here has probably to do with the fact that during this difficult adjustment Japan rebalanced its economy away from one that penalized household income and consumption growth to one that supported it.  If the Japanese measured well-being in terms of GDP per capita, the last twenty years would have come as a brutal shock. But if they measured it in terms of consumption per capita, the last twenty years were not so bad. Before 1990, Japanese consumption grew much more slowly than Japanese GDP as households were forced to subsidize growth via large transfers of wealth from households to businesses – mainly in the form of very low deposit rates and a seriously undervalued currency. This, of course, is the same process that is occurring in China.  After 1990, Japanese consumption grew substantially faster than GDP as the country painfully rebalanced its growth model. One of the forms of rebalancing, interestingly enough, may have been Japanese deflation, which automatically pushed real deposit and lending rates into positive territory and so reversed one of the main mechanisms by which wealth was transferred from Japanese households to Japanese businesses – artificially low interest rates on deposits and loans.  Japanese per capita household consumption, in other words, did not decline nearly as dramatically as Japanese per capita GDP. In fact it may have grown in real terms (once you adjust for inflation in the period before 1990 and deflation after, and after you adjust for the decline in population) only a little more slowly after 1990 than it did before 1990. As Japan rebalanced, wealth was transferred from the state and corporate sector back to the household sector. Most of the slowdown was consequently borne by businesses and governments.  I think the Japanese story has important implications for our analysis of China. If China indeed experiences a rapid slowdown in GDP growth, the impact on the rest of the world may be far less than we expect. The real key is the evolution of the Chinese trade surplus. If it contracts, it will provide an expansionary boost to the rest of the world, not a contractionary one.  Of course that doesn’t mean that the world will grow quickly. My expectation is that global demand growth over the next several years is likely to be anemic with or without China. But it does mean that a slowdown in Chinese growth might not be the disaster for the world that many believe.  Also a rapid slowdown in Chinese growth does not mean a social or political disaster domestically. It depends on how serious China is about rebalancing its economy. If policymakers are willing to force up interest rates and wages, most of the adjustment pain will be borne by SOEs and the state sector, not by the household sector. In that case we might see a slowdown in Chinese consumption growth, but one not nearly as severe as the slowdown in Chinese GDP growth. Since the Chinese, like everyone else, probably measure their well-being in terms of purchasing power per capita, rather than GDP per capita, a sharp slowdown might not be nearly as painful as we assume.

## Chinese Econ Resilient

### China economy resilient and its key to the global economy – empirically proven.

 Kevin Yao, Thu 7/23, 2011 6:54am EDT (Analysis: China economy resilient, for now, Reuters, Editing by Kim Coghill, <http://www.reuters.com/article/2011/06/23/us-china-economy-growth-idUSTRE75M1AO20110623>)

(Reuters) - China's growth is slowing under the weight of Beijing's anti-inflation campaign and weaker global demand, but any investors betting on a hard landing would be underestimating the resilience of the world's second-largest economy. China's relentless urbanization continue to drive expansion even as Beijing seeks to check unfettered investment by growth-obsessed local authorities, while stronger domestic consumption is providing a firmer cushion against external shocks. China bears may have been emboldened on Thursday by a purchasing managers' survey showing growth in the factory sector nearly stalled in June as new export orders fell. But skeptics who are expecting an abrupt economic slowdown may have miscalculated Beijing's resolve to act quickly if needed to revive growth, especially if inflation eases later this year as expected, reducing the need for fresh monetary tightening measures, analysts say. "The economy is set up for growth. You've still got urbanization and industrialization to come and all the incentives at local government levels are still to do with encouraging growth," said Stephen Green, an economist at Standard Chartered Bank in Hong Kong. "People always over-worry about a China hard landing. Clearly there are a lot of problems with the economy but people may underestimate the government's ability to muddle through." Green expects some policy relaxation later this year as price pressures start to moderate. NO HARD LANDING? Global investors are unnerved by any sign of a slowdown in China, a key global growth engine, even as the U.S. economic recovery loses momentum and Europe struggles with a sovereign debt crisis. An abrupt slowdown in China could hammer international financial markets and stifle demand for commodities from iron ore to soybeans. The economy has expanded at an average annual pace of 10 percent in the past three decades. Fears of a hard landing have gained traction as a recent stream of data showed the turbo-charged economy is cooling, but for now China shows no signs of following the West with growth levels falling well below long-term trends. Indeed, most market watchers typically define a hard landing in the Chinese context as a sudden dip in quarterly GDP growth below 8 percent, a level advanced economies can only dream about. The 8 percent threshold is, more importantly, a political line in the sand for Beijing, which it deems to be the minimum level needed to create enough jobs to ensure social stability. The last time the economy showed signs of a sudden slump, during the depths of the global financial crisis in late 2008, Beijing announced a 4 trillion yuan ($600 billion) stimulus plan, quickly returning to double-digit growth. While few argue with the success of that scheme, many economists say the spending binge also sowed the seeds of inflation and created excesses such as unrestrained lending and property bubbles which are aggravating imbalances in the economy, leaving it more vulnerable if the current "soft patch" in Western demand turns out to be a prolonged downturn. MORE STIMULUS? Policymakers will certainly have more room to consider fresh pump-priming if inflation peaks in June or July near 6 percent, as widely expected, and then moderates steadily in the second-half of the year. Dong Tao, an economist at Credit Suisse, believes the central bank will not rush to relax policy for fear of fueling further property price rises, but said the government will unleash its spending power to prevent growth from slowing too much. "Should the threat of a hard landing emerge, we would expect fiscal stimulus to come to the rescue, instead of monetary easing. Providing funding to policy housing and speeding up infrastructure projects would be the easy options," he said. China has already announced an ambitious plan to start building and upgrading 36 million affordable homes between 2011-2015, with 10 million to be completed this year, to quell growing public discontent over rapidly rising house prices. Many economists, while trimming their growth forecasts for China, don't believe the current slowdown will amount to a slump akin to that during the global financial crisis. Most still expect GDP growth of more than 9 percent in the second quarter from a year earlier compared with 9.7 percent in the first quarter, with full-year growth seen at about 9 percent. "I'm not worried about the risk of a hard landing in China. It's a low-probability event this year and next year," said Gao Shanwen, chief economist at China Essence Securities in Beijing. After all, a gentle easing in growth is exactly what Beijing wants and is in line with its policy to priorities' efforts to cool inflation. "The slowdown is essentially part of the deal. you need to a slowdown to reduce excesses and control inflation," said Kevin Lai, economist at Daiwa Global Markets in Hong Kong. OVERHAUL U.S. economist Nouriel Roubini, who foresaw America's housing crisis, said China faces a "meaningful probability" of a hard landing after 2013, mainly due to over-investment. Roubini said investment was already 50 percent of China's GDP and that 60 years of data had shown that over-investment led to hard landings, citing the Soviet Union in the 1960s and 70s, and East Asia before the 1997 financial crisis. China does face a host of risks, including a property bubble, mounting local government debt and potential rises in bad loans. But there is little sign they would explode soon. China has in the past repeatedly defied predictions of a crash. "Typically, they grow out of them -- they make good loans, the good loans finance the bad loans and eventually they write off the bad loans," said Tim Condon, head of Asia research at ING. Andy Xie, an independent economist, argues for a soft landing in China, noting Chinese households are not highly indebted and most bank loans have been channeled to government projects. "When a borrower is in technical default, it usually doesn't lead to asset seizure followed by liquidation, which is the cause of a hard landing," he wrote in an article. "Instead, in the Chinese context, both lender and borrower are usually government owned. Debt rescheduling is almost automatic. Hence, as long as money supply grows, it will be spent and translate into demand." Nevertheless, China must overhaul its growth model by reducing the reliance on investment and exports, and push financial reforms to head off potential risks, analysts say. "The global crisis has brought urgency to China's rebalancing need. It is also a great opportunity," Xie said.

## Chinese Econ Unsustainable (1)

### **China economic growth not sustainable: government intervention, corruption, debt.**

Vitaliy Katsenelson, Oct. 18, 2010, 2:15 PM (Growth In China Is Not Sustainable, And The Way To Play It Is to Get Short, Business Insider, Vitaliy N. Katsenelson, CFA, is Chief Investment Officer at Investment Management Associates in Denver, Colo., http://www.businessinsider.com/china-growth-fake-2010-10)

The summer is over in Denver. Of course, in Denver the summer was officially over Labor Day weekend, when the outdoor swimming pools were drained and locked for the winter. For most people summer ended a few weeks later, when the leaves turned bright yellow. But not me, I wanted to hang on to this summer for as long as I could; I really did not want it to go. But my illusions were finally shattered last week by rain, chilly winds, and almost-bare trees. My deliberate (though mostly harmless) failure to recognize the obvious is similar to an investor hanging on to the illusion that Quantitative Easing, the Sequel will change the fundamentals of the economy. It won’t, it will just entrap us in more debt and lower interest rates. But that is a subject for a different time. I had the pleasure of presenting my thesis on China and Japan at the Casey Research Summit in San Diego in early October. I made a small family vacation out of the trip, taking along my wife and kids. Here is what I learned: You want to go Sea World in early October on a weekday – Sea World was 80% empty (or 20% full, if you like). There were no lines – in fact we went on a few rides with the kids twice – the weather was kind, and Shamu was happy to see us – it was a great vacation. I stumbled on this incredible slideshow by Time Magazine that shows Ordos, in Chinese Inner Mongolia. Ordos is one of the most egregious examples of Chinese Late Stage Growth Obesity. Built for one million residents, it is completely empty. Take a few minutes to look at the slideshow, it is well worth it. Here is a link to my updated presentation on China and Japan (Japan starts on slide 40). I also did an interview with David Galland of Casey Research, and the transcript is below. I have to warn you, it is very long. Shadow over Asia (From October 2010 Volume III, Issue 10 The Casey Report) An interview with Vitaliy Katsenelson, Chief Investment Officer, Investment Management Associates, Inc., and author of Active Value Investing. Profiled in Barron’s in September 2009, Vitaliy, who was born in Murmansk, Russia, and moved to the U.S. in 1991, from 2007 to 2007 was an adjunct faculty member at the University of Colorado at Denver’s Graduate School of Business. TCR: What our readers are looking for is a better sense of China and Japan, both of which are very important in the context of the global economy. As we have to start somewhere, let’s start with China. Today the conventional wisdom is that somehow the Chinese economy is better managed than its competitors, very similar to how people viewed Japan in the 1970s and 1980s. Back then people were absolutely convinced that Japan was the superior country with superior policies and that its economy was unstoppable. We all know how that ended. So, let’s start there. Is China’s system better than everyone else’s? Is it really possible the Chinese economy can keep steamrolling along? VK: A few months ago, I watched a movie about Ayn Rand and it talked about how Americans in the 1930s looked at the Soviet Union’s flavor of managed economy as being superior to the American version of capitalism. At the time America was just coming out of the Great Depression, so that view made a lot of sense. So in the short run, and especially after the ugly side of creative destruction has paid us a visit, the grass of managed economy may look greener. So when we look at China, the conventional wisdom says that the government is very, very smart, and therefore they can do a very good job in steering the economy in the right way. Chinese government may have the best intentions, its leaders may have IQs of 250 each on a bad day, but it is impossible to centrally manage an economy of China’s size. I am a big believer that in the boxing match between a visible and an invisible hand, though the invisible hand may lose a few rounds, it will win the match every time. Last century we had the most amazing economic experiment take place when after World War II, Germany was split into two countries with different economic and political systems. But they were the same people, with the same language and culture, separated by a wall. We know how that story ended. Of course, for a time, having government control over the levers of the economy can have advantages. For example, by taking prompt action, the Chinese government was able to pull the economy out of the recession remarkably fast, basically by fire-housing the stimulus package that was equivalent to 12% GDP. That’s the advantage. The only problem is that these kinds of short-term advantages come with long-term, painful consequences. For example, when you have a huge government presence in the economy, you also have a huge bureaucracy, and bureaucracy brings corruption. This is one of the reasons why China is rated so poorly on Transparency International’s annual corruption rating. Corruption breeds misallocation of capital, because the capital flows not to the best use, but it basically flows to whatever the political connection or whatever the bribe is directed to. In addition, when you have a government-managed economy, it creates excesses. China has huge excesses in the industrial sector, as well as in commercial and residential real estate. We see plenty of evidence of these excesses, but they are likely to be much greater than we can measure today as they are covered up by robust economic growth. The true magnitude of these excesses will come to the surface once the economy slows down. TCR: In essence, you’ve got a relatively small group of individuals who are making big decisions about China’s economy and where production should be, in what sectors, etc. If history is any guide, that really can’t last, yet many people seem to think it can. That said, China’s economy has certainly done remarkably well in the global economic crisis. In fact, according to their government, their GDP is almost back to where it was pre-crash. Why? VK: Sure, the growth you see today in China is there, but it’s not a sustainable growth. It’s not a growth that you’ll see a few years from now. That is an important point for readers to understand. TCR: Why is it not sustainable? VK: Because the growth is being induced by government spending, by a misallocation of capital. I’ll give you an example. The vacancy rate on commercial real estate in China is fairly high, but they still keep on building new office buildings because they think they will always grow. So therefore as long as they keep building, that activity will be registered as growth, until they stop. And when they do stop, they’ll drown in overcapacity, and they won’t be building new skyscrapers for a very long time. TCR: We read that note you sent about the South China Mall, which is pretty stunning. It’s the second largest mall in the world but is mostly empty. VK: That’s right. But as outrageous an example as the South China Mall is, there’s an even more outrageous example – namely that the Chinese built an entire city, Ordos, in Inner Mongolia for 1.5 million residents and it is completely empty. These are classic examples of the sort of excesses going on in China. TCR: The equivalent of building bridges to nowhere, but on a very large – Chinese – scale. VK: Exactly. There are no shortcuts to greatness. As long as they keep building new bridges, the economic numbers will register that there is growth, but at some point the piper will have to be paid, and these projects have a negative return on capital. TCR: It seems the Chinese are following the script Japan used to dig itself out of its postwar doldrums, deliberately keeping their currency low in order to build an economy on the back of low-cost manufacturing. But that game inevitably has to end – already we see more and more things being made in Indonesia, Pakistan, India, and so forth. If China loses the manufacturing core of their economy, won’t they be in big trouble? VK: Well, once you move manufacturing to other countries, it’s very difficult to get it back. So you could probably argue that China will maintain its manufacturing advantage for a while. The problem with China is pretty much same as with any bubble. Though it may have had a solid foundation under it, it is simply a good thing taken too far. If you look at the railroad bubble in the United States, the country did need railroads, but we built too many. The same thing happened with the technology bubble in 1998. The Internet was transformative to our economy, no question about it. But, again, it was taken too far. There are some other countries that are lower-cost producers than China, but they probably can’t do it on the same scale that China can. But my point is that China is just a good thing taken too far, and if you add government involvement and corruption into the mix, you will get a bubble that is taken a lot further than you would normally expect. One way of thinking about it is that the actions taken by the Chinese government, especially after the recent global recession, have basically supersized the bubble that was already forming. TCR: Their government is sort of a holdover from a largely bygone era when many nations were communists, so isn’t it true that they need to maintain some fairly strong forward momentum, otherwise they could run into some political problems? Is that why they were so quick to unleash the massive stimulus or encourage their banks to lend an amazing amount of money? You have a chart showing those loans amounted to 29% of GDP in 2009. What kind of quality of lending can that be? VK: Let’s try to understand why the Chinese government did the things they did. As everyone knows, the Chinese economy grew at a very high rate for a long period of time. When the global economy slowed down, their economy slowed down as well (though official numbers did not show it). The Chinese government is extremely concerned about the economy slowing down because that is likely to lead to political unrest. A lot of that potential friction comes because a lot of people moved from villages to the cities. China has an almost nonexistent social safety net system. So people who lose jobs don’t complain, they riot. So, yes, the Chinese government is afraid of political unrest, and therefore they quickly released a tremendous amount of stimulus into the economy, then followed it up with encouraging bank loans equal to 29% of GDP in 2009, a huge increase. When you infuse this much debt into an economy, it’s impossible to have good capital allocation decisions. While the economy is growing, the bad debt won’t be so apparent, but it certainly will be when the economic growth slows. A good analogy might be that when you analyze a credit card company that is growing very, very fast, and that has opened new accounts, you don’t see the bad debt because that debt is covered up by new loans. The true nature of the past lending decisions only becomes obvious when the company’s growth falls off. One way to think about the Chinese economy is by comparing it to the bus in the movie Speed with Keanu Reeves and Dennis Hopper. In the movie, a bus was wired with explosives that would blow up if the bus’s speed dropped below 50 miles an hour. Since China is manufacturer to the world, that manufacturing business comes with a lot of fixed costs. Factories, equipment need financing, and they are mainly financed by debt – another fixed cost. The high level of fixed costs doesn’t afford China an economic slowdown, but when it happens, the consequences will be dire. High fixed costs are great when revenues are rising as income grows at a faster rate than sales. But they are devastating to profitability when sales decline: costs decline at a slower rate than sales and you start losing money, fast.

## Chinese Econ Unsustainable (2)

### Numbers show China economic growth slowing – not sustainable.

Flemming J. Nielsen, Mon, Jul 11 2011, 08:15 (China: Import growth slows, suggesting subdued growth, Danske Bank A/S, http://www.fxstreet.com/fundamental/analysis-reports/flash-comment/2011/07/11/)

China’s import growth was much weaker than expected in June and for Q2 as a whole contracted 3% q/q. There are also some signs of weakness in exports, but Q2 as a whole was relatively resilient. Hence, export growth in Q2 again ran ahead of import growth and China’s trade balance surplus has again started to increase, and in June was well above consensus expectations. The sharp slowdown in China’s import growth in Q2 has, in our view, been one of the main drivers behind the recent weakness in the global manufacturing cycle. We believe it is more important than the impact from the Japanese earthquake, which is currently getting much of the blame. The Japanese economy has been recovering during Q2 and it now looks as if Japan’s import growth is poised to exceed China’s import growth in Q2. •On a positive note, there are signs that China’s import growth will soon stop deteriorating and should start to improve later in Q3. Details China’s total imports increased 19.3% y/y in June – well below market consensus of 25.3% y/y. Seasonally adjusted imports plunged 7.9% m/m, largely offsetting a similarly strong increase in imports in May. China’s imports declined 3.0% q/q in Q2, which is a sharp slowdown compared with Q1 when imports increased 13.4% q/q. The weakness in China’s imports is also evident in the import volumes released for the most important commodities. Imports of crude oil, iron ore and steel products were all weak in June (see charts on page 3). China’s exports increased 17.9% y/y in June – slightly below market consensus of 18.6% y/y. Seasonally adjusted exports declined 2.5% m/m. While there were signs of weakness in exports in June, for Q2 as a whole exports were relatively resilient, increasing 5.5% q/q – only slightly weaker compared with Q1 when exports increased 6.8% q/q. With export growth again running substantially ahead of import growth in Q2, China’s trade surplus has started to increase again. China’s trade surplus was USD22.3bn in June – well above market consensus of USD14.2bn. On the current trend, it appears as if China’s trade surplus will exceed last year’s trade surplus. Assessment & outlook The sharp slowdown in import growth in Q2 suggests that Chinese growth is slowing. We estimate that China’s GDP growth slowed to below 8% q/q AR in Q2 from slightly above 10% q/q AR in Q1. We believe the sharp slowdown in China’s import growth has been a major driver behind recent weakness in the global manufacturing cycle evident in manufacturing PMIs across the world (much more important than the aftermath of the earthquake in Japan that is currently getting much of the blame for weakness in global industrial activity). The Japanese economy has been recovering during Q2 and Japanese import growth looks set to exceed Chinese import growth. If we are looking for a turnaround in global manufacturing activity, China will be more important than Japan. It looks increasingly doubtful whether inflation will be able to reach 4% y/y by the end of the year as assumed in our current forecast. Hence, we will probably have to revise our inflation forecast for 2011 higher at some stage. At the moment, it is negative for the global economy that it has been increasingly difficult for China to continue to play the role as the leading global growth engine, because it now has to focus primarily on containing domestic inflation. This is happening at a critical stage for the global economy, where growth is starting to lose momentum in the advanced economies and where the ability of the advanced economies to boost growth by using traditional fiscal and monetary tools has been significantly reduced. However, on a positive note, there are signs that China’s import growth is stabilising and should start to improve later in Q3. As seen in the chart on the previous page, the import component in the NBS PMI and the purchase of inputs in the HSBC PMI – which usually track China’s imports well – have both stopped deteriorating. There also are signs that inventory cuts are easing, which usually bodes well for future imports. That said, the development in inflation in China is going to be decisive. China will not be able to return to its role as global growth engine until it is confident that inflation is under control.

