# Econ update—ENDI—2012

## Good

### Generic

#### Relative economic power fine—The USs economy is strong in comparison to other countries

Sharma 12—Head of emerging markets, Morgan Stanley Investment Management (Ruchir, Why America Can Be a Breakout Nation, 07/10/2012, <http://www.huffingtonpost.com/ruchir-sharma/why-america-can-be-a-brea_b_1662344.html>)

Economies should be scouted like baseball players -- against the competition in the same league. Brazil and Russia, with real incomes greater than $12,000, are not in the same league as India ($1400) or China ($6000), yet these nations are commonly lumped together as the "BRICs." I spend my professional life scouting the world for the economies most likely to post strong growth rates for their income class over the next five to ten years, and right now there aren't many of these Breakout Nations. The global economy is slowing, taking down developed and emerging stars alike, but one somewhat surprising prospect is the United States. If it gets a few key reforms right, it can be the breakout star among the established economies. This is not how most Americans see themselves, due to the prevailing end-of-empire gloom. Polls show that a majority of Americans think China is already the world's "leading" economy, even though it is still about one third the size of the U.S. economy. The very real burden of debts that led to crisis in 2008 has slowed US growth from 3.4 percent between 1950 and 2007 to about 2.0 to 2.5 percent. But is that speed good or bad, given the competition? It's rather good. This year, it means that the United States will grow faster than the global average for the first time since 2003, the year an unprecedented boom in emerging market growth began. For the next four years, emerging market growth doubled to over 7.0 percent, creating the widespread perception that the rich nations of the West were being overtaken by the rise of the poor. Now, the historic norm is reasserting itself -- the big emerging nations are slowing dramatically, and the coming years are once again likely to produce more laggards than winners. As of 2007 the emerging markets were on average growing three times faster than the United States; now they are growing only twice as fast. Evidence of an American revival, against both developed and emerging world competition, is mounting, driven by the traditional strengths of the American economy -- its ability to innovate and adapt quickly. America's worst worries -- heavy debt, slow growth, the fall of the dollar and the decline of manufacturing -- will look much less troubling when compared to its direct rivals. While US growth has slowed by a full point so has growth in Japan and Europe, leaving the United States on top of the league of rich nations.

### Jobs

#### Jobs grew in multiple industry’s proving growth – the economy isn’t dependent on one industry spread growth is key signal

Casselman 12(Ben, Hidden Good News in Bad Jobs Report, July 9, <http://blogs.wsj.com/economics/2012/07/09/hidden-good-news-in-bad-jobs-report/>)

[June Job Reports] Demand for labor was relatively strong: Sure, the net payroll number was weak. But there were signs companies were seeing demand for their products, and needed more labor to meet it. Companies asked employees to work more hours and more overtime, and paid them higher hourly wages in June than in May. They also added 25,000 temporary workers, often an indicator of future hiring. All of that may be a sign that companies are reluctant to hire permanent workers. But it also means they’re seeing enough new business to justify spending more on payroll. Jobs growth is broad-based: Job growth may not be robust, but it’s fairly evenly spread across the economy. Manufacturing added 11,000 jobs. Health care added 11,400. Leisure and hospitality added 13,000. Construction added 2,000, although that was dwarfed by the 35,000 jobs lost the month before. Retailers cut 5,400 jobs, but wholesalers added 8,800. The Labor Department’s diffusion index, a measure of how many industries are adding jobs, ticked down just slightly to 57.9, still solidly above the 50 mark that indicates more industries are expanding than contracting. That means the economy isn’t dependent on just one or two growing industries, which may mean it’s more buffered against a shock.

#### Econ stabilizing now but we need to play it safe – discouraged workers dropped to a new low

Casselman 12(Ben, Hidden Good News in Bad Jobs Report, July 9, <http://blogs.wsj.com/economics/2012/07/09/hidden-good-news-in-bad-jobs-report/>)

Workers are re-entering the labor force: Two months of lousy job news might have been expected to drive job-seekers to the sidelines. That didn’t happen. The number of “discouraged” workers — those not looking for work because they don’t think they can find any — dropped to a new low for the recovery. The labor force, defined as those working or seeking work, grew by 156,000 and, in a particularly encouraging sign, most of the new entrants actually had jobs. Another positive sign: The number of people unemployed because they quit their jobs grew by 45,000, which may be a sign workers are becoming more confident in their prospects. None of this is a substitute for strong job growth. And it could all be reversed next month, especially if Europe implodes or China takes a turn for the worse. But if the global economy holds up and the U.S. avoids any new storm clouds — fiscal cliff, anyone? — there’s at least some reason to think the job market has a foundation to build on.

#### Job numbers are deflated – Bureau of Labor and Statistics is over adjusting employment numbers

Thompson Jul 9 2012 research fellow @ Committee for a Responsible Federal Budget at the New America Foundation (Derek, The U.S. Economy Is Suffering From a Severe Case of Seasonal Affective Disorder, Jul 9 2012, 12:15 PM, http://www.theatlantic.com/business/archive/2012/07/the-us-economy-is-suffering-from-a-severe-case-of-seasonal-affective-disorder/259575/)

We were wrong, again. The economy has wilted in the warmer months of 2012, again. Economists are fretting about a double-dip, again. With preliminary estimates in for May and June, job creation has, once again, averaged less than 100,000 for three consecutive months. For the third time in two years, economic prognosticators are getting a bad case of whiplash. What the heck is going on here? It's like economists have always said: *Fool me once, shame on you. Fool me twice, shame on me. Fool me thrice, shame on seasonal adjustments.* Okay, economists haven't always said that. But they're starting to wonder whether the Bureau of Labor Statistics is exaggerating both the cold-month jobs surge and the summer doldrums. Every month, BLS tinkers with its jobs statistics by applying a statistical technique called "seasonal adjustment" to account for seasonal events that would otherwise make jobs data fluctuate wildly (i.e.: weather, holidays, the opening and closing of schools). If the BLS is over-adjusting, that means that the bad months (like the last three) aren't as bad as they seem, and the good months (like the previous seven) weren't as good as we thought. When [Floyd Norris](http://economix.blogs.nytimes.com/2012/07/06/another-seasonally-adjusted-slowdown/) of the New York Times looked at annual change in actual private sector employment since January 2000 ("looking at 12-month changes means you can ignore seasonal adjustments") he saw a recurring weakness in summertime jobs reports. In fact, the last time we had a June, July, or August with more than 100,000 jobs created was back in 2006. On the other hand, the months between October and March have each added more than 110,000 jobs for two consecutive years. Could it be a coincidence? Sure. The Libyan Revolution helped drive up oil prices in 2011, and one year later the Euro/China slowdown hurt global growth. But if the seasonality theory if correct, two things are true. First, the recovery has been more of a steady muddle than a roller-coaster over the last few years. Second, we'll have two more disappointing jobs reports for July and August, followed by a happy September surprise. The October report drops on November 2. That's four days before the 2012 election.

### Global Growth

#### Economy is steady and growing – Europe, Japan, Canda are doing worse / manufacturing industry is coming back home

Sharma 12 Head of emerging markets, Morgan Stanley Investment Management (Ruchir, Why America Can Be a Breakout Nation, 07/10/2012, <http://www.huffingtonpost.com/ruchir-sharma/why-america-can-be-a-brea_b_1662344.html>)

China, now typically portrayed as a major creditor, has total debt equal to 180 percent of GDP. The more wealthy you are, the more debt you can carry, so America's total debt (350 percent) is actually less of a challenge. If China slows to under 7 percent in the coming years, which is likely, the United States would once again be the single largest contributor to global growth -- a symbol of economic status it lost to China in 2007. The most dramatic signs of a US revival are in manufacturing. Even as it was losing out to emerging manufacturing powers in the last decade, the U.S. was responding much more quickly to this challenge than other rich nations, by restraining wage growth, boosting the productivity of remaining workers with new technology, allowing a steady fall in the dollar that has made US exports much more competitive, particularly relative to Euro nations, and incorporating inexpensive new foreign sources into its supply chains. China's rise came largely at Europe's expense. Since 2004 China has gained market share in the export of goods and of manufactured goods, while Europe's share is falling and the US share has held steady. In fact it now appears that the US share of global exports is climbing again. After losing 6 million manufacturing jobs in the last decade, the US gained half a million in the last 18 months while Europe, Canada and Japan lost jobs or saw no change. Energy is also rapidly emerging as an American competitive advantage. After falling the for 25 years, the share of the US energy supply that comes from domestic sources has been rising since 2005, from 69 percent to around 80 percent, due to increasing production of oil and particularly natural gas. This is pushing US natural gas prices to the lowest rates in the world, inspiring manufacturers to relocate to the United States. Textiles was one of the first industries to leave the developed world, but recently Santana Textiles moved from Mexico to the US due to energy costs. The big danger in the US remains that the government will fail to attack the debt problem, leaving a Japanese-style anchor on the recovery. Just as it makes no sense to analyze emerging markets in terms of generic rubrics like BRICs, developed markets also need to be analyzed as individual stories. The dramatically different approaches of the developed nations to the basic challenges -- de-leveraging and maintaining strength in manufacturing -- is going to put them on very different growth paths. And if you compare the United States to its rich peers, it has the best chance to be a Breakout Nation, particularly if Washington can get its game together and attack the public debt.