### Even theChinesegovernment admits it

Just Means, Mar 14, 2011 (China's Growth Conundrum, http://www.justmeans.com/China-s-Growth-Conundrum/47056.html)

In a recent press briefing following the annual meeting of the National People's Congress, China's Premier Wen Jiabao publicly stated that China's current growth pattern is unsustainable. Over the course of the two-hour talk that laid out China's 5-year plan for economic development, Jiabao stated that despite the country's overall average annual rate of growth of 11.2% "We are keenly aware that we still have a serious problem in that our development is not yet well balanced, coordinated or sustainable."[emphasis my own] That's right, China's leadership has admitted that despite prodigious growth - it's growth has not been sustainable. Jiabo goes on to say "This manifests itself mainly in the following: growing resource and environmental constraints hindering economic growth large income gap, an irrational industrial structure, continued weakness in the agricultural foundation significant problems containing food safety." In other words, growth - even remarkable growth - has not solved China's development problems. It has, in the case of the environment, even exacerbated some. He goes on to say that the solution lies in making agriculture the foundation of the economy, expanding social programs such as education, and taking steps to conserve resources and protect the environment. Although Jiabao stops well short of eschewing the growth paradigm, it is refreshing to have a world leader - one heading the world's second largest economy - admitting that when it comes to solving a country's environmental and social problems, when it comes to developing - the solution does not lie merely in more economic growth.

# COMPETITIVENESS

# \*\*Competitiveness Good\*\*

## Competitiveness Good- Laundry List

Competitiveness key to every major hotspot, heg and economic growth

Friedberg & Schoenfeld 8 (Aaron Friedberg is a professor of politics and international relations at Princeton University's Woodrow Wilson School. Gabriel Schoenfeld, senior editor of Commentary, is a visiting scholar at the Witherspoon Institute in Princeton, N.J., “The Dangers of a Diminished America,” Wall Street Journal, Ocbtober 21, 2008,<http://online.wsj.com/article/SB122455074012352571.html>]

With the global financial system in serious trouble, is America's geostrategic dominance likely to diminish? If so, what would that mean? One immediate implication of the crisis that began on Wall Street and spread across the world is that the primary instruments of U.S. foreign policy will be crimped. The next president will face an entirely new and adverse fiscal position. Estimates of this year's federal budget deficit already show that it has jumped $237 billion from last year, to $407 billion. With families and businesses hurting, there will be calls for various and expensive domestic relief programs. In the face of this onrushing river of red ink, both Barack Obama and John McCain have been reluctant to lay out what portions of their programmatic wish list they might defer or delete. Only Joe Biden has suggested a possible reduction -- foreign aid. This would be one of the few popular cuts, but in budgetary terms it is a mere grain of sand. Still, Sen. Biden's comment hints at where we may be headed: toward a major reduction in America's world role, and perhaps even a new era of financially-induced isolationism. Pressures to cut defense spending, and to dodge the cost of waging two wars, already intense before this crisis, are likely to mount. Despite the success of the surge, the war in Iraq remains deeply unpopular. Precipitous withdrawal -- attractive to a sizable swath of the electorate before the financial implosion -- might well become even more popular with annual war bills running in the hundreds of billions. Protectionist sentiments are sure to grow stronger as jobs disappear in the coming slowdown. Even before our current woes, calls to save jobs by restricting imports had begun to gather support among many Democrats and some Republicans. In a prolonged recession, gale-force winds of protectionism will blow. Then there are the dolorous consequences of a potential collapse of the world's financial architecture. For decades now, Americans have enjoyed the advantages of being at the center of that system. The worldwide use of the dollar, and the stability of our economy, among other things, made it easier for us to run huge budget deficits, as we counted on foreigners to pick up the tab by buying dollar-denominated assets as a safe haven. Will this be possible in the future? Meanwhile, traditional foreign-policy challenges are multiplying. The threat from al Qaeda and Islamic terrorist affiliates has not been extinguished. Iran and North Korea are continuing on their bellicose paths, while Pakistan and Afghanistan are progressing smartly down the road to chaos. Russia's new militancy and China's seemingly relentless rise also give cause for concern. If America now tries to pull back from the world stage, it will leave a dangerous power vacuum. The stabilizing effects of our presence in Asia, our continuing commitment to Europe, and our position as defender of last resort for Middle East energy sources and supply lines could all be placed at risk. In such a scenario there are shades of the 1930s, when global trade and finance ground nearly to a halt, the peaceful democracies failed to cooperate, and aggressive powers led by the remorseless fanatics who rose up on the crest of economic disaster exploited their divisions. Today we run the risk that rogue states may choose to become ever more reckless with their nuclear toys, just at our moment of maximum vulnerability. The aftershocks of the financial crisis will almost certainly rock our principal strategic competitors even harder than they will rock us. The dramatic free fall of the Russian stock market has demonstrated the fragility of a state whose economic performance hinges on high oil prices, now driven down by the global slowdown. China is perhaps even more fragile, its economic growth depending heavily on foreign investment and access to foreign markets. Both will now be constricted, inflicting economic pain and perhaps even sparking unrest in a country where political legitimacy rests on progress in the long march to prosperity. None of this is good news if the authoritarian leaders of these countries seek to divert attention from internal travails with external adventures. As for our democratic friends, the present crisis comes when many European nations are struggling to deal with decades of anemic growth, sclerotic governance and an impending demographic crisis. Despite its past dynamism, Japan faces similar challenges. India is still in the early stages of its emergence as a world economic and geopolitical power. What does this all mean? There is no substitute for America on the world stage. The choice we have before us is between the potentially disastrous effects of disengagement and the stiff price tag of continued American leadership. Are we up for the task? The American economy has historically demonstrated remarkable resilience. Our market-oriented ideology, entrepreneurial culture, flexible institutions and favorable demographic profile should serve us well in whatever trials lie ahead. The American people, too, have shown reserves of resolve when properly led. But experience after the Cold War era -- poorly articulated and executed policies, divisive domestic debates and rising anti-Americanism in at least some parts of the world -- appear to have left these reserves diminished. A recent survey by the Chicago Council on World Affairs found that 36% of respondents agreed that the U.S. should "stay out of world affairs," the highest number recorded since this question was first asked in 1947. The economic crisis could be the straw that breaks the camel's back.

## Competitiveness Good- Heg

Competitiveness is key to hegemony – keeps us ahead of challengers

Dabney 10 (Michael, Starr Writer for the Epoch Times, The Epoch Times “U.S. Competitive Edge in Jeopardy” 4-24, http://www.theepochtimes.com/n2/content/view/34041/)

In his seminal 2002 best-seller “The Creative Class,” author Richard Florida had a thing or two to say about America’s diminishing leadership in innovation. He wrote: “The United States appears to have thrown its gearshift into reverse. At all levels of government and even in the private sector, Americans have been cutting back crucial investments in creativity—in education, in research, in arts and culture—while pouring billions into low-return or no-return public projects like sports stadiums … If these trends continue, the U.S. may well squander its once-considerable lead.” It is America’s declining hegemony in high-tech innovation and research that has got decision makers in the U.S.—from the Oval Office and the National Science Foundation in Washington to researchers, business leaders, and educators across the country—concerned. “For more than half a century, the United States has led the world in scientific discovery and innovation. It has been a beacon, drawing the best scientists to its educational institutions, industries and laboratories from around the globe,” The Task Force on the Future of American Innovation wrote in the report “The Knowledge Economy: Is the United States Losing Its Competitive Edge?” “However, in today’s rapidly evolving competitive world, the United States can no longer take its supremacy for granted. Nations from Europe to Eastern Asia are on a fast track to pass the United States in scientific excellence and technological innovation,” the report said. Indeed, there are warnings on the horizon. Here are just some of them: Fewer graduates in science and engineering: America’s educational system was once at the forefront of producing the best scientists and engineers; but today, undergraduate science and engineering degrees in the United States are being awarded less frequently than in other countries. For example, according to the Council on Competitiveness, the ratio of first university degrees in natural sciences and engineering to the college-age population in the United States is only 5.7 degrees per 100. Some European countries, including Spain, Ireland, Sweden, the United Kingdom, France, and Finland, award between 8 and 13 degrees per 100. Japan awards 8 per 100, and Taiwan and South Korea each award about 11 per 100. Stagnant growth: Although the United States remains a competitive leader in innovation, it has made the least progress of all developing nations in competiveness and innovation capacity over the last decade, according to a 2009 report by the Information Technology and Innovation Foundation titled “The Atlantic Century: Benchmarking EU & U.S. Innovation and Competitiveness.” A fall from grace in key high-tech sectors: From 1998 to 2003, the balance of trade in the manufacture of aircraft—which for years was one of the strongest U.S. export sectors—fell from $39 billion to $24 billion, a loss of $15 billion, reflecting increased sales of foreign-made commercial aircraft to U.S. carriers. In areas of information technology, biotechnology, nanotechnology, and fusion energy science, the United States is also losing ground to Asia and some countries in the European Union (EU). “‘Can America compete?’ is the nation’s new No. 1 anxiety, the topic of emotional debate,” wrote Fortune magazine’s Geoffrey Colvin. “We’re not building human capital the way we used to. Our primary and secondary schools are falling behind the rest of the world’s. Our universities are still excellent, but the foreign students who come to them are increasingly taking their educations back home. As other nations multiply their science and engineering graduates—building the foundation for economic progress—ours are declining, in part because those fields are seen as nerdish and simply uncool.” To be sure, experts are quick to point out that despite these challenges, no one is saying that Americans can’t adapt and get back on track. The Task Force on the Future of American Innovation report stated: “The United States still leads the world in research and discovery, but our advantage is rapidly eroding, and our global competitors may soon overtake us.” To remain competitive in the global arena, the task force said, the United States must redirect its attention to the factors that have driven American innovation for years: research (especially that which is funded through federal and private entities for science and engineering), education, the technical workforce, and economic growth. Columbia University professor Dr. Jeffrey Sachs, cited in Colvin’s article, underscores this point. In a competitive global market, he said, it is science and technological breakthroughs that fundamentally influence economic development, and in an economy where technology leadership determines the winners, education trumps everything. That’s a problem for America, Bill Gates told Fortune magazine. He said while American fourth-graders are among the world’s best in math and science, by ninth grade they’ve fallen way behind. "This isn’t an accident or a flaw in the system; it is the system,” said Gates. That is why America’s decline in producing top-notch scientists and engineers is such a serious concern, experts say. While America lags, “low-cost countries—not just China and India but also Mexico, Malaysia, Brazil, and others—are turning out large numbers of well-educated young people fully qualified to work in an information-based economy,” said Colvin. For example, he said, China in 2005 produced about 3.3 million college graduates, India 3.1 million (the majority of them English-speaking), and the United States just 1.3 million. In engineering, China’s graduates numbered over 600,000, India’s 350,000 and the United States’ only about 70,000, making it highly probable that the United States may be required to outsource its research and development overseas eventually if this trend is not addressed. “Americans who thought outsourcing only threatened factory workers and call-center operators are about to learn otherwise,” Colvin warned. While many studies exploring the competitiveness of America in science and technology indicate that America still leads other countries in key areas of these fields, the 2009 report from the Information Technology and Innovation Foundation found cause for both the United States and the EU to be concerned in the face of increasing Asian competition. The report evaluated and rated global innovation-based competitiveness in science and technology of 40 nations and regions (including the EU-10 and the EU-15) as they currently stand, and in terms of the progress they have made over the last decade. In it, the United States was rated fourth place in global competitiveness among all nations, and the EU 18th place. However, the study found that the United States has made the least progress of the 40 nations and regions in improvement in international competitiveness and innovation capacity over the last decade, while China was rated first in this category.

Hegemony prevents extinction

Khalizad 11 (Zalmay, United States ambassador to Afghanistan, Iraq, and the United Nations, The National Review, “The Economy and National Security” 2-8, http://www.nationalreview.com/articles/259024/economy-and-national-security-zalmay-khalilzad?page=1

If U.S. policymakers fail to act and other powers continue to grow, it is not a question of whether but when a new international order will emerge. The closing of the gap between the United States and its rivals could intensify geopolitical competition among major powers, increase incentives for local powers to play major powers against one another, and undercut our will to preclude or respond to international crises because of the higher risk of escalation. The stakes are high. In modern history, the longest period of peace among the great powers has been the era of U.S. leadership. By contrast, multi-polar systems have been unstable, with their competitive dynamics resulting in frequent crises and major wars among the great powers. Failures of multi-polar international systems produced both world wars. American retrenchment could have devastating consequences. Without an American security blanket, regional powers could rearm in an attempt to balance against emerging threats. Under this scenario, there would be a heightened possibility of arms races, miscalculation, or other crises spiraling into all-out conflict. Alternatively, in seeking to accommodate the stronger powers, weaker powers may shift their geopolitical posture away from the United States. Either way, hostile states would be emboldened to make aggressive moves in their regions.

## Ext. Competitiveness Solves Heg

### Competitiveness is key to U.S. leadership

Rocco Martino, 2007, Ph.D. in astrophysics from the Institute of Aerospace Studies, Senior Fellow at the Foreign Policy Research Institute, former Professor of Mathematics at NYU, former Professor of Systems Engineering at the University of Waterloo, Spring, “A Strategy for Success: Innovation Will Renew American Leadership”, Orbis, Vol. 51, No. 2, KK

Much of the foreign policy discussion in the United States today is focused upon the dilemma posed by the Iraq War and the threat posed by Islamist terrorism. These problems are, of course, both immediate and important. However, America also faces other challenges to its physical security and economic prosperity, and these are more long-term and probably more profound. There is, ﬁrst, the threat posed by our declining competitiveness in the global economy, a threat most obviously represented by such rising economic powers as China and India. There is, second, the threat posed by our increasing dependence on oil imports from the Middle East. Moreover, these two threats are increasingly connected, as China and India themselves are greatly increasing their demand for Middle East oil. The United States of course faced great challenges to its security and economy in the past, most obviously from Germany and Japan in the ﬁrst half of the twentieth century and from the Soviet Union in the second half. Crucial to America’s ability to prevail over these past challenges was our technological and industrial leadership, and especially our ability to continuously recreate it. Indeed, the United States has been unique among great powers in its ability to keep on creating and recreating new technologies and new industries, generation after generation. Perpetual innovation and technological leadership might even be said to be the American way of maintaining primacy in world affairs. They are almost certainly what America will have to pursue in order to prevail over the contemporary challenges involving economic competitiveness and energy dependence

### United States competitiveness is key to hegemony

**Tellis, 2009** (Ashley, Senior Associate at the Carnegie Endowment for International Peace, “Preserving Hegemony: The Strategic Tasks Facing the United States, Global Asia, accessed on July 14, 2011, <http://www.globalasia.org/Back_Issues/Volume_4_Number_1_Spring_2009/Preserving_Hegemony_The_Strategic_Tasks_Facing_the_United_States.html>, KK)

Second, and equally importantly, who wins in the ensuing struggle — whether that struggle is short or long, peaceful or violent — is as important as by how much. This is particularly relevant because the past record unerringly confirms that the strongest surviving state in the winning coalition usually turns out to be the new primate after the conclusion of every systemic struggle. Both Great Britain and the United States secured their respective ascendancies in this way. Great Britain rose through the wreckage of the wars with Louis XIV and with Napoleon. The United States did so through the carnage of the hot wars with Hitler and Hirohito, finally achieving true hegemony through the detritus of the Cold War with Stalin and his successors. If the United States is to sustain this hard-earned hegemony over the long term, while countering as necessary a future Chinese challenge should it emerge, Washington will need to amass the largest differential in power relative not only to its rivals but also to its friends and allies. Particularly in an era of globalization, this objective cannot be achieved without a conscious determination to follow sensible policies that sustain economic growth, minimize unproductive expenditures, strengthen the national innovation system, maintain military capabilities second to none and enjoin political behaviors that evoke the approbation of allies and neutral states alike.

The successful pursuit of such policies will enable the United States to cope more effectively with near-term challenges as well, including the war on terrorism and managing threatening regional powers, and will ineluctably require — to return full circle — engaging the central tasks identified earlier as facing the new US administration. These tasks involve the need to satisfactorily define the character of desirable US hegemony, the need for sound policies that will renew the foundations of US strength, and the need to recover the legitimacy of US purposes and actions. What is clearly implied is that the principal burdens facing the next US president transcend Asia writ large. The success of these pursuits, however, will inevitably impact Asia in desirable ways, even as the resolution of several specifically Asian problems would invariably contribute to the conclusive attainment of these larger encompassing goals.