### Oil

#### Oil prices declining slowly safe for not – Norway crude oil strike

AP 7/10 (Associated Press - Oil price drops as China slows, Norway strike ends, 07.10.12, http://www.miamiherald.com/2012/07/10/2889471/oil-price-down-on-china-data-end.html#storylink=cpy)

China's June imports increased by about 6 percent. That is down from May's rate and worse than analysts had expected. Growth in exports slowed as well. China is the world's second biggest oil consumer behind the U.S. and if its economy slows it won't need to use as much energy. "Crude imports into the country last month fell 14 percent from May to a seven-month low," independent oil analyst Jim Ritterbusch said. Traders will closely watch China's second quarter GDP and industrial production numbers, due out at the end of the week, he said. The threat of an industry shutdown in Norway ended Monday night after the government imposed binding arbitration on striking Statoil workers. That prevented a lockout that would have cut off about 1.6 million barrels a day of Brent crude. Brent is the benchmark used to price a variety of foreign oils, and many East Coast refineries use it to make gasoline. There was also the chance that the strike would crimp supplies to major export markets, namely the U.K., the Netherlands, France and Germany, just as Europe puts in place an embargo on Iranian oil in a bid to curb its nuclear program. "The resolution of the labor dispute in Norway is significant." said energy trader and consultant Stephen Schork. In the U.S., the Energy Department released its monthly Short-Term Energy Outlook on Tuesday. Among the highlights: -- Benchmark U.S. crude is expected to average $88 per barrel in the second half of the year, down $7 from last month's outlook. -- Retail gasoline is seen averaging $3.39 a gallon in the third quarter, $3.49 a gallon for the year and $3.28 per gallon in 2013. -- U.S. crude oil production should average 6.3 million barrels per day, the highest production level since 1997. Production should rise to 6.7 million barrels per day next year. On Wednesday the Energy Department releases its weekly report on the nation's crude oil supplies. Analysts surveyed by Platts, the energy information arm of McGraw-Hill, estimate stocks will shrink by about 1.5 million barrels. That would be less than the five-year average draw of 3.7 million barrels for the comparable week. The amount of crude in storage is about 11 percent above the five-year average. At the gas pump, the national average for a gallon of regular remained at $3.38 a gallon, according to AAA, Wright Express and Oil Price Information Service. That's about 5 cents higher than a week ago, but still around 25 cents lower than a year ago.

## Bad

### Generic

#### Economy is limping and no signal of bright future – consumer confidence is shot, China slow down, Europe econ crisis

Bartash July 08 (Jeffry, MarketWatch – Wall street journal, 2012, U.S. economy hits another big bump, <http://articles.marketwatch.com/2012-07-08/economy/32582710_1_consumer-credit-jobs-report-economy-hits>)