## Competitiveness Good- Clean Tech

### U.S. competitiveness is key to clean tech

**Muro, 2011** (Mark, Senior Fellow and Policy Director at the Brookings Institute, “Sizing the Clean Economy: A National and Regional Green Jobs Assessment, accessed on July 14, 2011, <http://www.brookings.edu/reports/2011/0713_clean_economy.aspx>, KK)

As to what governments, policymakers, and regional leaders should do to catalyze faster and broader growth across the U.S. clean economy, it is clear that the private sector will play the lead role, but governments have a role too. In this connection, the fact that significant policy uncertainties and gaps are weakening market demand for clean economy goods and services, chilling finance, and raising questions about the clean innovation pipeline reinforces the need for engagement and reform. Not only are other nations bidding to secure global production and the jobs that come with it but the United States currently risks failing to exploit growing world demand. And so this report concludes that vigorous private sector-led growth needs to be co-promoted through complementary engagements by all levels of the nation’s federal system to ensure the existence of well-structured markets, a favorable investment climate, and a rich stock of cutting-edge technology—as well as strong regional cast to all efforts. Along these lines, the report recommends that governments help:

### Prevents extinction from resource wars, great power competition, and warming

Klarevas 9 (Louis, Professor at the Center for Global Affairs – New York University, “[Securing American Primacy While Tackling Climate Change: Toward a National Strategy of Greengemony](http://www.huffingtonpost.com/louis-klarevas/securing-american-primacy_b_393223.html)”, Huffington Post, 12-15, http://www.huffingtonpost.com/louis-klarevas/securing-american-primacy\_b\_393223.html)

By not addressing climate change more aggressively and creatively, the United States is squandering an opportunity to secure its global primacy for the next few generations to come. To do this, though, the U.S. must rely on innovation to help the world escape the coming environmental meltdown. Developing the key technologies that will save the planet from global warming will allow the U.S. to outmaneuver potential great power rivals seeking to replace it as the international system's hegemon. But the greening of American strategy must occur soon. The U.S., however, seems to be stuck in time, unable to move beyond oil-centric geo-politics in any meaningful way. Often, the gridlock is portrayed as a partisan difference, with Republicans resisting action and Democrats pleading for action. This, though, is an unfair characterization as there are numerous proactive Republicans and quite a few reticent Democrats. The real divide is instead one between realists and liberals. Students of realpolitik, which still heavily guides American foreign policy, largely discount environmental issues as they are not seen as advancing national interests in a way that generates relative power advantages vis-à-vis the other major powers in the system: Russia, China, Japan, India, and the European Union. Liberals, on the other hand, have recognized that global warming might very well become the greatest challenge ever faced by mankind. As such, their thinking often eschews narrowly defined national interests for the greater global good. This, though, ruffles elected officials whose sworn obligation is, above all, to protect and promote American national interests. What both sides need to understand is that by becoming a lean, mean, green fighting machine, the U.S. can actually bring together liberals and realists to advance a collective interest which benefits every nation, while at the same time, securing America's global primacy well into the future. To do so, the U.S. must re-invent itself as not just your traditional hegemon, but as history's first ever green hegemon. Hegemons are countries that dominate the international system - bailing out other countries in times of global crisis, establishing and maintaining the most important international institutions, and covering the costs that result from free-riding and cheating global obligations. Since 1945, that role has been the purview of the United States. Immediately after World War II, Europe and Asia laid in ruin, the global economy required resuscitation, the countries of the free world needed security guarantees, and the entire system longed for a multilateral forum where global concerns could be addressed. The U.S., emerging the least scathed by the systemic crisis of fascism's rise, stepped up to the challenge and established the postwar (and current) liberal order. But don't let the world "liberal" fool you. While many nations benefited from America's new-found hegemony, the U.S. was driven largely by "realist" selfish national interests. The liberal order first and foremost benefited the U.S. With the U.S. becoming bogged down in places like Afghanistan and Iraq, running a record national debt, and failing to shore up the dollar, the future of American hegemony now seems to be facing a serious contest: potential rivals - acting like sharks smelling blood in the water - wish to challenge the U.S. on a variety of fronts. This has led numerous commentators to forecast the U.S.'s imminent fall from grace. Not all hope is lost however. With the impending systemic crisis of global warming on the horizon, the U.S. again finds itself in a position to address a transnational problem in a way that will benefit both the international community collectively and the U.S. selfishly. The current problem is two-fold. First, the competition for oil is fueling animosities between the major powers. The geopolitics of oil has already emboldened Russia in its 'near abroad' and China in far-off places like Africa and Latin America. As oil is a limited natural resource, a nasty zero-sum contest could be looming on the horizon for the U.S. and its major power rivals - a contest which threatens American primacy and global stability. Second, converting fossil fuels like oil to run national economies is producing irreversible harm in the form of carbon dioxide emissions. So long as the global economy remains oil-dependent, greenhouse gases will continue to rise. Experts are predicting as much as a 60% increase in carbon dioxide emissions in the next twenty-five years. That likely means more devastating water shortages, droughts, forest fires, floods, and storms. In other words, if global competition for access to energy resources does not undermine international security, global warming will. And in either case, oil will be a culprit for the instability. Oil arguably has been the most precious energy resource of the last half-century. But "black gold" is so 20th century. The key resource for this century will be green gold - clean, environmentally-friendly energy like wind, solar, and hydrogen power. Climate change leaves no alternative. And the sooner we realize this, the better off we will be. What Washington must do in order to avoid the traps of petropolitics is to convert the U.S. into the world's first-ever green hegemon. For starters, the federal government must drastically increase investment in energy and environmental research and development (E&E R&D). This will require a serious sacrifice, committing upwards of $40 billion annually to E&E R&D - a far cry from the few billion dollars currently being spent. By promoting a new national project, the U.S. could develop new technologies that will assure it does not drown in a pool of oil. Some solutions are already well known, such as raising fuel standards for automobiles; improving public transportation networks; and expanding nuclear and wind power sources. Others, however, have not progressed much beyond the drawing board: batteries that can store massive amounts of solar (and possibly even wind) power; efficient and cost-effective photovoltaic cells, crop-fuels, and hydrogen-based fuels; and even fusion. Such innovations will not only provide alternatives to oil, they will also give the U.S. an edge in the global competition for hegemony. If the U.S. is able to produce technologies that allow modern, globalized societies to escape the oil trap, those nations will eventually have no choice but to adopt such technologies. And this will give the U.S. a tremendous economic boom, while simultaneously providing it with means of leverage that can be employed to keep potential foes in check.

## Competitiveness Good- Escalation

### Competiveness key to solve escalation- US withdrawal from leadership causes conflict

Friedberg & Schoenfeld 8 (Aaron Friedberg is a professor of politics and international relations at Princeton University's Woodrow Wilson School. Gabriel Schoenfeld, senior editor of Commentary, is a visiting scholar at the Witherspoon Institute in Princeton, N.J., “The Dangers of a Diminished America,” Wall Street Journal, Ocbtober 21, 2008,<http://online.wsj.com/article/SB122455074012352571.html>]

With the global financial system in serious trouble, is America's geostrategic dominance likely to diminish? If so, what would that mean? One immediate implication of the crisis that began on Wall Street and spread across the world is that the primary instruments of U.S. foreign policy will be crimped. The next president will face an entirely new and adverse fiscal position. Estimates of this year's federal budget deficit already show that it has jumped $237 billion from last year, to $407 billion. With families and businesses hurting, there will be calls for various and expensive domestic relief programs. In the face of this onrushing river of red ink, both Barack Obama and John McCain have been reluctant to lay out what portions of their programmatic wish list they might defer or delete. Only Joe Biden has suggested a possible reduction -- foreign aid. This would be one of the few popular cuts, but in budgetary terms it is a mere grain of sand. Still, Sen. Biden's comment hints at where we may be headed: toward a major reduction in America's world role, and perhaps even a new era of financially-induced isolationism. Pressures to cut defense spending, and to dodge the cost of waging two wars, already intense before this crisis, are likely to mount. Despite the success of the surge, the war in Iraq remains deeply unpopular. Precipitous withdrawal -- attractive to a sizable swath of the electorate before the financial implosion -- might well become even more popular with annual war bills running in the hundreds of billions. Protectionist sentiments are sure to grow stronger as jobs disappear in the coming slowdown. Even before our current woes, calls to save jobs by restricting imports had begun to gather support among many Democrats and some Republicans. In a prolonged recession, gale-force winds of protectionism will blow. Then there are the dolorous consequences of a potential collapse of the world's financial architecture. For decades now, Americans have enjoyed the advantages of being at the center of that system. The worldwide use of the dollar, and the stability of our economy, among other things, made it easier for us to run huge budget deficits, as we counted on foreigners to pick up the tab by buying dollar-denominated assets as a safe haven. Will this be possible in the future? Meanwhile, traditional foreign-policy challenges are multiplying. The threat from al Qaeda and Islamic terrorist affiliates has not been extinguished. Iran and North Korea are continuing on their bellicose paths, while Pakistan and Afghanistan are progressing smartly down the road to chaos. Russia's new militancy and China's seemingly relentless rise also give cause for concern. If America now tries to pull back from the world stage, it will leave a dangerous power vacuum. The stabilizing effects of our presence in Asia, our continuing commitment to Europe, and our position as defender of last resort for Middle East energy sources and supply lines could all be placed at risk. In such a scenario there are shades of the 1930s, when global trade and finance ground nearly to a halt, the peaceful democracies failed to cooperate, and aggressive powers led by the remorseless fanatics who rose up on the crest of economic disaster exploited their divisions. Today we run the risk that rogue states may choose to become ever more reckless with their nuclear toys, just at our moment of maximum vulnerability. The aftershocks of the financial crisis will almost certainly rock our principal strategic competitors even harder than they will rock us. The dramatic free fall of the Russian stock market has demonstrated the fragility of a state whose economic performance hinges on high oil prices, now driven down by the global slowdown. China is perhaps even more fragile, its economic growth depending heavily on foreign investment and access to foreign markets. Both will now be constricted, inflicting economic pain and perhaps even sparking unrest in a country where political legitimacy rests on progress in the long march to prosperity. None of this is good news if the authoritarian leaders of these countries seek to divert attention from internal travails with external adventures. As for our democratic friends, the present crisis comes when many European nations are struggling to deal with decades of anemic growth, sclerotic governance and an impending demographic crisis. Despite its past dynamism, Japan faces similar challenges. India is still in the early stages of its emergence as a world economic and geopolitical power. What does this all mean? There is no substitute for America on the world stage. The choice we have before us is between the potentially disastrous effects of disengagement and the stiff price tag of continued American leadership. Are we up for the task? The American economy has historically demonstrated remarkable resilience. Our market-oriented ideology, entrepreneurial culture, flexible institutions and favorable demographic profile should serve us well in whatever trials lie ahead. The American people, too, have shown reserves of resolve when properly led. But experience after the Cold War era -- poorly articulated and executed policies, divisive domestic debates and rising anti-Americanism in at least some parts of the world -- appear to have left these reserves diminished. A recent survey by the Chicago Council on World Affairs found that 36% of respondents agreed that the U.S. should "stay out of world affairs," the highest number recorded since this question was first asked in 1947. The economic crisis could be the straw that breaks the camel's back.

## AT: Competitiveness Resilient

Resilience theory doesn’t assume that we’re lagging behind in competitiveness

Atkinson 10 (Robert, President of ITIF, "Role the US Government Can Play in Restoring US Innovation Leadership," before the Committee on Science and Technology, Subcommittee on Technology and Innovation, US House of Representatives, March 24)

But in the new global economy, in which knowledge is increasingly the major factor of production, this framework no longer sufficiently explains industrial and economic change. As such, in the 21st century global economy, nations can no longer be indifferent to the industrial and value-added mix of their economy. In contrast to the neoclassical view, knowledge is not a free-flowing commodity held solely by individuals. It is embedded in organizations and if organizations die so too does a significant amount of knowledge. Moreover, there are significant spillover effects from firm activities and significant first- mover advantages, including learning effects that enable firms’ early leads to translate into dominant positions. There are also significant network effects that mean that advancement in one industry (e.g., broadband telecommunications) can lead to advancement in a host of others (e.g., Internet video). As a result, for many parts of the U.S. economy exposed to international competition, if you lose it, you can’t easily reuse it. In these cases, foreign high-value imports may end up substituting for the defunct U.S. product. To bring this back to a company like Boeing, if America were to lose Boeing, in all likelihood it could not rely on market forces, even a dramatic drop in the dollar, to later recreate a domestic civilian aviation industry. For to do so would require recreating not just the firm, but it’s complex web of suppliers, professional associations, university programs in aviation engineering and other knowledge-sharing organizations. Clearly if Boeing were to go out of business, the economy would quickly regain “equilibrium” as factors of production were reabsorbed. But neoclassical economics assume that there is only one equilibrium and it is the role of government to make sure that that the market attains it. But new research suggests that there may be multiple equilibria in an economy, some better than others. Indeed, while economies can attain equilibrium, absent a robust innovation policy that equilibrium may not be a high-wage, high-skill equilibrium. Research by economist Elvio Accinelli has shown that there is strategic complementarity between the percentage of high-skill workers and high-value added, innovative firms in an economy. He finds that economies can be in perfect neoclassical equilibrium at either a high level of innovation or in a “poverty trap” of low skills and underinvestment in innovation. Since the poverty trap can be avoided if the number of innovative firms in an economy exceeds a threshold level leading to an increased number of skilled workers, there is a role for public policy to move economies to a high-level equilibrium on innovation.55

# \*\*AT: Competitiveness Good/ Competitiveness Bad\*\*

## Competitiveness Frontline

### Obama Solves- new initiatives

Bruce June 24th (Mary, ABC News political contributor and off-air producer covering the White House , Political Punch Blog**,** June 24th 2011, “The Presidential Planner: Obama Launches $500 Million Manufacturing Partnership In Pittsburgh”, <http://blogs.abcnews.com/politicalpunch/2011/06/the-presidential-planner-16.html>**)**

ABC News' Mary Bruce reports:Today the president will visit Carnegie Mellon University in Pittsburgh, Pa. to announce a new $500 million manufacturing initiative to encourage investments in technology and boost job creation.In a speech this morning, Obama will announce the "“Advanced Manufacturing Partnership,” an effort to bring together industry, universities and the government to determine the best investments to boost America's competitiveness.“Today, I’m calling for all of us to come together… to spark a renaissance in American manufacturing and help our manufacturers develop the cutting-edge tools they need to compete with anyone in the world,” Obama said in a written statement. “With these key investments, we can ensure that the United States remains a nation that ‘invents it here and manufactures it here’ and creates high-quality, good paying jobs for American workers.”The president is expected to highlight several specific initiatives this morning, including a $70 million project to award grants to companies that are making major advances in robotics and a plan to invest $100 million in “material genomes.”

### U.S. Economic leadership is unsustainable— By 2025, emerging economies like Brazil and China will control global growth and the Dollar will no longer be the global currency

Lin and Dailami 6/19/11[Justin and Mansoor, Chief Economist of the World Bank and Manager of the Emerging Global Trends Team of the Development Prospects Group at the World Bank, “Preparing for a multipolar world economy”, 6/19/11, http://english.aljazeera.net/indepth/opinion/2011/06/2011618134516152339.html]

Such forecasting also requires an understanding of how advanced economies are coming to grips with that shift, and how the international monetary system will adjust as a result. Having studied these factors, we believe that the world economy is on the verge of a transformative change - the transition to a multipolar world economic order. Throughout history, paradigms of economic power have been drawn and redrawn according to the rise and fall of those countries best equipped to drive global growth and provide stimulus to the global economy. Multipolarity, meaning more than two dominant growth poles, has at times been a key feature of the world economy. But at no time in modern history have developing countries been at the forefront of a multipolar economic system. Changing world order This pattern is set to change. By 2025, six emerging economies - Brazil, China, India, Indonesia, South Korea, and Russia - will collectively account for about one-half of global growth. The international monetary system is likely to cease being dominated by a single currency over the same years. As they pursue growth opportunities abroad and are encouraged by improved polices at home, emerging-market corporations will play an increasingly prominent role in global business and cross-border investment, while large pools of capital within their borders will allow emerging economies to become key players in financial markets. As dynamic emerging economies evolve to take their place at the helm of the world economy, a rethink of the conventional approach to global economic governance is needed. The current approach rests on three premises: the link between concentrated economic power and stability; the North-South axis of capital flows; and the centrality of the US dollar. Since the end of World War II, the US-centred global economic order has been built on a complementary set of tacit economic and security arrangements between the United States and its core partners, with emerging economies playing a peripheral role. In exchange for the US assuming the responsibilities of system maintenance, serving as the market of last resort, and accepting the international role of the dollar, its key economic partners, Western Europe and Japan, acquiesced in the special privileges enjoyed by the US - seigniorage gains, domestic macroeconomic-policy autonomy, and balance-of-payments flexibility. Broadly, this arrangement still holds today, though hints of its erosion became evident some time ago. The benefits that emerging economies have reaped from expanding their presence in international trade and finance are but one example of this. An increasingly multipolar global economy is likely to change the way the world conducts international business. A number of dynamic emerging-market firms are on a path toward dominating their industrial sectors globally in the coming years - much in the same way that companies based in advanced economies have done for the past half-century. In the years ahead, such firms are likely to press for economic reforms at home, serving as a force for increased integration of their home countries into global trade and finance. So the time may be ripe to move forward with the sort of multilateral framework for regulating cross-border investment that has been derailed several times since the 1920s. In contrast to international trade and monetary relations, no multilateral regime exists to promote and govern cross-border investment.

## Competitiveness Frontline

### Theory of competitiveness is flawed- not zero-sum

Krugman 94

(Paul Krugman, Nobel-prize-winning economist professor of economics and international affairs at [Princeton University](http://en.wikipedia.org/wiki/Princeton_University), Foreign Affairs, March/April 1994, Competitiveness: A Dangerous Obsession, p. 3)

How can this be in our interdependent world? Part of the answer is that the world is not as interdependent as you might think: countries are nothing at all like corporations. Even today, U.S. exports are only 10 percent of the value-added in the economy (which is equal to GNP). That is, the United States is still almost 90 percent an economy that produces goods and services for its own use. By contrast, even the largest corporation sells hardly any of its output to its own workers; the "exports" of General Motors, its sales to people who do not work there, are virtually all of its sales, which are more than 2.5 times the corporation's value-added. Moreover, countries do not compete with each other the way corporations do. Coke and Pepsi are almost purely rivals: only a negligible fraction of Coca-Cola's sales go to Pepsi workers, only a negligible fraction of the goods Coca-Cola workers buy are Pepsi products. So if Pepsi is successful, it tends to be at Coke's expense. But the major industrial countries, while they sell products that compete with each other, are also each other's main export markets and each other's main suppliers of useful imports. If the European economy does well, it need not be at U.S. expense; indeed, if anything a successful European economy is likely to help the U.S. economy by providing it with larger markets and selling it goods of superior quality at lower prices. International trade, then, is not a zero-sum game. When productivity rises in Japan, the main result is a rise in Japanese real wages; American or European wages are in principle at least as likely to rise as to fall, and in practice seem to be virtually unaffected. It would be possible to belabor the point, but the moral is clear: while competitive problems could arise in principle, as a practical, empirical matter the major nations of the world are not to any significant degree in economic competition with each other. Of course, there is always a rivalry for status and power, countries that grow faster will see their political rank rise. So it is always interesting to compare countries. But asserting that Japanese growth diminishes U.S. status is very different from saying that it reduces the U.S. standard of living, and it is the latter that the rhetoric of competitiveness asserts. One can, of course, take the position that words mean what we want them to mean, that all are free, if they wish, to use the term "competitiveness" as a poetic way of saying productivity, without actually implying that international competition has anything to do with it. But few writers on competitiveness would accept this view. They believe that the facts tell a very different story, that we live, as Lester Thurow put it in his best-selling book, Head to Head, in a world of "win-lose" competition between the leading economies. How is this belief possible?

### Alt causes --- education, retirement, immigration

Bartlett 06 president of the Global Economics Company in Minneapolis, Minnesota

[David L., 8/23. “Building A Competitive Workforce: Immigration And The US Manufacturing Sector,” http://www.ilw.com/articles/2006,0823-bartlett.shtm]

Shortages of skilled labor constitute the foremost challenge confronting U.S. manufacturers who face growing competition from manufacturers in Asia, Eastern Europe, and elsewhere. Demand for professionals with university degrees is rising as manufacturing becomes increasingly high tech. But the U.S. educational system is not producing enough highly educated native-born manufacturing workers to meet this growing demand. Moreover, the pending retirements of Baby Boom generation workers will further constrain the growth of the manufacturing labor force. Bridging this gap between the supply and demand for skilled workers requires new investments in the U.S. educational system and the formulation of immigration policies that respond to the labor needs of the U.S. economy. Yet current immigration policies, especially since 9/11, have made it more difficult for highly skilled professionals from abroad to enter the United States.