“We seem to be kind of limping along,” said Kathy Jones, fixed income strategist at Charles Schwab. “We are not getting the kind of growth you’d expect at this stage of an expansion.” The limping economy, what’s more, is unlikely to straighten out its gait anytime soon. The unresolved financial crisis in Europe and an economic slowdown in China continue to weigh on market confidence and Washington is divided about how to boost hiring and growth at home. That means a status quo of lackluster hiring and a sluggish U.S. expansion unable to dramatically lower the nation’s 8.2% jobless rate. [**Read about latest jobs report.**](http://www.marketwatch.com/story/us-posts-weak-80000-jobs-gain-in-june-2012-07-06) **Consumers and small business** A big reason the U.S. economy is not growing as fast: consumers have cut back on spending to rebuild their savings after a winter splurge. The May report on consumer credit, issued Monday, will offer more details on whether Americans are scaling back. The canaries in the coal mine, America’s small businesses, are the first to stop hiring when consumers cut spending and the economy slows. If that’s the case, the monthly survey by the National Federation of Independent Business will probably decline. The index, which stood at 94.4 in May, comes out Tuesday. Perhaps the most important report of the week is the U.S. trade balance. The May report, issued Wednesday, will show how much American exporters are being hurt by the slowdowns in Europe and China. U.S. exporters have led the recovery over the past two years and a sharp deterioration in trade would be another blow to the economy. Economists will also closely watch the weekly jobless claims report on Thursday to see if last week’s decline is repeated. Claims fell by 14,000 last week to 374,000, the lowest rate in a month and a half. The forecast is for a further decline. Claims are a rough gauge of whether layoffs are rising or falling. They spiked in the spring after a touching a four-year low in February, corresponding with the plunge in net employment growth. Rounding out the week are reports Friday on wholesale prices and consumer sentiment. The University of Michigan’s sentiment index is projected to show no change in consumers’ moods, based on the latest MarketWatch survey of economists. Falling inflation over the past few months is one of the few bright spots in the economy. Gasoline prices have retreated after surging earlier in the year, putting more money in people’s pockets. Whether consumers spend that cash and boost the economy, however, is far from certain given all the uncertainty at home and abroad. They might just pocket the money — and keep the economy on edge.

#### Panel remains optimistic on US growth

NP July 10(News Press, Panel remains optimistic on US growth, Jul. 10, 2012, http://www.news-press.com/article/20120710/NEWS0107/120710016/1009/Panel-remains-optimistic-US-growth?odyssey=nav|head)

Facing financial insecurity in Europe, sluggishness in China and an election in November, state economists on Tuesday took a cautious, stay-the-course approach to their view of the national economic picture while reiterating that the recent slowdown likely won't result in another recession. Meeting to update their national economic forecast last tweaked in December, economists from the Legislature and the governor's office said they will likely be in a much better position to read the tea leaves the next time they meet, as events in the United States and abroad become clearer over the next several months. Despite recent dips in consumer confidence and sluggish job growth, economists estimate the national economy will grow by 2 percent during the fiscal year that began July 1, a 0.1 percentage point uptick from the forecast late last year. But the panel expects the recovery to take longer than previously expected, prompting members to reduce the forecast for the 2013-14 fiscal year by a full percentage point, lowering GDP growth expectations to 2.1 percent. The overall growth rate comes despite lower expectations for job growth, as national employment figures remain weak. December estimates, which called for a 1.4 percent increase in non-farm employment in the current fiscal year, have been pared back by 0.1 percent. Job creation also is expected to move at slower pace than previously predicted for the next several years. "Despite the slowdown in the economy, I believe the economy has hit a soft spot and is not heading back toward recession," said Clyde Diao, an economist in the governor's office. Some recent indicators are cause for such optimism. A dramatic decline in gasoline prices in recent months translates into a 0.5 percentage point increase in consumer disposable income. Auto sales are up and are expected to remain stronger than previously expected over the next few years. Housing appears to be another rebounding sector as pent-up demand continues to mount while interest rates remain low and relatively stable. Housing starts for the current fiscal year are expected to climb about 23 percent. Fueling the increase is demand from renters and continued low interest rates.

#### Stocks are falling along with the economy- Slow growth, euro zone crisis threaten profits, Alcoa rises after market close, beats estimates ,Visa, MasterCard fall after UBS downgrade

**Valetkevitch Jul 9**([Caroline,](http://blogs.reuters.com/search/journalist.php?edition=uk&n=caroline.valetkevitch&) US STOCKS-Wall St slips on global economic worries, Mon, 2012, http://uk.reuters.com/article/2012/07/09/markets-usa-stocks-idUKL2E8I9E9L20120709)