## Competitiveness Frontline

### Poor education makes competitiveness decline inevitable

Evers, 4/17/07 [**Staff Writer, CNET News.com]**

[Joris, Experts: Education key to U.S. competitiveness, http://news.cnet.com/Experts-Education-key-to-U.S.-competitiveness/2100-1022\_3-6176967.html]

Innovation and U.S. competitiveness will suffer if kids don't get a better education, a panel of experts said Tuesday. In particular, science, technology, engineering and math education in kindergarten through 12th grade needs a boost, according to panelists speaking at an event here that's part of a National Governors Association initiative. K-through-12 education has traditionally been a focus of governors because much of a state's budget is spent there. "In technology and engineering we're really doing nothing. In math and science we're basically teaching the same things we taught when I was in school and we're teaching it the same way," said Arizona Gov. Janet Napolitano, a Democrat who turns 50 this year. Photo: An innovation initiative As current chair of the National Governors Association, Napolitano established the "Innovation America" initiative. The goal is to come up with a list of policies and strategies governors across the U.S. can use to enhance the innovative capacity of their states and their ability to compete in this global economy, she said. Calling for improvements to U.S. education isn't new. Others, including Microsoft co-founder Bill Gates, have made similar pleas to help the U.S. stay competitive. The Innovation America effort goes beyond lower education. It also aims to establish links with higher education and suggests incentives for entrepreneurship, such as tax credits for early investors and businesses that do research with universities, Napolitano said. "What is going to keep us competitive and what is going to help us in-source jobs? That is the investment in human capital and that is the investment in innovation," Napolitano said. The focus from governors is needed as countries including China and India increase their roles in the global marketplace. "The world is shrinking and now we're really competing for people all across the world," said Sean Walsh, special adviser to California Gov. Arnold Schwarzenegger, a Republican. California has attracted smart people from across the globe, but that actually points to shortcomings in the U.S. education system, Walsh said. "In technology and engineering we're really doing nothing. In math and science we're basically teaching the same things we taught when I was in school and we're teaching it the same way." --Arizona Gov. Janet Napolitano "We are attracting the best and the brightest from all around the world, but that's making up for the fact that we're not necessarily producing some of the best and the brightest because our education is not up to snuff," he said. Silicon Valley in particular is at a crossroads, said Dennis Cima, vice president of education and policy at the Silicon Valley Leadership Group, which is made up of businesses in the area. "The crisis is really how America maintains its competitive edge and how Silicon Valley maintains its competitive edge...The availability of talent is a real huge issue," he said. One possible solution to the talent problem is promoting math and science among groups that typically don't pick those subjects, said John Thompson, chief executive at Symantec, which hosted the event. "Science, technology, engineering and math (education) is such an important issue for our company and our country, more should be done by every single organization to convince young women and minorities to participate and pursue careers in math and science," Thompson said. "It does represent an opportunity for us to expand the talent pool quite rapidly."

## Ext. US Dominance Unsustainable

### U.S. Economic Dominance is over— China has passed the U.S. in foreign exports, they are buying up other states’ debt and India, Turkey and Brazil will join them

Rachman 11 [Gideon, Financial Times chief foreign affairs commentator, “Think Again: American Decline”, January/February 2011, <http://www.foreignpolicy.com/articles/2011/01/02/think_again_american_decline?page=0,1>]

The Chinese challenge to the United States is more serious for both economic and demographic reasons. The Soviet Union collapsed because its economic system was highly inefficient, a fatal flaw that was disguised for a long time because the USSR never attempted to compete on world markets. China, by contrast, has proved its economic prowess on the global stage. Its economy has been growing at 9 to 10 percent a year, on average, for roughly three decades. It is now the world's leading exporter and its biggest manufacturer, and it is sitting on more than $2.5 trillion of foreign reserves. Chinese goods compete all over the world. This is no Soviet-style economic basket case. Japan, of course, also experienced many years of rapid economic growth and is still an export powerhouse. But it was never a plausible candidate to be No. 1. The Japanese population is less than half that of the United States, which means that the average Japanese person would have to be more than twice as rich as the average American before Japan's economy surpassed America's. That was never going to happen. By contrast, China's population is more than four times that of the United States. The famous projection by Goldman Sachs that China's economy will be bigger than that of the United States by 2027 was made before the 2008 economic crash. At the current pace, China could be No. 1 well before then. China's economic prowess is already allowing Beijing to challenge American influence all over the world. The Chinese are the preferred partners of many African governments and the biggest trading partner of other emerging powers, such as Brazil and South Africa. China is also stepping in to buy the bonds of financially strapped members of the eurozone, such as Greece and Portugal. And China is only the largest part of a bigger story about the rise of new economic and political players. America's traditional allies in Europe -- Britain, France, Italy, even Germany -- are slipping down the economic ranks. New powers are on the rise: India, Brazil, Turkey. They each have their own foreign-policy preferences, which collectively constrain America's ability to shape the world. Think of how India and Brazil sided with China at the global climate-change talks. Or the votes by Turkey and Brazil against America at the United Nations on sanctions against Iran. That is just a taste of things to come.

## Competitiveness Bad- War

### Competitiveness fails and leads to trade wars

**Krugman 94** (Paul, American economist, professor of Economics and International Affairs at the Woodrow Wilson School of Public and International Affairs at Princeton University, Centenary Professor at the London School of Economics, op-ed columnist for The New York Times and Nobel Prize Winner, (Mar. - Apr., 1994), “Competitiveness: A Dangerous Obsession”,Foreign Affairs Vol. 73, No. 2, pp. 28-44

Published by: Council on Foreign Relations, http://www.jstor.org/stable/20045917)

Th inking and speaking in terms of competitiveness poses three real dangers. First, it could result in the wasteful spending of government money supposedly to enhance U.S. competitiveness. Second, it could lead to protectionism and trade wars. Finally, and most important, it could result in bad public policy on a spectrum of important issues. During the 1950s, fear of the Soviet Union induced the U.S. gov erment to spend money on useful things like highways and science education. It also, however, led to considerable spending on more doubtful items like bomb shelters. The most obvious if least worri some danger of the growing obsession with competitiveness is that it might lead to a similar misallocation of resources. To take an exam ple, recent guidelines for government research funding have stressed the importance of supporting research that can improve U.S. inter national competitiveness. This exerts at least some bias toward inven tions that can help manufacturing firms, which generally compete on international markets, rather than service producers, which generally do not. Yet most of our employment and value-added is now in ser vices, and lagging productivity in services rather than manufactures has been the single most important factor in the stagnation of U.S. living standards. A much more serious risk is that the obsession with competitive ness will lead to trade conflict, perhaps even to a world trade war. FOREIGN AFFAIRS March/April 1994 [41] Paul Krugman Most of those who have preached the doctrine of competitiveness have not been old-fashioned protectionists. They want their countries to win the global trade game, not drop out. But what if, despite its best efforts, a country does not seem to be winning, or lacks confidence that it can? Then the competitive diagnosis inevitably sug gests that to close the borders is better than to risk having foreigners take away high-wage jobs and high-value sectors. At the very least, the focus on the supposedly competitive nature of international eco nomic relations greases the rails for those who want confrontational if not frankly protectionist policies. We can already see this process at work, in both the United States and Europe. In the United States, it was remarkable how quickly the sophisticated interventionist arguments advanced by Laura Tyson in her published work gave way to the simple-minded claim by U.S. Trade Representative Mickey Kantor that Japan s bilateral trade sur plus was costing the United States millions of jobs. And the trade rhetoric of President Clinton, who stresses the supposed creation of high-wage jobs rather than the gains from specialization, left his administration in a weak position when it tried to argue with the claims of nafta foes that competition from cheap Mexican labor will destroy the U.S. manufacturing base. Perhaps the most serious risk from the obsession with competi tiveness, however, is its subtle indirect effect on the quality of eco nomic discussion and policymaking. If top government officials are strongly committed to a particular economic doctrine, their com mitment inevitably sets the tone for policy-making on all issues, even those which may seem to have nothing to do with that doctrine. And if an economic doctrine is flatly, completely and demonstrably wrong, the insistence that discussion adhere to that doctrine inevitably blurs the focus and diminishes the quality of policy dis cussion across a broad range of issues, including some that are very far from trade policy per se. Consider, for example, the issue of health care reform, undoubt edly the most important economic initiative of the Clinton admin istration, almost surely an order of magnitude more important to U.S. living standards than anything that might be done about trade [ (unless the United States provokes a full-blown trade war). Since health care is an issue with few direct inter national linkages, one might have expected it to be largely insulated from any distortions of policy resulting from misguided con- Competitiveness risks distorting the cerns about competitiveness. quality of domestic economic policy. But the administration placed the development of the health care plan in the hands of Ira Magaziner, the same Magaziner who so conspicuously failed to do his homework in arguing for government promotion of high value-added indus tries. Magazinern prior writings and consulting on economic policy focused almost entirely on the issue of international competition, his views on which may be summarized by the title of his 1990 book, The Silent War. His appointment reflected many factors, of course, not least his long personal friendship with the first couple. Still, it was not irrelevant that in an administration committed to the ideology of competitiveness Magaziner, who has consistently recommended that national industrial policies be based on the corporate strategy con cepts he learned during his years at the Boston Consulting Group, was regarded as an economic policy expert. We might also note the unusual process by which the health care reform was developed. In spite of the huge size of the task force, rec ognized experts in the health care field were almost completely absent, notably though not exclusively economists specializing in health care, including economists with impeccable liberal credentials like Henry Aaron of the Brookings Institution. Again, this may have reflected a number of factors, but it is probably not irrelevant that anyone who, like Magaziner, is strongly committed to the ideology of competitiveness is bound to have found professional economists notably unsympathetic in the past?and to be unwilling to deal with them on any other issue. To make a harsh but not entirely unjustified analogy, a government wedded to the ideology of competitiveness is as unlikely to make good economic policy as a government committed to creationism is to FOREIGN AFFAIRS \* March/April 1994 [43] Paul Krugman make good science policy, even in areas that have no direct relation ship to the theory of evolution. ADVISERS WITH NO CLOTHES If the obsession with competitiveness is as misguided and dam aging as this article claims, why aren't more voices saying so? The answer is, a mixture of hope and fear. On the side of hope, many sensible people have imagined that they can appropriate the rhetoric of competitiveness on behalf of desirable economic policies. Suppose that you believe that the United States needs to raise its savings rate and improve its educational system in order to raise its productivity. Even if you know that the benefits of higher productivity have nothing to do with international competi tion, why not describe this as a policy to enhance competitiveness if you think that it can widen your audience? It's tempting to pander to popular prejudices on behalf of a good cause, and I have myself suc cumbed to that temptation. As for fear, it takes either a very courageous or very reckless econ omist to say publicly that a doctrine that many, perhaps most, of the world s opinion leaders have embraced is flatly wrong. The insult is all the greater when many of those men and women think that by using the rhetoric of competitiveness they are demonstrating their sophistication about economics. This article may influence people, but it will not make many friends. Unfortunately, those economists who have hoped to appropriate the rhetoric of competitiveness for good economic policies have instead had their own credibility appropriated on behalf of bad ideas. And somebody has to point out when the emperors intellectual wardrobe isn't all he thinks it is. So let's start telling the truth: competitiveness is a meaningless word when applied to national economies. And the obsession with competitiveness is both wrong and dangerous.?

## Competitiveness Bad- Econ

### Competitiveness not key to econ and could lead to bad economic policy making

**KRUGMAN 11** (Paul, American economist, professor of Economics and International Affairs at the Woodrow Wilson School of Public and International Affairs at Princeton University, Centenary Professor at the London School of Economics, op-ed columnist for The New York Times and Nobel Prize Winner, January 23, 2011“The Competition Myth”, <http://www.nytimes.com/2011/01/24/opinion/24krugman.html?_r=1>)

Correction Appended Meet the new buzzword, same as the old buzzword. In advance of the State of the Union, President Obama has telegraphed his main theme: competitiveness. The President’s Economic Recovery Advisory Board has been renamed the President’s Council on Jobs and Competitiveness. And in his Saturday radio address, the president declared that “We can out-compete any other nation on Earth.” This may be smart politics. Arguably, Mr. Obama has enlisted an old cliché on behalf of a good cause, as a way to sell a much-needed increase in public investment to a public thoroughly indoctrinated in the view that government spending is a bad thing. But let’s not kid ourselves: talking about “competitiveness” as a goal is fundamentally misleading. At best, it’s a misdiagnosis of our problems. At worst, it could lead to policies based on the false idea that what’s good for corporations is good for America. About that misdiagnosis: What sense does it make to view our current woes as stemming from lack of competitiveness? It’s true that we’d have more jobs if we exported more and imported less. But the same is true of Europe and Japan, which also have depressed economies. And we can’t all export more while importing less, unless we can find another planet to sell to. Yes, we could demand that China shrink its trade surplus — but if confronting China is what Mr. Obama is proposing, he should say that plainly. Furthermore, while America is running a trade deficit, this deficit is smaller than it was before the Great Recession began. It would help if we could make it smaller still. But ultimately, we’re in a mess because we had a financial crisis, not because American companies have lost their ability to compete with foreign rivals. But isn’t it at least somewhat useful to think of our nation as if it were America Inc., competing in the global marketplace? No. Consider: A corporate leader who increases profits by slashing his work force is thought to be successful. Well, that’s more or less what has happened in America recently: employment is way down, but profits are hitting new records. Who, exactly, considers this economic success? Still, you might say that talk of competitiveness helps Mr. Obama quiet claims that he’s anti-business. That’s fine, as long as he realizes that the interests of nominally “American” corporations and the interests of the nation, which were never the same, are now less aligned than ever before.

### Competitiveness encourages speed economics which leads to rapid investment and development – that’s unsustainable and makes financial collapse inevitable

**Goldman et al. ‘6**

(Robert Goldman, Stephen Papson, Noah Kersey, Landscapes of the Social Relations of Production in a Networked Society, Fast Capitalism 2.1, <http://www.uta.edu/huma/agger/fastcapitalism/2_1/SocialRelations.html>, KK)

The formula for success is knowledge, power, mobility, and determination. Situated in positions of power, the corporate elite imagistically embody these attributes -- they are active, informed, determined, focused, surrounded by technology. Even when the body is not moving, information continues to flow via cell phones and electronic information tools integrated into the scenes. Embodied in pinstripes, wingtips, and the other accoutrements of power, these scenes suggest that markets may be volatile but capital is composed and disciplined in its pursuit of opportunities. Nowhere is this scenario more graphically played out than in the 1999 ad campaign for Salomon Smith Barney that reveals a world moving at warp speed while the elite investment bankers calmly survey it as they spot the “opportunities” that will pay off.

These representations resemble what Thomas Friedman (1999) dubs the “Electronic Herd” in The Lexus and the Olive Tree. His metaphor embraces the volatility of markets in conjunction with the diffusion of capital across the electronic circuits of finance. According to Friedman, no corporation or nation-state can risk losing the favor of the Herd. In the global economy this can be catastrophic to market values. Those who comprise the Herd compete to maximize the rate of return on investments, which translates into manically scouring the planet for opportunities or cutting losses as quickly as possible when it is time to sell. The manic need to invest is matched by panic selling. Combined with the ability to transfer funds and monies electronically, a stock can be cut in half in hours, or a country’s currency thrown into crisis with a rapidity hitherto unknown.

Friedman’s metaphor of the electronic herd pictures an economic elite dashing about in a global free market economy fueled by technological innovation and the liquidity of capital forms (currency, stocks, commodities). The figures who compose this grouping are constructed as dynamic, mobile, and technologically sophisticated. They fluidly traverse the world of nonplaces and occupy office suites in corporate towers surrounded by personal communication technologies. And yet, even in these idealized abstractions, uncertainties and anxieties seep through. Narratives of success are sprinkled with hints of impending crisis, or stories of those who made the wrong choices - the wrong office equipment, the wrong software, the wrong package delivery service. The exhilaration associated with accelerated social, economic, and technological change mixes with an undercurrent of apprehension. Speed may mean winning, but it can also lead to crashing. There are more losers than winners in casino capitalism. The landscape of risk is omnipresent.

#  \*\*ITAR Competitiveness CP\*\*

## 1NC

### The United States federal government should modify the International Traffic on Arms Regulation to exempt commercial technologies from its munitions list

### Solves arbitrary regulations that prevent U.S. space leadership around the world

**The Economist** 8/21/**08** (“Earthbound” <http://www.economist.com/node/11965352?story_id=11965352>) MFR

IN THE spring of 2006 Robert Bigelow needed to take a stand on a trip to Russia to keep a satellite off the floor. The stand was made of aluminium. It had a circular base and legs. It was, says the entrepreneur and head of Bigelow Aerospace in Nevada, “indistinguishable from a common coffee table”. Nonetheless, the American authorities told Mr Bigelow that this coffee table was part of a satellite assembly and so counted as a munition. During the trip it would have to be guarded by two security officers at all times. Exporting technology has always presented a dilemma for America. The country leads the world in most technologies and some of these give it a military advantage. If export rules are too lax, foreign powers will be able to put American technology in their systems, or copy it. But if the rules are too tight, then it will stifle the industries that depend upon sales to create the next generation of technology. It is a difficult balance to strike and critics charge that America has erred on the side of stifling. They claim that overly strict export controls have so damaged the space industry that America’s national security is now threatened by its dwindling leadership in space technology. The system, they complain, fails to distinguish between militarily sensitive hardware that should be controlled and widely available commercial technologies, such as lithium-ion batteries and solar cells. The zealous application of the export rules is the American space industry’s biggest handicap.

## 2NC Solvency

### It’s possible to reform ITAR – its been proposed

**The Economist** 8/21/**08** (“Earthbound” <http://www.economist.com/node/11965352?story_id=11965352>) MFR

In December Bigelow Aerospace filed a commodity-jurisdiction request which would oblige the Directorate of Defence Trade Controls to rule whether one of its products, a set of inflatable space habitats, should be on the State Department’s munitions list. Although it is unclear how far the request will get, it may be the first direct challenge to the department’s implementation of ITAR for space technology. There are signs of change. In late January the White House made some small adjustments to the way the ITAR regulations would be administered. The most important was a promise that licensing decisions would be taken within 60 days of an application. Mr Rouge says that work is also afoot to update the munitions list, which contains the set of military technologies that must be protected. The idea is to make sure the right technologies are controlled. “We are in the process of setting up to do that. We now understand the problem and its ramifications.” And Mr Rouge says that Congress and the White House are weighing whether to change the ITAR legislation itself. When might this happen? “It’s a pre-decisional situation,” he says obliquely. Mr Chao thinks that such a reform would represent a sea-change in export legislation. Such change is overdue. There can be a trade-off between trade and security, but America’s regime is so badly designed that it can have more of both. This means spending less time on schemes to control the movement of coffee tables, and more on what really matters.

## 2NC Space Leadership

**The counterplan solves space leadership – creates a competitive industry fostering better tech and increases quality personnel**

FISHER 3/25/10 (WILLIAM O., LIEUTENANT COLONEL United States Army “U.S. SPACE POLICY AND SPACE INDUSTRY STRANGULATION” – USAWC STRATEGY RESEARCH PROJECT <http://oai.dtic.mil/oai/oai?verb=getRecord&metadataPrefix=html&identifier=ADA521763>) MFR

U.S. Space policy must balance three competing demands; national security, economic development in the space industry, and recruiting and developing talented people to support and advance the Nation’s pre-eminent position as the world leader in space. First and foremost is national security. Space must not become a base from which freedom can be threatened and it must be accessible to allow for the positioning of systems which enhance the U.S. national security. This means that technologies that are vital to national security must be safeguarded. Safeguarding technologies, however, can have the negative effect of driving innovators from the market, if it is restricted in such a manner that economic benefits cannot be realized by those who assume the considerable risk in research and development costs. Safeguarding, by its very nature, restricts markets which technologies can be sold. The fundamental problem becomes a balance between national security, and creating and sustaining a globally competitive space industry. These realms are not mutually exclusive. If technologies are overly guarded and profits cannot be realized, then innovators will choose other markets and development of U.S. space related technologies will atrophy. There is an opportunity cost in this atrophy as U.S. technology development will not occur, or will lag behind other nation state competitors. The third consideration to the balance between national security and market development is its effect on recruitment and retention of quality personnel into the U.S. space industry. If the industry, or market, is not healthy, then talented personnel will choose to work in other industries thus exacerbating the lack of technology development and the lag behind nation state competitors. It is within this tensional environment that an effective space policy must be written and executed.

## 2NC Space Leadership

### Reforming ITAR solves – it has docked our stake in the space technology industry by 30%

The Economist 8/21/08 (“Earthbound” <http://www.economist.com/node/11965352?story_id=11965352>) MFR

Michael Beavin, a programme analyst at the Office of Space Commercialisation in America’s Commerce Department, says that the wording of the legislation is open to broader interpretation than Congress intended. An international GPS ground station may have to get export approval to buy a new screen for its Dell laptop, because it is part of a system that is controlled. Pierre Chao, a senior associate at the Centre for Strategic and International Studies (CSIS), a think-tank in Washington, DC, says that as soon as satellites were put on the munitions list “the little screw and the commodity wiring became a munition”. Furthermore, anything modified for a munition is a munition. This clause, he says, captures all the little “doodads”. In fact, he explains, it’s the extremely sophisticated “part X” that you want to keep out of the enemy’s hands, not the whole box. “You are using an extremely blunt instrument for sophisticated policy needs.” You may think that is the price of security, but Lon Rains, the editor of Space News, says that ITAR has “sped up the inevitable proliferation of advanced technology, by forcing other countries to find other means of obtaining satellite components that had previously been manufactured only in the United States.” Joe Rouge, the director of the National Space Security Office at the Pentagon, thinks that ITAR probably made sense a decade ago but agrees that it is now a blunt instrument. “The problem is that today you can buy international equivalents that are as good as what American industry is producing.” The result is a system that is too successful in keeping American technology out of foreign hands. Before 1999, when the State Department took over the export regulation of satellites, America dominated commercial satellite-making with an average market share of 83%. Since then, this share has declined to 50%, according to Space Review. ITAR’s critics blame the change in export controls. As bidding opened in July this year for the €3.4 billion ($5 billion) of contracts for Galileo, a constellation of 30 positioning satellites being built by the European Union and the European Space Agency, European officials cited export controls as a reason for avoiding anything to do with America wherever possible. At the start of the decade, Alcatel Alenia Space (now Thales Alenia) announced that it would create an “ITAR-free” spacecraft, purged of all American components. Between 1998 and 2004 the company doubled its market share to over 20%, becoming perhaps the greatest beneficiary of export policies. Export controls also prompted the European Space Agency to pay to develop a European supplier of solenoid valves, so that European space-propulsion systems do not depend on this American part. Similarly, Telesat, Canada’s satellite-fleet operator, has said that ITAR is one of the reasons it has selected European satellite builders in recent competitions. And in 2005 EADS Sodern, a French maker of satellites’ control and positioning systems and subsidiary of the Franco-German company EADS, said it would start to phase out its American supplier base. Meanwhile, American components and satellites are suffering because of the cost and delays in doing business with the firms that make them. International companies cannot access an inventory of vital American satellite components and place orders as the need develops because each component must run the gauntlet of export controls. Whether the component is a motor, a control valve, a star tracker, an antenna or a chip, it is simpler to look for non-American alternatives. For years, critics have grumbled about the export controls at meetings. Until recently, the State Department ignored such complaints. Mr Chao, of CSIS, reckons this attitude is changing. The marketing of the ITAR-free satellite woke people up. More than that, though, he says that data have started to accumulate. In 2006 a survey of American industry executives found that ITAR’s licensing requirements were hard to understand and took an unpredictable amount of time to negotiate; this hindered strategic decisions. And in 2007 a survey of around 200 space companies by the Air Force Research Laboratory cited export controls as the highest barrier to foreign markets. Just across the border, in Canada, the effects were just as profound. A study in 2006 of Canadian space companies found that 70% faced delays of three to 12 months because of ITAR. All of them could find non-American suppliers for the technologies they were looking for. And after 1999 in Canada, there was also a big dip in the number of American-Canadian projects. Reducing the revenue and profit of the space industry might be a reasonable thing to do if such constraints supported military objectives. But critics accuse ITAR of imposing such a burden on smaller companies that it is harming the entire industry, and thus national security. Prime contractors, such as Boeing and Lockheed Martin, can absorb ITAR’s costs as part of doing business. But the second-tier contractors that support them and the third-tier component suppliers are having much more trouble. The burden of compliance on the component-makers was nearly 8% of foreign sales in 2006. For prime contractors this was 1%. A spokesman for the State Department says that it would be wrong to assume export controls directly caused the weakness of third-tier component suppliers. He added that they could be suffering from any number of difficulties, including “offsets, globalisation, foreign industrial priorities and policy, even the domestic corporate-tax structure.” Whatever its cause, a CSIS study published in February concluded that America was being harmed. Second- and third-tier companies are important innovators. Moreover, in fields like solar cells, travelling-wave tubes and read-out integrated circuits, there is either only one domestic supplier or a financially weak supplier. The situation is so bad, say some, that the Pentagon fears it may have to start buying satellite components overseas—rather as NASA, America’s space agency, is scrabbling around to find transport to carry its astronauts to the international space station. Mr Rouge thinks the health of the industry should be a matter of military concern. It is not only private companies that are suffering. In 2005 the European Space Agency concluded that ITAR made its co-operation with NASA’s Mars rover “too complicated to be feasible” and that it had to become more autonomous. Others have warned that delays in agreements allowing Americans to speak with foreigners (known as technical-assistance agreements) are a threat to the safe operation of the International Space Station.

## 2NC Solves Braindrain

### Reducing ITAR restrictions solves brain drain and maintains U.S. competitiveness

FISHER 3/25/10 (WILLIAM O., LIEUTENANT COLONEL United States Army “U.S. SPACE POLICY AND SPACE INDUSTRY STRANGULATION” – USAWC STRATEGY RESEARCH PROJECT <http://oai.dtic.mil/oai/oai?verb=getRecord&metadataPrefix=html&identifier=ADA521763>) MFR

The regulatory requirements have also had a negative effect on the pool of human capital available in the U.S. for research and development. For many of the same reasons that materiel was controlled (the ongoing cold war), human capital and intellectual capital are also regulated. In this area the world has experienced great change. As with technology, the regulatory requirements have not changed to meet the requirements of the modern world. Traditionally, the United States had to worry about science and technology flowing out of the country. Today, the U.S. has to be concerned about keeping science and technology flowing into the country.40 As other countries, India and China for example, experience increased economic growth; investment is made in its human capital. This includes world class schools with advanced curriculua in science and technology. In these, and other emerging countries, a world class education system, coupled with a viable industrial base to provide jobs, and a broadening middle class and upper middle class, makes staying near family, hearth and home an attractive option to studying, working and living in the U.S.. The result is that talented human capital remains home instead of emigrating to the United States.41 U.S. space policy, implemented through the AECA and ITAR, has impeded the flow of human capital into the U.S. space industry. Because ITAR restricted information can only be accessed by U.S. citizens or shared with foreign citizens through the licensing process (information is treated like an export), hiring talented foreign scientists and engineers is problematic. Compounding the problem is the fact that licenses are granted for specific information and projects and sharing of information across projects, even in the company, is forbidden unless further licensing is obtained. Limits placed on the number of H1B1 Visas, those used for non-immigrating persons with specialty skills who want to work in the U.S., reduce the overall pool available and exacerbate the problem. The reason this is a major problem for the U.S. is because there are not enough U.S. citizen engineering students to support projected growth in the industry. The U.S. Bureau of Labor Statistics is predicting an 11% increase in space related engineering positions between 2006 and 2016.42 These are new positions and the prediction does not take into account retirements from an aging workforce with approximately 58% of the workforce over 50 years of age. Lockheed Martin has indicated it will need 140,000 engineers over the next ten years just to cover engineer retirements.43 While enrollment 15 for baccalaureate engineering degrees at U.S. universities in 2008 is primarily U.S. students (94%), foreign students enrolled in masters programs make up almost half the population (43%), and are over half for doctoral programs (52%).44 Trends from 1999 to 2007 for engineering baccalaureate degrees awarded are fairly flat running between 91% and 94%. The U.S. student to foreign student ratio for masters programs shows a downward trend from 2000 to 2004 but recovered by 2007 to just 1% higher than 1999 at 61%. U.S. student doctorial degrees awarded have experienced a significant and sustained downward trend from 1999 to 2007 with a 16% decline over that period.45 Two disturbing trends that point to a dilution of the U.S. high technology intellectual base are found in authorship of science and engineering articles and the U.S. share of patent grants issued by the U.S. Authorship, or in this case co-authorship of U.S. science and engineering articles between U.S. and the international community has increased by 27% from 1988 to 2007. This indicates a reduced pool of available U.S. engineers with doctorial level education to drive innovation within the industry. 46 Indeed, this is a two sided coin that clearly shows greater international cooperation, which is welcomed, but it also shows the U.S. science and engineering community not having the resources to author articles independent of the greater international community. Similarly, the U.S. share of U.S. patent grants has been on the decline from 1995 to 2008 dropping by 7% during that period.47 The number of patent grants obtained by an individual or corporation is an indication of successful and marketable innovation. The drop for the U.S. and corresponding rise in U.S. patent grants for Asian countries is another indication of shifting intellectual capital. 16 It is clear that to sustain growth and fill expected engineering positions that the U.S. will have to depend on talented and specialized foreign human capital. Unfortunately, due to a globally broadened technology base and an expanding middle and upper middle class in many of the countries from which these foreign workers hail, the U.S. might be at a competitive disadvantage. In other words these workers will opt to work at home. Access to information, feeling of being part of a team, the ability to work in a desired discipline or on a desired project will all be factors in the individual decision of where to settle and start or continue careers. AECA, USML and ITAR all work against the U.S. in that they restrict access to information and the ability to work on desired projects because of a perceived threat to national security.

## 2NC Space Security

### Counterplan lets the U.S. maintain defense leadership in space – better tech and focus, there’s no benefits to keeping ITAR

FISHER 3/25/10 (WILLIAM O., LIEUTENANT COLONEL United States Army “U.S. SPACE POLICY AND SPACE INDUSTRY STRANGULATION” – USAWC STRATEGY RESEARCH PROJECT <http://oai.dtic.mil/oai/oai?verb=getRecord&metadataPrefix=html&identifier=ADA521763>) MFR

The Commission’s conclusions identify the rapidly growing U.S. dependence on space and that this dependence is creating vulnerabilities. It also recommends that U.S. national security space interests are recognized as a top national security priority. 54 It also reiterates investment in human capital is essential for the U.S. to remain the world’s leading space-faring nation and the need to sustain its investment in enabling and breakthrough technologies in order to maintain its leadership in space.55 The 2008 study was compiled by a similarly named “The Independent Assessment Panel on the Organization and Management of National Security Space”. No discernable action was taken in the ensuing years on report recommendations and in 2008 another report was commissioned by Congress. 56 The Independent Assessment Panel (IAP) was chartered to review and assess the DoD management and organization of national security in space and make appropriate recommendations to strengthen the U.S. position.57 The charter is also very similar to the previous Commission’s, and made many of the same recommendations. In its opening memorandum to Senator Levin, the IAP is very pointed about the importance of space and that U.S. leadership in space provides a vital national advantage across the scientific, commercial and national security realms.58 In very direct language, and with a unanimous voice, the IAP stated that without significant improvements to the leadership and management of national security space programs, that U.S. space preeminence will erode to the extent that space ceases to provide a competitive national security advantage.59 It’s very first recommendation was that the government establish and 19 execute a national space policy.60 Recommendations Further recommendations include organizational changes and relaxing aspects of ITAR, finding that ITAR restrictions have had a counterproductive effect on U.S. space competitiveness and have not effectively limited the proliferation of space technologies, or the access of foreign firms to competitive space technologies. Since these parallel the recommendations of the 2001 Commission, one can divine that little was done in the seven years between reports, a period that witnessed a significant decline of U.S. leadership in space.

# LINKS/INTERNAL LINK

## \*\*Space Solves Econ/Competitiveness\*\*

## Space Solves Econ/Competitiveness- General

**Exploration of space is critical to U.S. economic and competitive leadership – 5 reasons**

**Hubbard** 1/11/**08** (G. Scott, professor of Aeronautics and Astronautics at Stanford University and former director of the NASA Ames Research Center “Is Space Exploration Worth the Cost? A Freakonomics Quorum” <http://www.freakonomics.com/2008/01/11/is-space-exploration-worth-the-cost-a-freakonomics-quorum/>) MFR

The debate about the relative merits of exploring space with humans and robots is as old as the space program itself. Werner Von Braun, a moving force behind the Apollo Program that sent humans to the moon and the architect of the mighty Saturn V rocket, believed passionately in the value of human exploration — especially when it meant beating the hated Soviet Empire. James Van Allen, discoverer of the magnetic fields that bear his name, was equally ardent and vocal about the value of robotic exploration. There are five arguments that are advanced in any discussion about the utility of space exploration and the roles of humans and robots. Those arguments, in roughly ascending order of advocate support, are the following: 1. Space exploration will eventually allow us to establish a human civilization on another world (e.g., Mars) as a hedge against the type of catastrophe that wiped out the dinosaurs. 2. We explore space and create important new technologies to advance our economy. It is true that, **for every dollar we spend on the space program, the U.S. economy receives about $8 of economic benefit.** Space exploration can also serve as a stimulus for children to enter the fields of science and engineering. 3. Space exploration in an international context offers a peaceful cooperative venue that is a valuable alternative to nation state hostilities. One can look at the International Space Station and marvel that the former Soviet Union and the U.S. are now active partners. International cooperation is also a way to reduce costs. 4. National prestige requires that the U.S. continue to be a leader in space, and that includes human exploration. History tells us that great civilizations dare not abandon exploration. 5. Exploration of space will provide humanity with an answer to the most fundamental questions: Are we alone? Are there other forms of life beside those on Earth? It is these last two arguments that are the most compelling to me. It is challenging to make the case that humans are necessary to the type of scientific exploration that may bring evidence of life on another world. There are strong arguments on both sides. Personally, I think humans will be better at unstructured environment exploration than any existing robot for a very long time. There are those who say that exploration with humans is simply too expensive for the return we receive. However, I cannot imagine any U.S. President announcing that we are abandoning space exploration with humans and leaving it to the Chinese, Russians, Indians, Japanese or any other group. I can imagine the U.S. engaging in much more expansive international cooperation. Humans will be exploring space. The challenge is to be sure that they accomplish meaningful exploration.

### It provides jobs, helps businesses, isn’t costly, and sustains U.S. tech leadership – it literally is an investment on Earth

**Cowing** 1/11/**08** (Keith, founder and editor of NASAWatch.com and former NASA space biologist. “Is Space Exploration Worth the Cost? A Freakonomics Quorum” <http://www.freakonomics.com/2008/01/11/is-space-exploration-worth-the-cost-a-freakonomics-quorum/>) MFR

Right now, all of America’s human space flight programs cost around $7 billion a year. That’s pennies per person per day. In 2006, according to the USDA, Americans spent more than $154 billion on alcohol. We spend around $10 billion a month in Iraq. And so on. Are these things more important than human spaceflight because we spend more money on them? Is space exploration less important? Money alone is not a way to gauge the worthiness of the cost of exploring space. NASA is fond of promoting all of the spinoffs that are generated from its exploits, such as microelectronics. But are we exploring space to explore space, or are we doing all of this to make better consumer electronics? I once heard the late Carl Sagan respond to this question by saying, “you don’t need to go to Mars to cure cancer.” If you learn how to do that as a side benefit, well, that’s great, but there are probably more cost effective ways to get all of these spinoffs without leaving Earth. To be certain, tax dollars spent on space projects result in jobs — a large proportion of which are high paying, high tech positions. But many other government programs do that as well — some more efficiently. Still, for those who would moan that this money could be “better spent back on Earth,” I would simply say that all of this money is spent on Earth — it creates jobs and provides business to companies, just as any other government program does. You have to spend all of NASA’s money “on Earth.” There is no way to spend it in space — at least, not yet. Where am I going with this? Asking if space exploration — with humans or robots or both — is worth the effort is like questioning the value of Columbus’s voyages to the New World in the late 1490s. The promise at the time was obvious to some, but not to others. Is manned space exploration worth the cost? If we Americans do not think so, then why is it that nations such as China and India — nations with far greater social welfare issues to address with their limited budgets — are speeding up their space exploration programs? What is it about human space exploration that they see? Could it be what we once saw, and have now forgotten? As such, my response is another question: for the U.S. in the twenty-first century, is not sending humans into space worth the cost?

## Space Solves Econ/Competitiveness- General

### Space is key to America’s global economic competitiveness – spurs technological innovation

Oliver 02 [Robert. Ph.D, formerly of Rice University and now

with the Air Force Research Laboratory. “SPACE: A CRITICAL ISSUES WORKSHOP REFLECTIONS ON THE PAST AND CONCERNS FOR THE FUTURE”. Baker Institute. 12/02. http://www.bakerinstitute.org/publications/study\_20.pdf.]

The intense economic challenges that are even now facing the world constitute a slow simmering (and in some areas a boiling) crisis, and many factors will get worse in the easily foreseeable future. Already the world supports some six billion people, projected to grow to eight billion by the middle of this century. Of those six billion only 2.5 billion, or approximately 42 percent, are gainfully employed.2 Considering that most of the gain in population over the next 50 years will be in the poorest countries, this ratio will tend to grow steadily worse. In addition, there is even now an acute shortage of shelter, food, water, energy, health resources, and educational opportunities in much of the world. These shortages will also grow increasingly dire as population mounts. Space activities have great promise to help alleviate these problems. While it is true that no single solution offers a magic answer to the world’s demographic dilemma, space is an area that is greatly underdeveloped and where one can reasonably expect large multipliers for wise investment. For instance, space activities now employ about 400,000 people worldwide, a tiny sector compared to agriculture (1.1 billion), services (0.8 billion), and industry (0.5 billion).3 Considering such possibly profitable activities as space manufacturing, space tourism, and space-based information systems, space represents an area of economic activity nowhere close to saturation in terms of employment. It is a rare example of an economic sector where investment could quite possibly lead to reliable large-scale expansion of available jobs for some time to come. Similarly, space activities account for $1 in every $330 of the world economy. Once again, given the arguable potential of many profit-generating activities in space, the room for expansion of the space sector in terms of productivity and revenue generation is vast. Many of the predictions concerning profit-generating activity in space can be bolstered by impressive historical precedent. Space is already the site of a satellite-based telecommunications industry worth $28.9 billion per year. Indeed, even given the current low level of general spending on space, space activities have spurred the development of an infrastructure worth some $53.6 billion.5 Although it is true that the highly profitable business of satellite-based telecommunications has probably reached market saturation for the moment, rapid advances in satellite technology promise new uses and opportunities in the near future. In addition to the pressing international economic issues that drive toward an expansion of space activity, particular features of the United States domestic economy point in that direction as well. The economy of the United States during the post–World War II era has been one of the wonders of modern history. From 1945 forward, and particularly following the close of the Korean War in 1953, the American economy has expanded to a phenomenal extent. This expansion has many roots. The pressing need for goods and services in war-shattered European and Asian countries fueled much of the early growth, as did the Servicemen’s Readjustment Act of 1944, popularly known as the GI Bill. The latter, passed almost as an afterthought, made funds available to veterans for educational purposes and turned out to be one of the most successful pieces of legislation in American history. Powered by a flood of GI students, as well as increased government spending on research as the Cold War progressed (and especially in the wake of Sputnik), American universities blossomed, becoming the leaders of the world in terms of research and graduate education. Following a brief period of stagnation in the wake of the Arab oil crisis and the Vietnam debacle, the United States economy entered into another period of spectacular growth. Over the last 20 years, however, this growth has largely been powered not by large-scale demand, but by increases in productivity.6 This productivity is largely an outgrowth of technological progress, in its turn a product of the expanded research and development environment of the last half-century. The importance of strong, stable research and development activity in the American economy is hard to overstate. The specific historical circumstances that led to the immediate post–World War II economic boom were extremely idiosyncratic and unlikely ever to be repeated. As the economies of Asia develop, particularly those of China and India, their large populations and vast potential for internal development will almost certainly lead them, especially China, past the United States in terms of gross domestic product (GDP) in the foreseeable future. The only source of superiority currently available to the United States in terms of the world economy is a technological edge that is being challenged by Europe and Japan and will soon be challenged by China as well. Without the research and development necessary to maintain that edge, the United States’s position as the world’s leading power will be in grave jeopardy. Research is important for reasons much more profound than the creation of particular products or even specific classes of technology. Any intense research effort will result in habits of thinking, behaving, and organizing work. These patterns, identified by former U.S. secretary of labor Ray Marshall as “ideas, skills, and knowledge,”7 may be applied to endeavors far removed from their original frameworks. For instance, the ideas, skills, and knowledge that entered the culture and economy of the United States during the computer revolution have been successfully transferred to rapid advances in communications, transportation, organizational theory, military applications, virtual reality technology, mathematical modeling, data analysis, and too many other areas to list. Any research and development activity, but particularly those on the cutting edge, involves returns to human capital far in excess of returns to physical capital.8 Unfortunately, this fact is widely unappreciated. The economic multipliers gained from ideas, skills, and knowledge—while intuitively and almost undoubtedly vast—are very difficult to measure compared to multipliers gained from the mundane and specific applications of particular products and technologies. This largely explains the sad, but welldocumented tendency of government and corporations to undervalue research and development activity and make it the frequent target of budget cuts, often with the excuse that the economic benefit or profitability of such work is difficult to establish. Undoubtedly, one of the aspects of the modern aerospace enterprise that catches the eye on even a casual survey is the large-scale change in organizational structure, particularly in the private industry area, that has occurred in the recent past.