NEW YORK, July 9 (Reuters) - U.S. stocks slipped in light trading on Monday, weighed down by weak economic data from Asia and signs of economic trouble in Europe, underscored by higher Spanish and Italian bond yields. Monday's decline, the third in a row for the S&P 500 index, comes as quarterly earnings reports get under way. Investors are anxious to see what impact weak demand in Europe and slowing growth in Asia have had on corporate America. "We think 2Q earnings for the S&P 500 will be OK this quarter ... we're calling for a small 2 percent beat. That said, we expect the tone of earnings season to be quite negative," said Jonathan Golub, chief strategist at UBS in New York. Stocks pared losses late in the session, leaving indexes with just slight losses. Alcoa Inc's stock fluctuated throughout the day, ending up 0.3 percent at $8.76 in the regular session. Alcoa's shares rose 2 percent in extended trading after the largest U.S. aluminum company and Dow component released its results, marking the start of the earnings season. Alcoa posted a second-quarter loss but results, excluding items, beat Wall Street estimates. Corporate outlooks are at their most negative in nearly four years, and companies that have already reported have shown lackluster growth. Nearly two dozen S&P firms have already cited Europe's woes - which seem to be worsening - as a concern. While a majority of corporations may beat lowered analyst expectations, investors will be focused on how well companies are handling weakness overseas. Based on "where we are today, we may see muted to a slightly downward reaction to earnings," said Natalie Trunow, chief investment officer of equities at Calvert Investment Management in Bethesda, Maryland, whose firm manages about $13 billion in assets. The Dow Jones industrial average ended down 36.18 points, or 0.28 percent, at 12,736.29. The Standard & Poor's 500 Index was down 2.22 points, or 0.16 percent, at 1,352.46. The Nasdaq Composite Index was down 5.56 points, or 0.19 percent, at 2,931.77. Volume was among the lightest of the year. About 5.1 billion shares changed hands on the New York Stock Exchange, the Nasdaq and Amex, compared with the year-to-date daily average of 6.85 billion shares. Italian borrowing costs continued to rise on Monday while Spanish 10-year yields rose above 7 percent. That level is seen as unsustainable in the longer-term and reflecting doubts over how measures agreed last month to stem the euro zone debt crisis will be implemented. In economic news, machinery orders in Japan fell at a record pace in May, while inflation in [China](http://uk.reuters.com/places/china) eased to a 29-month low, suggesting falling demand from Europe and the United States for exports.

### Jobs

#### Economy not creating enough jobs to avoid double dip recession – 3 warrants: Low consumer spending, Low housing, No government intervention

AP July 9 (The Associated Press, US economy adds 80,000 jobs in another weak month, July 9, 2012 at 1:05 p.m., ,http://www.vcstar.com/news/2012/jul/09/us-economy-adds-80000-jobs-in-another-weak-month)

The slowdown in job growth has been stark. From December through February, the economy produced an average of 252,000 jobs a month, twice what is needed to keep up with population growth. But the jobs generator started sputtering in March, when job growth slowed to 143,000. At first, economists blamed the weather for warping the numbers. An unusually warm winter allowed construction companies and other employers to hire earlier in the year than usual, effectively stealing jobs from the spring, they said. But weird weather could only explain so much, and the bad news kept coming: The economy added just 68,000 jobs in April and 77,000 in May. Those figures reflect revisions from earlier estimates of 77,000 for April and 69,000 for May. June's dud of a number made it clear that the economy has fallen into the same pattern it followed in 2010 and 2011: It gets off to a relatively fast start, then fades at midyear. Offering some hope, the slowdowns the two previous years lasted just four months each. From June through September 2010, the economy lost an average of 75,000 jobs per month. From May through August 2011, the economy added an average of 80,000 per month. Both years, hiring picked up significantly when the weak stretches ended. To be sure, the United States is still suffering the hangover of a financial crisis and the worst recession since the 1930s. The economy lost 8.8 million jobs during and after the recession. It has regained 3.8 million. The economy isn't growing fast enough to create jobs at a healthy clip. That is primarily because three traditional pistons of the economic engine aren't firing the way they normally do: - Consumer spending since the recession has been weaker than it was in any post-World War II recovery. Inflation is modest, but workers' wages have barely kept up. In such a weak job market, employers don't need to give big raises. And households are trying to pay off the debt they ran up in the mid-2000s. - Housing has been a dead weight on the economy for six years. Home-building usually powers economic recoveries, but construction spending is barely half what economists consider healthy. - Government, which usually picks up the slack in the job market when the economy is weak, isn't helping this time. Counting federal, state and local jobs, governments have cut 637,000 jobs since 2008. They have cut 49,000 the last three months.