### Space is key to every part of the American economy - generates thousands of jobs indirectly

FAA 06

[Federal Aviation Sector on Commercial Space Transportation. “The Economic Impact of Commercial Space Transportation on the U.S. Economy: 2004”. 2/2006. http://www.aia-aerospace.org/stats/resources/2006Economic\_Impact.pdf]

All major U.S. industry sectors are affected by the activities of the commercial space transportation and enabled industries to some extent. Figure 6 shows how each of the industry groups was impacted in terms of economic activity, earnings and jobs as a result of the commercial space transportation and enabled industries in 2004. The industry groups are ranked by the extent of impact on economic activity. Although some of these industry types seem unrelated to commercial space transportation, they appear because they provide goods and services, directly or indirectly, to the commercial space industry. All of these industry groups benefit from the re-spending of money on consumer goods, such as household items and leisure activities. In 2004, the information services sector was the most affected sector in terms of additional economic activity, earnings, and jobs, generating over $29.5 billion of revenues, nearly $7 billion in earnings, and creating approximately 117,000 jobs. Some information services which directly or indirectly provide inputs to the commercial space transportation and enabled industries include data processing, web and application hosting, and related services; Internet Service Providers; Internet publishing and broadcasting; newspaper, magazine and book publishing; software publishing; and film, television and video production and distribution. Manufacturing ranked second with an increase of $27.4 billion in economic activity and over 87,000 jobs. This sector includes the manufacture of a wide range of products such as machinery, computer and electronic devices and components (semiconductor microprocessors and integrated circuits, for example), electrical equipment and appliances (e.g. motors and generators), motor vehicles, food and beverages, textiles and apparel, and paper and plastics. Finance and insurance generated $4.7 billion in economic activity and some 22,600 jobs. Some financial services which directly or indirectly provide inputs to the commercial space transportation and enabled industries may include commercial and savings banks; credit unions and student loan firms; mortgage and home equity credit lenders; pension fund managers; securities brokerages and underwriters, and venture capital firms. Examples of insurance services, which may be similarly directly or indirectly affected, encompass insurance agencies and brokerages, and claims adjusting and actuarial services. The health care and social assistance segment experienced an increase of $3.4 billion in economic activity and nearly 45,000 jobs due to final demand generated by the commercial space transportation sector and enabled industries. This segment includes medical and dental labs; doctor, dentist, physical therapist and paramedic offices and practices; home nursing and hospice care services; hospitals and HMO clinics; and ambulance services, for example.

## A2: It costs a lot

### It’s relatively minute and your evidence is too speculative, the short and long-term benefits will outweigh the costs. Treasury infusion prevents waste of taxpayer dollars

**Vernikos** 1/11/**08** (Joan, a member of the Space Studies Board of the National Academy and former director of NASA’s Life Sciences Division “Is Space Exploration Worth the Cost? A Freakonomics Quorum” <http://www.freakonomics.com/2008/01/11/is-space-exploration-worth-the-cost-a-freakonomics-quorum/>) MFR

Space exploration is not a drain on the economy; it generates infinitely more than wealth than it spends. Royalties on NASA patents and licenses currently go directly to the U.S. Treasury, not back to NASA. I firmly believe that the Life Sciences Research Program would be self-supporting if permitted to receive the return on its investment. NASA has done so much with so little that it has generally been assumed to have had a huge budget. In fact, the 2007 NASA budget of $16.3 billion is a minute fraction of the $13 trillion total G.D.P. “What’s the hurry?” is a legitimate question. As the late Senator William Proxmire said many years ago, “Mars isn’t going anywhere.” Why should we commit hard-pressed budgets for space exploration when there will always be competing interests? However, as Mercury, Gemini and Apollo did 50 years ago, our future scientific and technological leadership depends on exciting creativity in the younger generations. Nothing does this better than manned space exploration. There is now a national urgency to direct the creative interests of our youth towards careers in science and engineering. We need to keep the flame of manned space exploration alive as China, Russia, India, and other countries forge ahead with substantial investments that challenge U.S. leadership in space.

## Space Shuttle Solves Econ/Competitiveness

### Space shuttle program boosts the American economy

Huffington Post 7/7

[HuffPost Business. 7/7/11. “The End of Space Shuttle Program Hurts Houston’s Pride and Economy”. http://www.huffingtonpost.com/2011/07/07/the-end-of-the-space-shut\_n\_892022.html.]

The end of the space shuttle program is hitting its Florida launch home in the pocketbook with some areas practically becoming economic ghost towns. But Houston, home of Mission Control, is getting hit somewhere else: in the ego. Aerospace ranks only fourth among booming industries, far, far behind king oil, Mayor Annise Parker said. It's a pride thing for a city whose baseball team is the Astros and whose basketball team is the Rockets. Space is "part of our psyche here," Parker said. "It's how we view ourselves as a city." This is a metropolis of 4 million people that has tied its identity to space and to the shuttle specifically. But that identity has taken three hard hits and the loss of thousands of jobs is just one of them. The first blow came in 2004, when then-President George W. Bush announced the end of the space shuttle program. His plan was to replace it with a return-to-the-moon program run out of Houston. Then in 2010, President Barack Obama canceled that over-budget Houston-centric shuttle replacement program. He proposed going to an asteroid in a plan that at the moment is less detailed, especially when it comes to Houston's role. The concept relies on private companies to take NASA's place when it comes to shuttling people to Earth's orbit and the International Space Station, with NASA buying rides on these private ships. Many of those private companies – including the acknowledged leader, SpaceX, have little connection to Houston. Then in April came what some in this city consider the cruelest blow: Houston would not be getting one of the retired shuttle's to display. Advertisement Many locals, from hotel housekeepers to the mayor, are angry. "We need space because space was the heart and soul of Houston," says Bob Mitchell, president of the Bay Area Houston Economic Partnership. "We've got the knowledge and skilled people to move forward." Last year, 16,613 people in Houston had jobs because of the Johnson Space Center in Houston. NASA's economic impact in Texas was $6.5 billion last year with $2 billion of that because of the space shuttle, the space agency calculated in a recent report. Most of that is in the area around Clear Lake, south of downtown. But Harris County, which includes Houston, has more than 2 million people employed. And while NASA means a lot of money, it represents just a fraction of 1 percent of the state's gross domestic product. The Houston area has already lost about 2,000 space shuttle jobs – government and private contractors – in the past several months, Mitchell said. Another 1,800 or so layoffs will come after space shuttle Atlantis lands in July, ending the 30-year program. Harris County's May unemployment rate of 8.2 percent is almost a full percentage point below the national average and looks robust compared to the 10.8 percent jobless rate on the Florida Space Coast. The space shuttle's work force nationwide peaked in 1991 at 32,000 government and private contract workers. In 2006, that number was about half that, and now is about 6,300 and shrinking, according to NASA. Houston has always been the brains of the space shuttle program – the engineers, the managers, and of course astronauts – while Florida has been the muscle, the technicians who refurbish, prepare and launch the spacecraft. Technicians in Florida who specialize in space shuttles are finding it tougher to get other jobs than engineers, managers and computer geeks in a city like Houston with thriving energy and health care industries. At a June job fair in Houston for laid off aerospace workers, 68 companies came looking for as many as 4,000 new employees, Mitchell said. "Companies are dying for these employees," Mitchell said. The heart of Johnson Space Center is Mission Control, whose identity is melded with Houston's. When astronauts radio from space they call "Houston" not Mission Control. And things are bleak these days at Mission Control. Already there are way too many empty desks in the offices where flight controllers work. Former Johnson Space Center director George Abbey said it is like a library, it's so quiet. And it will get quieter as the people who work the last mission also get laid off, said mission operations director Paul Hill, who estimates he will have to give notice to about 900 people. "When I see a fantastic ascent and entry flight controller who is the best in the business and will be out of work, I can't even tell him what all that's going to lead to," Hill said. "What are we transitioning to? The havoc we're wreaking, the decimation on a national asset is very real." When NASA decided to give those retired shuttles to Kennedy Space Center, Los Angeles and Washington, D.C., Houston howled. Mayor Parker, although a Democrat like the president, called the decision a political one. Even so, she said, "It's not a piece of machinery that defines the space program. It's the men and women who create that machine. And that is Houston." One place that for more than a decade defined the shuttle program is now an empty lot with scattered discarded paper, broken wood and lots of weeds. When America's space shuttle fleet was soaring in its prime, this spot was flying with activity, history and most of all astronauts. The empty lot used to be home to a bar called The Outpost. It wasn't just any tavern, but a beery "Right Stuff" type of astronaut hangout crammed with space memorabilia and brimming with space talk. Last October, the recently closed tavern burned down. This lot is too valuable to remain empty for long. Something that will generate even more money will likely be built because Houston's economy is starting to fly again, Mitchell said. The loss of The Outpost is a good symbol for what's happening with the space program and Houston. It's not over, but the change strikes an emotional chord in a place that can't see America thriving in space without Houston running it all. "We're not a gloom and doom type of city," Mitchell said. "This community will survive. The concern this community has is will America survive as the leader in human space exploration?"

### Space shuttle is key to U.S. economy and competitiveness

The Daytona Beach News-Journal 2/25

[Editorial. “Space mission still crucial for nation, Volusia County”. 2/25/11. http://www.news-journalonline.com/opinion/editorials/n-j-editorials/2011/02/25/space-mission-still-crucial-for-nation-volusia-county.html]

Now that the space shuttle Discovery is in orbit, a good question to ask is: Where do we go from here? There are two more shuttle launches planned for 2011, and after that, it's off to the museums for our fine fleet of space planes. Discovery's place in the history of space exploration is secure: She delivered the Hubble Space Telescope in 1990, and carried astronaut and U.S. Sen. John Glenn into space for one last tour in 1998. The federal government will end the space shuttle program in 2012. But space research and technology will never be ready for mothballs, and NASA must keep planning for more adventures in space, both manned and unmanned. Even so, NASA is in the midst of a painful transition. When the federal government ended future funding for the space shuttle program, the pain was felt in Volusia County. As many as 250 Volusia County workers and a total of 9,100 Floridians work for the shuttle program. Last November, about 1,000 workers

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## Space Shuttle Solves Econ/Competitiveness

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at the Kennedy Space Center were laid off. As many as 7,000 workers, mostly private sector workers associated with the shuttle program, may have to move on. That is a sobering statistic. But the space program based at the center must go on, and not just because the space center is crucial to the regional economy. The United States cannot afford to become a second-rate power in space exploration and space technology. In the 1950s, when the Soviet Union beat the United States into space by launching Sputnik, the nation rose to the challenge. Our leaders looked to the moon and said, "We will beat you in getting there." And we did. Now, the Soviet Union is gone, but the role of space in our telecommunications and economic development is greater than ever. Science, research and commerce are the new factors driving space exploration. Volusia County has a more personal connection with the space program. Discovery astronauts Alvin Drew and Nicole Stott are graduates of Embry-Riddle Aeronautical University. Four other ERAU graduates have been astronauts. It's not simply a feather in the area's cap. The aerospace industry -- from airplanes to shuttles -- accounts for 12 million U.S. jobs and about 5.6 percent of the gross domestic product, according to Christina Frederick-Recascino, ERAU vice president for research and institutional effectiveness. Both NASA and Space Florida, the agency in charge of guiding the state's 21st century plan for the aerospace industry, have no intentions of giving up the space race. The end of the shuttle program will affect the economy of Central Florida. But Tina Lange, a spokeswoman for Space Florida, said she has had to deal with the misconception that the space program in Florida is ending. Space Florida hopes to see new, joint ventures between NASA and private-sector companies in the region of Volusia and Brevard counties. Lange said Space Florida has identified several sectors that will need space-based technologies and research. They include medical and energy -- and even the agricultural and tourism sectors. Still, the challenges to a future space industry will be great. President Barack Obama and Congress have been feuding about which direction to take the next generation of manned space vehicles. They have, not surprisingly, also been feuding about the amount of money to go into the new designs, and into NASA in general. Perhaps the biggest challenge to NASA is the debate over what should be used to replace the space shuttle. Former President George W. Bush wanted the Constellation program to replace the shuttle program. Obama cancelled that program. But Obama has stressed his priority for NASA: A joint effort with the private-sector space program. That approach makes sense. Right now, the private sector, particularly United Space Alliance of Texas, employs the greatest number of people associated with the shuttle program in Florida. Despite the end of the shuttle program, one can be sure United Space Alliance and others will still be involved. Let's hope the private sector keeps working for NASA, and not France or Japan. The Cold War and the old "space race" belong to history now. But the U.S. still needs to maintain a leadership role in the Space Age.

### The shuttle program is an economic beacon for the United States

MAARS News 7/5

[“End of shuttle program slams Space Coast economy”. 7/5/11. By Donna Leinwand Leger. <http://news.maars.net/blog/2011/07/05/end-of-shuttle-program-slams-space-coast-economy/>.]

Gerry Mulberry had the best pickup line ever. I’m a rocket scientist, he told the woman at the Cocoa Beach restaurant. That was Feb. 6, 1981. When the first space shuttle launched on April 12, 1981, the woman who would become his wife stood beside him to watch, chills running up her spine “The shuttle has always been special for me because it was the first thing my husband and I shared together,” Brenda Mulberry says. It is also their livelihood**.** Florida’s Space Coast, with NASA’s Kennedy Space Center as its anchor and identity, is bracing for an economic meltdownwhen the shuttle program officially ends later this month. Mulberry’s husband already lost his job as a quality engineer in the April 8 layoffs at the Space Center. Mulberry owns Space Shirts and SpaceShirts.com, a silk-screening business with a retail store full of space shuttle memorabilia that will suffer if interest in space wanes. “It’s bad, because we don’t want to leave here,” says Mulberry, who has two children in high school. “If we leave here, 13 people lose their jobs. A lot of people lose if we leave.” Space Shuttle Atlantis is scheduled to launch for the last time Friday as the final mission in the 30-year-old program. Once the shuttle program is mothballed, more than 8,000 people will have lost their jobs at the Kennedy Space Center. A final round of layoffs is set for July 22, two days after Atlantis lands. Business officials say the layoffs will ripple through Brevard County, a community already reeling from the sluggish economy and 10.8% unemployment. “It’s a one-two punch,” says Marcia Gaedcke, president of the Titusville Area Chamber of Commerce, which covers an area where about 40% of Kennedy Space Center employees live. “Everyone’s going to feel it. You could really drill down to any business.” Many of the county’s businesses — large and small — have ties to the space program. Melissa Stains, president and CEO of the Cocoa Beach Regional Chamber of Commerce, says 25,000 people will take a direct hit when the shuttle program ends. “Space shuttle is about 9,000 jobs inside the gate,” of the Kennedy Space Center, Stains says. For every one person directly employed at Kennedy Space Center, 2.8 people “outside the gate” depend on business from space shuttle operations, she says. In May, the Palm Bay-Melbourne-Titusville metro area, which encompasses the Space Coast, had the steepest employment decline in the state, losing 6,800 jobs, the Florida Agency for Workforce Innovation reported. “It’s a perfect economic storm, and we’re in it,” Stains says. Space is Brevard’s lifeblood Cocoa Beach and Titusville grew up around the Kennedy Space Center, booming first in the 1960s as the Kennedy Space Center opened 15 miles north of town and the Apollo program soared. Cocoa Beach became so synonymous with the space program that Hollywood set the I Dream of Jeannie sitcom there, with a dashing astronaut as its main character. The county hosts the Air Force’s 45th Space Wing at Patrick Air Force Base, on the beach between Cocoa Beach and Satellite Beach, which launches the military’s unmanned rockets from Cape Canaveral Air Force Station. There are other key industries. Tourists and surfers are drawn to Cocoa’s 13 miles of public beach. Cruise ships dock at Port Canaveral. Tourism businesses employ about 20,000 people, accounting for 8% of Space Coast employment. Tourists pump $2.8 billion into the Space Coast economy each year. But space is at Brevard’s core. At the peak of the shuttle program in 1991, when NASA built the Endeavour, about 32,000 people worked at the Kennedy Space Center. By 2006, the number of jobs had dropped to 16,000. Still, the Space Center drove Central Florida’s economy. A 2008 economic impact study by NASA found the space agency accounted for $4.1 billion in economic output for Florida, 40,802 jobs and $2.1 billion in income, with the majority of the impact in Central Florida. At the time of the study, the Kennedy Space Center employed 14,865 people with an average salary of $77,235. The center’s payroll totaled $1.124 billion. The visitor center drew 1.6 million out-of-state visitors. Of Florida’s 10,681 aerospace-related companies, 408 are in Brevard County, a study released in March by the Florida State University Center for Economic Forecasting and Analysis found. The aerospace industries employ 14,113 people and generate $416 million in annual revenue, the study found.

## Space Tourism Key to Econ/Competitiveness

### Space tourism can restore U.S. competitiveness and revitalize the economy

Collins & Autino 08

[“What the Growth of a Space Tourism Industry Could Contribute to Employment, Economic Growth, Environmental Protection, Education, Culture and World Peace”. Professor of Environmental Policy in Azabu University. 5/25/08. Space Future. <http://www.spacefuture.com/archive/what_the_growth_of_a_space_tourism_industry_could_contribute_to_employment_economic_growth_environmental_protection_education_culture_and_world_peace.shtml>.]

The continuation of human civilisation requires a growing world economy, with access to increasing resources. This is because competing groups in society can all improve their situation and reasonable fairness can be achieved, enabling social ethics to survive, only if the overall "economic pie" is growing. Unfortunately, societies are much less robust if the "pie" is shrinking, when ethical growth becomes nearly impossible, as competing groups try to improve their own situation at the expense of other groups. Continued growth of civilisation requires continual ethical evolution, but this will probably be possible only if resources are sufficient to assure health, comfort, education and fair employment for all members of society. The world economy is under great stress recently for a number of reasons, a fundamental one being the lack of opportunities for profitable investment—as exemplified by Japan's unprecedented decade of zero interest-rates. This lack of productive investment opportunities has led a large amount of funds in the rich countries to "churn" around in the world economy in such forms as risky "hedge funds", causing ever greater financial instability, thereby further weakening economic growth, and widening the gap between rich and poor. Increasing the opportunities for profitable, stable investment requires continual creation of new industries [16]. Governments today typically express expectations for employment growth in such fields as information technology, energy, robotics, medical services, tourism and leisure. However, there are also sceptical voices pointing out that many of these activities too are already being outsourced to low-cost countries which are catching up technologically in many fields [20]. Most of the new jobs created in the USA during the 21st century so far have been low-paid service work, while the number of US manufacturing jobs has shrunk rapidly [21]. It is thus highly relevant that aerospace engineering is a field in which the most technically advanced countries still have a substantial competitive advantage over later developing countries. Hence, if a commercial space travel industry had already been booming in the 1980s, the shrinkage in aerospace employment after the end of the "cold war" would have been far less. Consequently it seems fair to conclude that the decadeslong delay in developing space travel has contributed to the lack of new industries in the richer countries, which is constraining economic growth and causing the highest levels of unemployment for decades. The rapid economic development of China and India offers great promise but creates a serious challenge for the already rich countries, which need to accelerate the growth of new industries if they are to benefit from these countries' lower costs without creating an impoverished under-class in their own societies. The long-term cost of such a socially divisive policy would greatly outweigh the short-term benefits of low-cost imports. The development of India and China also creates dangers because the demands of 6 billion people are now approaching the limits of the resources of planet Earth. As these limits are approached, governments become increasingly repressive, thereby adding major social costs to the direct costs of environmental damage [22]. Consequently, as discussed further below, it seems that the decades-long delay in starting to use the resources of the solar system has already caused heavy, selfinﬂicted damage to humans' economic development, and must be urgently overcome, for which a range of policies have been proposed in [23,24]. The continuing heavy dependence of the space industry on taxpayer funding, despite cumulative investment of some 1 trillion Euro-equivalents, is due to the simple fact that those directing the industry have chosen not to supply services which large numbers of the general public wish to buy. Yet it is elementary that only by doing this can the space industry grow into a normal commercial activity. Doing so will create an industry which raises private investment to develop new, better and larger facilities in order to sell better services to ever-more customers—in the familiar "virtuous circle" of business growth. Eventually this activity may even reach a scale sufficient for the tax revenues it generates to repay the public investment to date. In successful companies, investment is skillfully judged so as to produce goods and services for which there will be large commercial (i.e. non-governmental) demand. If this earns sufficient profits, then the activity will continue to grow spontaneously for decades or more, like manufacturing of cars or airliners. If, instead, funds intended for investment are spent on developing non-commercial products, such as expensive surveillance satellites or a space station for which the only significant customer is government, then clearly the space industry is doomed to remain forever a small, taxpayer-funded activity—a hindrance rather than a help to economic growth. Economic policy-makers responsible for deciding the public budget for space development must no longer rely exclusively on the advice of the space industry itself, which ever since its origin has had different objectives than the economic benefit of the general public. That is, economic policy-makers, who are responsible for tens of trillions of Euros of activity, must take the initiative to ensure that passenger space travel services are developed as soon as possible. There are many ways in which private investments in this field can be facilitated and supported, without governments themselves either planning or managing the projects. Among other steps, this will require the important institutional innovation of collaboration between civil aviation and civil space activities. Since, even with today's knowledge, researchers foresee the possibility of economic development in space growing to a scale similar to terrestrial industry [11]. This field of industry must be considered as having the potential to become a major new axis for economic growth—equivalent in importance to the aviation industry, but with minimal environmental impact, as discussed below—and therefore deserving of the most serious and urgent attention by economic policymakers.

### Space tourism can boost the American economy

McCarthy 08

[“Space Tourism, the Commercial Frontier”. 11/18/08. Suite101.com. http://www.suite101.com/content/space-tourism-the-commercial-frontier-a79223.]

The tools for building suborbital passenger spacecraft have been around since the 1960s. With the right incentives from governments, space hotels might have been possible in the 1970s, and orbital passenger spacecraft in the 1980s, changing the face of the world and delivering a huge boost to the economy. But, while the Cold War and its aftermath dictated Government agendas worldwide and space was seen as a site for new weapons platforms, there wasn't much incentive for developers to look at cheap, re-usable, practical ways to get ordinary people into space. Now Government agencies are beginning to see the potential of a more inclusive approach to space travel. The American Federal Aviation Administration is keen for venture companies to develop commercial space vehicles, and the European Space Agency offered prizes of up to 150,000 euros to encourage companies developing space tourism. Hard-nosed businessmen like Collins' fellow Briton Richard Branson are taking space seriously. Branson's Virgin Galactic is now taking bookings for commercial spaceflights. Prices are currently high, but as with terrestrial aviation they will reduce as technology improves and demand builds. Collins thinks this is a way to ensure that space exploration benefits the whole world. "Space travel services for the general public have been widely recognized as the major space business of the future. They could grow to more than $100 billion a year and employ millions of people." Given the current economic crisis, it might be more effective for Governments to put their money into an expanding industry with a concrete scientific and economic basis than to bet again on the fantasy gambles of the money markets.

## SBSP Key to Economy/Competitiveness

### SBSP promotes economic development – provides innovation and energy security

NSSO 7 (National Security Space Office “Space‐Based Solar Power As an Opportunity for Strategic Security” 10-10, http://science.ksc.nasa.gov/shuttle/nexgen/Nexgen\_Downloads/SBSPInterimAssesment0.1.pdf)

The magnitude of the looming energy and environmental problems is significant enough to warrant consideration of all options, to include revisiting a concept called Space Based Solar Power (SBSP) first invented in the United States almost 40 years ago.   The basic idea is very straightforward:  place very large solar arrays into continuously and intensely sunlit Earth orbit (1,366 watts/m 2 ) , collect gigawatts of electrical energy, electromagnetically beam it to Earth, and receive it on the surface for use either as baseload power via direct connection to the existing electrical grid, conversion into manufactured synthetic hydrocarbon fuels, or as low‐intensity broadcast power beamed directly to consumers.   A single kilometer‐wide band of geosynchronous earth orbit experiences enough solar flux in one year to nearly equal the amount of energy contained within all known recoverable conventional oil reserves on Earth today.   This amount of energy indicates that there is enormous potential for energy security, economic development, improved environmental stewardship, advancement of general space faring, and overall national security for those nations who construct and possess a SBSP capability. NASA and DOE have collectively spent $80M over the last three decades in sporadic efforts studying this concept (by comparison, the U.S. Government has spent approximately $21B over the last 50 years continuously pursuing nuclear fusion).  The first major effort occurred in the 1970’s where scientific feasibility of the concept was established and a reference 5 GW design was proposed.  Unfortunately 1970’s architecture and technology levels could not support an economic case for development relative to other lower‐cost energy alternatives on the market.  In 1995‐1997 NASA initiated a “Fresh Look” Study to re‐examine the concept relative to modern technological capabilities.  The report (validated by the National Research Council) indicated that technology vectors to satisfy SBSP development were converging quickly and provided recommended development focus areas, but for various reasons that again included the relatively lower cost of other energies, policy makers elected not to pursue a development effort.   The post‐9/11 situation has changed that calculus considerably.  Oil prices have jumped from $15/barrel to now $80/barrel in less than a decade.  In addition to the emergence of global concerns over climate change, American and allied energy source security is now under threat from actors that seek to destabilize or control global energy markets as well as increased energy demand competition by emerging global economies .  Our National Security Strategy recognizes that many nations are too dependent on foreign oil, often imported from unstable portions of the world, and seeks to remedy the problem by accelerating the deployment of clean technologies to enhance energy security, reduce poverty, and reduce pollution in a way that will ignite an era of global growth through free markets and free trade.  Senior U.S. leaders need solutions with strategic impact that can be delivered in a relevant period of time.

### SBSP provides key to energy security – ensures overall competitiveness

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The SBSP Study Group found that by providing access to an inexhaustible strategic reservoir of renewable energy, SBSP offers an attractive route to increased energy security and assurance.    The reservoir of Space‐Based Solar Power is almost unimaginably vast, with room for growth far past the foreseeable needs of the entire human civilization for the next century and beyond.   In the vicinity of Earth, each and every hour there are 1.366 gigawatts of solar energy continuously pouring through every square kilometer of space.  If one were to stretch that around the circumference of geostationary orbit, that 1 km‐wide ring receives over 210 terawatt‐years of power annually.  The amount of energy coursing through that one thin band of space in just one year is roughly equivalent to the energy contained in ALL known recoverable oil reserves on Earth (approximately 250 terawatt years), and far exceeds the projected 30TW of annual demand in mid century. The energy output of the fusion‐powered Sun is billions of times beyond that, and it will last for billions of years—orders of magnitude beyond all other known sources combined.  Space‐Based Solar Power taps directly into the largest known energy resource in the solar system.  This is not to minimize the difficulties and practicalities of economically developing and utilizing this resource or the tremendous time and effort it would take to do so.  Nevertheless, it is important to realize that there is a tremendous reservoir of energy—clean, renewable energy—available to the human civilization if it can develop the means to effectively capture it. […] This technology enables a carbon‐neutral (closed carbon‐cycle) hydrocarbon economy driven by clean renewable sources of power, which can utilize the existing global fuel infrastructure without modification.  This opportunity is of particular interest to traditional oil companies.  The ability to use renewable energy to serve as the energy feedstock for existing fuels, in a carbon neutral cycle, is a “total game changer” that deserves significant attention. Both fossil and fissile sources offer significant capabilities to our energy mix, but dependence on the exact mix must be carefully managed.  Likewise, the mix abroad may affect domestic security.  While increased use of nuclear power is not of particular concern in nations that enjoy the rule of law and have functioning internal security mechanisms, it may be of greater concern in unstable areas of rouge states.  The United States might consider the security challenges of wide proliferation of enrichment‐based nuclear power abroad undesirable.  If so, having a viable alternative that fills a comparable niche might be attractive.  Overall, SBSP offers a hopeful path toward reduced fossil and fissile fuel dependence.

## SBSP Key to Economy/Competitiveness

### SBSP is key to US competitiveness – keeps us ahead of rising economies

NSSO 7 (National Security Space Office “Space‐Based Solar Power As an Opportunity for Strategic Security” 10-10, http://science.ksc.nasa.gov/shuttle/nexgen/Nexgen\_Downloads/SBSPInterimAssesment0.1.pdf)

The rising demand of the developing world—in particular the burgeoning economies of China and India—are increasing energy competition.   Growing concern over long‐term climate change has become a mainstream issue.   Globalization, begun at the end of the last century has created an extremely rapid and accelerating pace of change in the technological, informational, and business sectors.  These changes are being driven by the aggregate decisions of billions of people, millions of companies, thousands of governments, and huge international markets that cross the borders of over a hundred countries.  The ability to stop, or even slow, this change is beyond the ability of any single nation, company, or organization.  The DoD, as the nation’s largest institutional consumer of technology and energy, has determined that long‐term energy security is now a forefront issue.  The early developments of the 21 st Century have created conditions that merit that this nation takes a relook of SBSP.

### SBSP solves scarcity which prevents global economic collapse

NSSO 7 (National Security Space Office “Space‐Based Solar Power As an Opportunity for Strategic Security” 10-10, http://science.ksc.nasa.gov/shuttle/nexgen/Nexgen\_Downloads/SBSPInterimAssesment0.1.pdf)

The SBSP Study Group found that SBSP offers a long‐term route to alleviate the security challenges of energy scarcity, and a hopeful path to avert possible wars and conflicts. If traditional fossil fuel production of peaks sometime this century as the Department of Energy’s own Energy Information Agency has predicted, a first order effect would be some type of energy scarcity.  If alternatives do not come on‐line fast enough, then prices and resource tensions will increase with a negative effect on the global economy, possibly even pricing some nations out of the competition for minimum requirements.  This could increase the potential for failed states, particularly among the less developed and poor nations.  It could also increase the chances for great power conflict.  To the extent SBSP is successful in tapping an energy source with tremendous growth potential, it offers an “alternative in the third dimension” to lessen the chance of such conflicts.

### SBSP is key to the econ and competitiveness- new markets, jobs, investment

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The SBSP Study Group found that SBSP appears to have significant growth potential in the long run, and a national investment in SBSP may return many times its value. Most of America’s spending in space does not provide any direct monetary revenue.  SBSP, however, may create new markets and the need for new products that will provide many new, high‐paying technical jobs and net significant tax revenues.  Great powers have historically succeeded by finding or inventing products and services not just to sell to themselves, but to others.  Today, investments in space are measured in billions of dollars.  The energy market is trillions of dollars, and there are many billions of people in the developing world that have yet to connect to the various global markets.  Such a large export market could generate substantial new wealth for our nation and our world.  Investments to mature SBSP are similarly likely to have significant economic spin‐offs, each with their own independent revenue stream, and open up or enable other new industries such as space industrial processes, space tourism, enhanced telecommunications, and use of off‐world resources.  Not all of the returns may be obvious.  SBSP is a both infrastructure and a global utility.  Estimating the value of utilities is difficult since they benefit society as a whole more than any one user in particular—consider what the contribution to productivity and GDP are by imagining what the world would be like without electric lines, roads, railroads, fiber, or airports.  Not all of the economic impact is immediately captured in direct SBSP jobs, but also in the services and products that spring up to support those workers and their communities.  Historically such infrastructure projects have received significant government support, from land grants for railroads, to subsidized rural electrification, to development of atomic energy.   While the initial‐capability on‐ramp may be slow, SBSP has the capability to be a very significant portion of the world energy portfolio by mid‐century and beyond.

## He-3 Key to Economy/Competitiveness

### He-3 is key to the economy and competitiveness – creates spinoffs, new cheap energy and base industries

D’souza 6 (Marsha, Bachelor Degree of Science at Worcestor Polytechnic Institute, “HARVESTING HELIUM-3 FROM THE MOON” 2-17 2006 <http://www.wpi.edu/Pubs/E-project/Available/E-project-031306-122626/unrestricted/IQP.pdf>)

The peculiarity of He-3 is that the resources in space are practically unlimited for a human lifespan. Thus a surge in cost is not expected to occur, at least not within what in human time standards is considered relevant (>1000 years). Because of the costs inherent in producing energy from He-3, He-3 would become a consumer good, much like energy derived from petroleum is a consumer good, and would potentially be sold as such. In fact, the cost of initially producing He-3 will most likely only be undertaken if whoever ventures into it is guaranteed exclusive rights over exploitation at least until it obtains profit from its investment. This kind of situation is analogous to the pharmaceutical industry, in which the expenses of R&D for drug development are compensated by giving the company exclusive rights over selling the product for a number of years. In any case, the burgeoning of a He-3 focused economy, whether only in the US or worldwide, will carry with it the creation of a whole new industry, creating a number of technology jobs. Furthermore, the creation of an inhabited lunar base to mine He-3 will lead to a whole new branch of space products, services and daily commodities that would be tailored for lunar use.

### He-3 will be extremely valuable – mining secures a future economic wellspring for the US

Brooks 8 (Jeff, Writer for the Space Review, The Space Review “planting the flag is only the beginning” 3-24 http://www.thespacereview.com/article/1088/1)

The Moon, much easier to get to than Mars, will obviously be the first target for economic development. The Moon has an immediate advantage in that it possesses a critical resource that does not exist naturally on Earth: helium-3. This rare isotope is a necessary fuel for the most powerful nuclear fusion process, that of fusing helium-3 with deuterium. Practical fusion reactors, of course, do not currently exist. But by 2035, we may expect that ITER and other fusion research projects will have finally demonstrated the commercial feasibility of nuclear fusion power and begun to develop much of the technology that will be needed for the practical implementation of nuclear fusion power. In does prove correct, helium-3 will arguably become the most valuable commodity in the history of mankind. It could serve the same purpose for the Moon that gold served for California, Alaska, and Western Australia. To win the race for this precious resource, the major energy corporations will take great risks, potentially leading to massive private investment in space transportation between the Earth and the Moon. This, in turn, will lead to the development of new launch technologies and the creation of economies of scale, bringing launch costs down dramatically. This will be good news not only for the economic development of the Moon, but also for space exploration and colonization in general.

## Asteroid Mining Key to Economy/Competitiveness

### Asteroid mining is key to critical minerals like platinum – these are key to US industry and materially prop up the US economy

Blair 2k (Brad, Colorado School of Mines, “The Role of Near-Earth Asteroids in Long-Term Platinum Supply”

2000, <http://www.nss.org/settlement/asteroids/RoleOfNearEarthAsteroidsInLongTermPlatinumSupply.pdf>)

The Near-Earth asteroids are being catalogued at an increasing pace, and represent a source of materials with high geological diversity. Two classes of asteroid contain high concentrations of platinum group metals (PGMs): Metallic Asteroids and LL Chondrites. Members of both groups have been identified in orbital trajectories close to Earth, having the potential for significant transportation cost leverage. Up to 1000 times the payload can be inserted into low-earth orbit from a spacecraft departing one of these asteroids as an equivalent launch vehicle leaving the surface of Earth. O’Leary (1977), Lewis (1996) and Sonter (1998) have suggested mining products contained on these asteroids which have a high-value per unit mass. Platinum, rhodium, iridium, palladium and gold are found in significant concentrations (total PGM content exceeds 50 grams per ton) in meteorite samples attributed to the LL Chondrites, and enjoying high grades in certain other classes of asteroid (Kargel, 1996). Mining methodologies appear to be simple, requiring the separation of finely pulverized soil in a low gravity, high vacuum environment. […] There appears to be a strong potential for an expansion in demand should platinum price drop in coming years. Current high-technology manufactured products that depend on platinum include fuel cells, chemical reactors, refractory metal components, glassmaking equipment, medical devices, electronics, hard disks, and many others. Each of these uses could easily expand to fill a void left by lower prices and increased supply. Other uses of platinum are possible, especially with increased supply. Technological Factors: The link between platinum and high technology is strong. The metal has made its way into a variety of industrial uses, forming a strategic cornerstone of our modern technical economy. A high melting point combined with its ductility and mechanical strength gives platinum an advantage over many refractory metals (Yamabe-Mitarai, 1998). PGM chemical inertness can be useful in caustic or other extreme environments requiring high reliability equipment. It is an excellent conductor with good thermal stability. Like gold, platinum will not oxidize in the atmosphere. The metal finds use in automobiles and petroleum refining due to its powerful catalytic properties in the reforming of hydrocarbons. Many platinum-based products form critical links in the U.S. technoeconomic system. Examples include gasoline production, modern plastics and chemical processes, emissions reduction, as well as special aerospace and defense industry uses. The strategic importance of platinum has prompted the Defense Logistics Agency to stockpile over 200,000oz of the metal to assure U.S. industrial productivity in case of an interruption in supply (Christian, 1997). Note that North America imported 970,000 ounces to meet 1999 demand, underscoring U.S. dependence on foreign supply (Johnson Matthey, 1999).