#### Jobs report is a catastrophe – 80,000 added

The Huffington Post 07/09/2012 (Business Editor, Latest Jobs Report Underscores Unemployment Crisis, <http://www.huffingtonpost.com/peter-s-goodman/latest-jobs-report_b_1654661.html?utm_hp_ref=elections-2012>)

As the government on Friday released its [latest official snapshot](http://www.huffingtonpost.com/2012/07/06/june-jobs-report-unemployment-rate_n_1653579.html) of the American labor market -- finding that the economy in June added a paltry 80,000 net new jobs, while the unemployment rate held steady at 8.2 percent -- most commentators seized on the data as generic fodder for the unceasing campaign story. How will Republican nominee Mitt Romney exploit these fresh indications of distress for his own political benefit? Can President Barack Obama survive a weak economy to claim reelection? These are predictable questions, the sorts of reactions we can play for ourselves in our heads without bothering to turn on the television. Their ubiquity testifies to the degree to which too many professional observers are inured to the real human experiences behind the data. The horrendous job market is not a political story. It is a national emergency playing out in slow motion, a catastrophe that has come to dominate life in millions of American homes. The persistent shortage of paychecks has seeped into our aspirations and made them smaller. It has eroded the basic American understanding about the supposed rewards of trying hard, getting educated and looking for work -- a formula too many people have been following only to wind up destitute, discouraged and dispossessed.

#### Economy is not doing well – industry jobs not increasing

Rusling 12 (Matthew, analysis for Xinhua from Washington, Bashing China won't fix US economy, Monday, 09 July 2012, http://thecitizen.co.tz/editorial-analysis/47-columnists/23870-bashing-china-wont-fix-us-economy.html)

Meanwhile the US job growth fell short of investors' forecasts. US stocks opened lower Friday on the weak job report. Professional and business services added 47,000 jobs in June, with temporary help services accounting for 25,200 of the increase. The manufacturing sector added 11,000 jobs, while employment in the health care sector rose by 13,000. Retail trade lost 5,400 jobs and the transportation and warehousing industry shed 2,200 jobs. The new job creation pace was downwardly revised for April from 77,000 to 68,000, and was upwardly revised for May from 69,000 to 77,000. In the second quarter, employment growth averaged 75,000 per month, compared with an average monthly gain of 226,000 for the first quarter of the year, the department said. Slower job growth in the second quarter occurred in most major industries, fresh evidence that the US economic growth has lost some steam. The U.S. Commerce Department left US annual economic growth unchanged at 1.9 per cent for the first quarter of 2012 in its final estimate released last month, a deceleration from the 3- percent growth in the final quarter of last year. The number of unemployed people stayed unchanged at 12.7 million in June, while the number of long-term unemployed, those who have been jobless for at least 27 weeks, stood at 5.4 million.





### Global Growth

#### China’s economy doesn’t influence domestic economics- Derek Scissors senior fellow at Heritage Foundation

Rusling 12 (Matthew, analysis for Xinhua from Washington, Bashing China won't fix US economy, Monday, 09 July 2012, http://thecitizen.co.tz/editorial-analysis/47-columnists/23870-bashing-china-wont-fix-us-economy.html)

Most of the economic woes the United States is currently facing are of its own making, and bashing China by U.S. politicians can not fix the U.S. economy, a U.S. expert said."Both ends of the political spectrum seem to be competing to be tougher on China economic issues. They're both wrong," wrote Derek Scissors, senior research fellow of the Asian Studies Center at the U.S. think tank Heritage Foundation, in a blog post on the Foundation's website. Scissors was commenting on the move taken by Washington on Thursday to request dispute settlement consultations with China at the World Trade Organisation (WTO) on automobiles duties imposed by China, a move regarded as mainly politically motivated at the year of elections. This is the second time in the year that the US government has confronted China at the WTO since March, when Washington made the similar request at the WTO over China's control over export of rare earths due to environmental concerns. Since last year, the United States has accelerated its pace of taking tough actions on China by imposing anti-dumping and countervailing duties on a number of Chinese imports. But Scissors pointed out that some of those U.S. moves against China are minor in impact, while others are "outright harmful." Both the campaigns of US President Barack Obama, who is seeking reelection, and his Republican challenger Mitt Romney have repeatedly pointed a finger at China for the US economic woes, including the sluggish recovery and high unemployment. The Republican National Committee's research arm even published a list of Obama administration's supposed failures in confronting China. The list relies on a number of protectionists and repeats the false claim, made by China-bashers of all stripes, that Chinese currency policy costs American jobs. Scissors refuted the protectionist view that a weak Chinese currency costs American jobs. "The facts say that a weaker RMB is associated with low American unemployment and a stronger RMB is associated with high American unemployment," he said, citing the figures of U.S. unemployment and RMB's value during the 1991 to 2010. "The U.S. creates jobs when we handle our own economy properly, and it loses them when we don't; what China does is almost irrelevant," he added. Scissors advised U.S. politicians shift focus away from China to their own efforts to fix American policy that can really help the economy. "This is the real lesson of the political back and forth. If you're talking a lot about China , you're not talking enough about how to fix American policy and really help the economy. That's a mistake no matter who's making it," he said.