### They’re also key to opening up the global economy to space – enables positive feedback systems that prevent collapse

Gorman et al 10 (Larry, Professor of Finance at Cal Poly, “Is Profitable Asteroid Mining A Pragmatic Goal?” Space Wealth, August 23rd 2010, http://www.spacewealth.org/files/Is-P@M-Pragmatic-2010-08-23.pdf)

But to date, nothing from the vast reaches beyond Earth orbit has ever been involved in an economic exchange. To incrementally expand our current offplanet economy, the next resource is clear: NearEarth asteroids. To take this next step, we need our space agencies to make asteroid mining a priority and demonstrate how it can done. Agencies should support SBSP, but it should not be a top priority for two reasons. First, SBSP already attracts interest from commercial firms and defenserelated institutions. 21 Second, even if SBSP supplies >99% of the world’s electricity, we’re still just in Earth orbit. We haven’t begun to tap the mineral wealth of the inner solar system. We need out space agencies to reach out—with robots, certainly; perhaps with humans— to find, get hold of, and bring back an economically significant chunk of matter, and sell it on the open market. We need them to prime the pump for economically and ecologically sustainable, post Earthasaclosedsystem, industrial societies. Our space agencies need to enable a revolutionary transformation in the material culture of our home planet. They need to design and launch positive economic feedback systems that utilize offplanet resources. Space agencies need to develop the skills and knowledge required to draw material resources through extraterrestrial supply chains, and put them to use in terrestrial systems of production. Once learned, space agencies need to transfer these skills and understandings to individuals in industry. Civil space agencies also need to help design, publish, and promote the innersolarsystem knowledgebases that will prepare the nation’s students for profitable extraterrestrial careers. 22 We need our civil space agencies to do these things, because we need the metals that are available in asteroid ore to support our technological societies on Earth, so that they may become ecologically sustainable over the decades and centuries to come.

## NASA Investment Solves Economy/Competitiveness

### Investment in NASA revitalizes the U.S. economy and competitiveness— The technology produced creates jobs, opens opportunities for growth, spurs new markets and revitalizes the world’s perception of economic strength

Foust 7 [Jeff, Editor of the Space Review, “Space Economies and Economics”, September 24th, 2007, <http://www.thespacereview.com/article/962/1>]

“Fundamentally, NASA opens new frontiers and creates new opportunities,” he continued. “And because of that, we are a critical driver of innovation, but not in a way that just creates jobs. We create new markets, and new possibilities for economic growth, that didn’t previously exist. We’ve taken at NASA to calling this ‘The Space Economy’. It is an emerging economy, but it a robust one even so.” Griffin noted that the higher standards of performance companies are held to when working on space projects have an as-yet unmeasured effect on the overall economy. “I often wonder if it might be possible to quantify the value to society of upgrading the standards of precision to which the entire industrial base of that society operates,” he said. “How do we value that asset? I don’t know, but I am absolutely convinced that it is real and, without the space industry, we wouldn’t have it.” He also discussed competition among nations, not in space per se, but in innovation and economic development. “Economic growth is driven by technological innovation. Societies that foster it lead the pack, and others lag behind. But if technological innovation drives competitiveness and growth, what drives innovation? There are many factors, but the exploration and exploitation of space is one of those.” Another factor in innovation and economic competitiveness that Griffin said is often overlooked is the image that various nations project to the world. “The nation that appears to be at the top of the technical pyramid has taken a very large step towards being there in fact,” he said. “Developing countries like China recognize the value of space activities as a driver of innovation, a source of national pride, and membership in the most exclusive of clubs, that of spacefaring societies.” In comments during a Q&A session that received more immediate attention than his formal remarks, Griffin extended that theme to include human exploration of the Moon. “I personally believe that China will be back on the Moon before we are,” he said. “I think when that happens, Americans will not like it, but they will just have to not like it. I think we will see, as we have seen with China’s introductory manned space flights so far, we will see again that nations look up to other nations that appear to be at the top of the technical pyramid, and they want to do deals with those nations. It’s one of the things that made us the world’s greatest economic power. So I think we’ll be reinstructed in that lesson in the coming years and I hope that Americans will take that instruction positively and react to it by investing in those things that are the leading edge of what’s possible.” And Griffin believes that NASA is well positioned to be at that leading edge. “NASA is uniquely positioned to drive the space economy with both substance and style, because our mission requires us to push the technological envelope every single day and to do it in the most publicly visible manner of any human enterprise.”

## Moon Exploration Solves Econ/Competitiveness

### Further Human Exploration of the Moon ensures U.S. can stave off China’s economic run— NASA’s technological leadership restores the world’s perception of America

Foust 7 [Jeff, Editor of the Space Review, “Space Economies and Economics”, September 24th, 2007, <http://www.thespacereview.com/article/962/1>]

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## Mars Colonization Solves Econ/Competitiveness

### Mars colonization will revitalize the economy— open immigration, sale of real-estate, and innovation

Zubrin, 1996 [Robert, aerospace engineer Ph.D. in Nuclear Engineering from Washington, “The Case for Colonizing Mars”, July/August 1996, http://www.nss.org/settlement/mars/zubrin-colonize.html]

We have examined the prospects for colonizing Mars, addressing the question of its economic viability. We have shown, that of all bodies in the solar system other than Earth, Mars is unique in that it has the resources required to support a population of sufficient size to create a new branch of human civilization. We have seen that despite the fact that Mars may lack any resource directly exportable to Earth, Mars' orbital elements and other physical parameters gives a unique positional advantage that will allow it to act as a keystone supporting extractive activities in the asteroid belt and elsewhere in the solar system. We have examined the potential of relatively near-term types of interplanetary transportation systems, and shown that with very modest advances on a historical scale, systems can be put in place that will allow individuals and families to emigrate to Mars at their own discretion. Their motives for doing so will parallel in many ways the historical motives for Europeans and others to come to America, including higher pay rates in a labor-short economy, escape from tradition and oppression, as well as freedom to exercise their drive to create in an untamed and undefined world. Under conditions of such large scale and open immigration, sale of real-estate will add a significant source of income to the planet's economy. However the greatest source of Martian wealth, and the greatest benefit of its existence to the terrestrial world, will be as a pressure cooker for invention and innovation of every type. In analogy to frontier America but going well beyond it, Mars will be a society of self-selected immigrants, operating in a harsh, labor-short environment in which practical innovation and technological acumen will be at a premium. Licensing on Earth of the inventions created under conditions of necessity on Mars will bring vast amounts of income to support the development of the Red Planet, even as these same inventions continue to raise terrestrial living standards and destabilize tendencies that would otherwise exist on Earth towards technological and social stagnation. What the Mediterranean was to the Greeks, what the New World was to the Western Europeans, Mars will be to the pioneering nations of the next several centuries; the engine of progress of the coming era. As America showed in the 19th Century, such an engine of can pull far more than its own weight.

### Deuterium means Mars colonization will be profitable— key to fusion

Zubrin, 1996 [Robert, aerospace engineer Ph.D. in Nuclear Engineering from Washington, “The Case for Colonizing Mars”, July/August 1996, http://www.nss.org/settlement/mars/zubrin-colonize.html]

But there is one commercial resource that is known to exist ubiquitously on Mars in large amount — deuterium. Deuterium, the heavy isotope of hydrogen, occurs as 166 out of every million hydrogen atoms on Earth, but comprises 833 out of every million hydrogen atoms on Mars. Deuterium is the key fuel not only for both first and second-generation fusion reactors, but it is also an essential material needed by the nuclear power industry today. Even with cheap power, deuterium is very expensive; its current market value on Earth is about $10,000 per kilogram, roughly fifty times as valuable as silver or 70% as valuable as gold. This is in today's pre-fusion economy. Once fusion reactors go into widespread use deuterium prices will increase. All the in-situ chemical processes required to produce the fuel, oxygen, and plastics necessary to run a Mars settlement require water electrolysis as an intermediate step. As a by-product of these operations, millions, perhaps billions, of dollars worth of deuterium will be produced.

## Aerospace Industry Key to Econ/Competitiveness

### Aerospace is integral to the American economy – satellite industry, GPS, technology

AIA 09

[Aerospace Industries Association of America. “Aerospace and Defense: The Strength to Lift America”. 2009. http://www.aia-aerospace.org/assets/wp\_strength\_aug09.pdf.]

As the U.S. economy moves through uncertain times, America’s aerospace industry remains a powerful, reliable engine of employment, innovation, and export income. Aerospace contributed $95.1billion in export sales to America’s economy last year. Conservatively, U.S. aerospace sales alone account for 3-5 percent of our country’s gross domestic product, and every aerospace dollar yields an extra $1.50 to $3 in further economic activity. Aerospace products and services are pillars of our nation’s security and competitiveness. In these challenging times, the aerospace industry is solidly and reliably contributing strongly to the national economy and the lives of millions of Americans. We strongly believe that keeping this economic workhorse on track is in America’s best interest, To accomplish this, our government must develop policies that strengthen the positions of all workers in all industries, especially economic producers like aerospace and defense. This paper explains what’s at stake, and ways to ensure that a proven economic success continues to endure and thrive. A High-Skilled People Business The aerospace and defense industry directly employs 844,000 Americans, located in every state of the union – and supports more than two million jobs in related fields. 3 Our people bring a diverse set of skills and capabilities to their jobs: engineers on the cutting edge of advanced materials, structures and information technology; machinists fabricating complex shapes and structures; and technicians from almost every degree field, testing, applying and integrating the latest technologies. Most of these positions are high-skill, quality jobs, paying above average wages. Production workers average $29.93 an hour; 4 entry-level engineers average more than $74,000 a year, with more senior engineers well into six figures. 5 And that employment has grown steadily for years. Many of these jobs are unique, and require skills that take time to develop. It takes ten years for a degreed aerospace engineer to master the intricacies of aerospace vehicle designs. Technicians skilled in applying stealth coatings, programmers fluent in satellite-control algorithms, metallurgists expert in high-temperature jet engine design -- these skills and many more are very hard to replace. Because many of our programs involve national security, America’s aerospace and defense industry relies on home-grown talent. Of the more than 32,000 jobs open in the industry last April, 53 percent required U.S. citizenship. 6 These jobs can’t be sent overseas. That’s why we are increasingly working with educators at federal, state, and local levels in many ways ─ adopting schools, sponsoring competitions, providing internships and scholarships and other measures. We are also advocating national education and R&D policies that will advance American innovation and technological leadership in all sectors of the economy. A Good Trade Government policies that advance free and fair trade in global markets are vital to our industry and our country. Aerospace brings in the biggest foreign trade surplus of any manufacturing sector. 7 The industry’s $57 billion surplus in 2008 came from exporting nearly 40 percent of all aerospace production and, during some economic quarters, nearly 70 percent of civil aircraft and components. 8 That’s American economic growth being paid for by other countries’ money. And it can only happen when government policies allow the things American workers build to compete fairly in international markets. Securing the Nation America’s battle against terrorism is a fundamentally new kind of conflict, in timely information and rapid, coordinated threat responses are critical to success. Intelligence, surveillance and reconnaissance, along with the tools necessary to integrate and disseminate critical information, are key to anticipating and preventing terrorist attacks. America’s aerospace and defense companies provide the advanced systems that make this new kind of threat response possible. When specific targets are identified, more traditional means can be used to neutralize a threat. But America’s military hardware urgently needs modernization. The 1980s defense build-up is now 25 years old, and systems acquired then are in need of replacement. The decade of 2010-19 is the crucial time to reset, recapitalize and modernize our military forces. Not only are many of our systems reaching the end of their designed lives, but America’s military forces are using their equipment at many times the programmed rates in the harsh conditions of combat, wearing out equipment prematurely. Delaying modernization will make it even harder to address and effectively address global threats in the future. Defense modernization is not optional. To defend America’s global interests in 2018 and beyond, our military must be able to project its power globally, around the clock, in any weather. We must be able, for example, to ensure energy supplies can pass through the Straits of Hormuz unimpeded. Our free trade must not be blocked on the open seas, and our economy not be must not be impeded by foreign aggression. When a natural disaster strikes a friendly nation, we must be able to respond quickly. America’s armed forces must be able to meet any and all challenges to our security, safety, freedom and prosperity, as they always have in the past. America has deferred defense and aerospace modernization to the point that modernization and recapitalization are increasingly lengthy and expensive. The bill is now due. If we want to be able to influence events and protect our interests overseas, we must revitalize the “arsenal of democracy” through consistent defense investment. At the same time, America must adapt its defenses to new kinds of threats. A large-scale attack on information networks could pose a serious economic threat, impeding or preventing commerce conducted electronically. This would affect not only ATM transactions, but commercial and governmental fund transfers and the just-in-time orders on which the manufacturing sector depends. It could even pose threats to Americans’ lives, interrupting the transfer of medical data, disrupting power grids, even disabling emergency communications links. In partnership with the government, our industry is on the forefront of securing these networks and combating cyber attack. The American people also demand better security for the U.S. homeland, from gaining control of our borders to more effective law enforcement and disaster response. The aerospace industry provides the tools that help different forces and jurisdictions communicate with each other; monitor critical facilities and unpatrolled borders; and give advance warning of natural disasters, among other capabilities. In many cases, government is the only market for these technologies. Therefore, sound government policy is essential not only to maintain current capabilities, but to ensure that a technology and manufacturing base exists to develop new ones. Civil Aviation: The World Standard Commercial aviation is a vital engine for the American economy. The U.S. civil aviation industry (which includes aircraft, engines and parts manufacturers, airlines, airports, and general aviation) directly or indirectly generates over ten million jobs and $1.1 trillion in economic activity. 9 All of that economic activity is funneled through the nation’s air traffic system. As long as the system can accommodate the demand for air travel and just-in-time express delivery, the growth of jobs and economic activity associated with civil aviation will continue. That system is safe, but antiquated and highly inefficient. ATC modernization is essential to helping airlines return to profitability. It is essential to reducing fuel consumption and airplane emissions. If, however, the national airspace is not modernized to handle demand, the stimulating effect of America’s commercial aviation industry is at risk. The key to sustainable growth in the aviation sector is the timely implementation of the Next Generation Air Transportation System, or NextGen, the 21 st century, satellite-based air traffic management system designed to replace the current 1960s era infrastructure. The Federal 9 Federal Aviation Administration, The Economic Impact of Civil Aviation on the U.S. Economy, 2007. 2009 Aerospace Industries Association of America, Inc. Aviation Administration reports that without the funding necessary to research, develop and build NextGen, gridlock at our airports and in our skies will cost the United States $22 billion in lost economic activity in the near term and over $40 billion annually by 2033. 10 Already, the Air Transport Association estimates flight delays in 2007 cost the traveling public more than $4 billion in lost productivity and wages. 11 All forecasts point to robust growth in commercial air traffic in the coming years. As it develops, the nation’s air traffic system must be ready to handle twice the traffic it handles today. The aerospace industry knows it has an obligation to grow responsibly, and it understands that environmentally sustainable growth is not only good for the planet, but also good for the economic health of the industry and the nation as a whole. As Rep. Jerry Costello, Chairman of the House Transportation and Infrastructure Aviation Subcommittee, wrote, “Airlines, airports, manufacturers and the Air Force are at the forefront of developing better planes, technology and operating procedures to conserve fuel and reduce emissions. They are a perfect example of how innovation is driven by necessity, as fuel costs are the largest single expenditure for the airlines. Moreover, the industry is leading the way in research on alternative fuels. Besides the positive impact on the bottom line, there are obvious positive environmental impacts from these efforts, with lessons for the rest of the country.” 12 A 10-year, $20 billion investment in NextGen, in time to meet future demand, will mean millions of new high-paying jobs and hundreds of billions of dollars in economic activity. Moreover, this growth will come from an industry with a proven track record in improving fuel efficiency and overall environmental stewardship. These are two of the nation’s top priorities: economic growth and recovery, and a cleaner environment. Very few government investments have the potential to positively influence two policy objectives at the same time. This is an investment we cannot afford to postpone. Space Technology is an Investment in Our Economy What do farmers, banks, and the fire department all have in common? They all rely on a space infrastructure in orbit above the Earth. Everyday activities, taken for granted by many Americans, are supported or even driven by space systems. These systems are hidden to us, and

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## Aerospace Industry Key to Econ/Competitiveness

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rarely noticed unless the services they provide are interrupted. However, the lack of visibility of space systems doesn’t diminish their importance – both our nation’s economy and national security are tied directly to this critical infrastructure. Communications drives today’s commerce, and space systems are a chief global conduit of our nation’s commercial and national security communications. The Internet, email, cell phones, and PDAs have all become the standard for businesses and recreation. Direct-to-home television and satellite radio have become standard in many American homes and automobiles. These all depend on our satellite communications systems. Similarly, the Global Positioning System, originally designed for military use, is now relied on for banking transactions, ATMs, improved agriculture, air traffic and ground transportation systems and by emergency responders. All of these applications add up to substantial economic activity. Of $202.6 billion in aerospace industry sales in 2007, direct space system industry sales topped $39 billion. 13 Total direct and indirect global space activity for 2007 was $251 billion. 14 Even harder to quantify – but no less valuable – is the impact that technology spin-offs from space activities bring to our economy. In 2007 alone, NASA reported 143 opportunities for technology transfer to commercial applications, ranging from applications such as high-temperature composites, water vapor sensing systems, fire-resistant steel reinforcement, and flexible solar cells. 15 Space is certainly becoming more crowded and contested. Using systems developed by America’s aerospace industry, the Defense Department currently tracks over 18,000 man-made objects in the Earth’s orbit – many of which could threaten civil, commercial, and national security space systems. In such an environment, investments in sensors, tracking, threat assessment, and other space protection and situational awareness capabilities are needed to mitigate the impacts of an unexpected catastrophic space system failure. The cost and difficulty involved in developing and deploying space systems alone necessitates this infrastructure be adequately protected. America’s space systems also need to be replaced and updated routinely. We take the ability to refuel our automobiles and lawnmowers for granted, but for space systems, it is highly problematic – if not infeasible – to perform maintenance or even refuel them. Space systems have limited life spans and, at today’s pace of technology, quickly become obsolete. The average age of the 15 GPS IIA satellites in orbit is nearly 14 years, despite an original design life span of 7 ½ years. 16 Other critical space systems are similarly in need of upgrade at a time when other nations are rapidly modernizing their own space infrastructure. Space systems often go unnoticed in our daily lives, but their impact is very real. It is imperative that we plan and budget for the routine replacement, modernization, and protection of these systems, and their supporting Earth-based infrastructure, to ensure the services upon which we depend on a daily basis are there when we need them. The Strength to Lift America Every dollar invested in the aerospace industry has a triple effect. It helps keep good jobs in the United States; creates the products that bring enormous revenues from other countries; and yields the security and economic benefits that flow uniquely from America’s civil aviation, space, and defense leadership. It is a privilege to contribute to our nation’s success, and we must continue doing what we have shown we do best – keep America strong and working.

### Aerospace key to econ- 15% of GDP

Commission on the Future of the United States Aerospace Industry 02

[“Final Report.” 12/02. http://www.aia-dev.org/assets/commission\_report2.pdf.]

The aerospace industry is a powerful force within the U.S. economy and one of the nation’s most competitive sectors in the global marketplace. It contributes over 15 percent to our Gross Domestic Product and supports over 15 million high quality American jobs. Aerospace products provide the largest trade surplus of any manufacturing sector. Last year, more than 600 million passengers relied on U.S. commercial air transportation and over 150 million people were transported on general aviation aircraft. Over 40 percent of the value of U.S. freight is transported by air. Aerospace capabilities have enabled e-commerce to flourish with overnight mail and parcel delivery, and just-in-time manufacturing.. Aerospace products and services are important contributors to both the business sector and the quality of life of the American public. Air travel is the fastest and safest form of personal and business mobility. Personal travel now accounts for more than 50 percent of air transportation and is increasingly accessible to all segments of American society. The public continues to benefit immeasurably from aerospace applications, including improved weather forecasting, cellular telephones. Ongoing scientific discoveries have not only enabled the preceding benefits but have also provided fundamental knowledge of our planet, the universe, and the origins of life itself. Space-based observatories, such as the Hubble telescope, enable us to look back in time to the creation of the universe. The International Space Station is the first step toward permanent international colonization of outer space. Interpretation of climate change, and new discoveries about the formation and evolution of our solar system now have practical relevance and are essential elements of the nation’s political, cultural, and scientific agenda.