### Oil

#### Boom in domestic oil - gas saved U.S. economy

WESTGARD 12 Professor @ University of Minnesota Lifelong Learning program (ROLF is a professional member of the Geological Society of America and the American Association of Petroleum Geologists, July 10, 2012, Boom in domestic oil - gas saved U.S. economy, http://brainerddispatch.com/opinion/guest-columns/2012-07-10/boom-domestic-oil-gas-saved-us-economy)

The U.S. economy added just 80,000 jobs in June(Mediocre Jobs Report), a third straight month of weak hiring. The unemployment rate was unchanged at 8.2 percent, but it would have been much worse without the boom in domestic oil and gas production. There are actual labor shortages in expanding oil and gas areas of the U.S. like North Dakota’s Bakken Shale region. There, the business activity from thousands of new fracking wells have unemployment near 3 percent. Those wells force high pressure liquids into shale layers, releasing formerly trapped oil and gas deposits. This occurs beneath a mile or more of rock layer without damage to shallow fresh water supplies. In northeastern Ohio, moribund since steel mills closed in the 1970s, a $650 million steel mill is being erected near Youngstown by 10 construction cranes for V&M Corporation to produce steel pipe and other equipment. The mill’s operation will create 350 long-term jobs by the end of 2012, more than doubling V&M’s local workforce. A V&M melt shop, where raw steel is produced by melting scrap in furnaces, will be the next big job creating project at that site. Nearby in Carroll county, a new 350 acre industrial park is ready for oil and gas related projects. The state of Ohio is expecting 200,000 new jobs by 2018 from the Utica Shale which underlies most of eastern Ohio. The growing replacement of coal by cleaner natural gas for U.S. electric power is good news for the environment and jobs. EPA rules which restrict coal’s mercury and sulfur (acid rain) emissions are forcing that shift to natural gas, now plentiful from this new fracking drilling technology. The decline in coal’s domestic market is being replaced by increased coal exports. From a 50 percent share of the U.S. electric power market five years ago, coal supplied just 42 percent in 2011, and it is now below 40 percent in 2012. A rise in natural gas use from 20 percent to near 30 percent at our electric utilities is making up most of the difference. At the same time wind and solar power have risen from 1 percent to 3-4 percent of U.S. electric energy supply. Overall, the expansion in the oil and natural gas industries has created 500,000 good paying new jobs in the past decade. The expansion is not slowing down as several large shale reservoirs are now productive in various parts of the U.S. Overall, U.S. oil production has grown by 10 percent since 2008, and the import share of U.S. oil consumption has dropped to about 45 percent from 60 percent in 2005. This trend will continue, and a new study by Wood MacKenzie reports that oil and gas production could create an additional one million new U.S. jobs by 2018. The touted jobs future in the “green” sector is limited by its cost per kilowatt-hour. Wind and solar are at least twice as expensive as electricity produced with natural gas. A study for Spain by King Carlos University showed that for every subsidized wind or solar job, more than two jobs were lost in energy consuming industries because of increased electric costs. Some of that Spanish production was moved to France with its lower cost nuclear energy. There is an entirely new reality with U.S. energy production, consumption, and imports. New oil and gas supply is emerging, and fossil fuel demand is being limited by conservation and efficiency. It is too soon to talk of energy independence, but oil imports are declining to the point that most of our oil need could soon be met from friendly Western Hemisphere sources. Canada continues to develop its vast oil sands deposits, and Brazil will be producing from the world’s largest new oil discoveries in the off shore Santos basin. As Daniel Yergin noted recently in The New York Times, “What is striking is this great revival in oil and gas production in the United States, with wide impacts on jobs, economic development and the competitiveness of American industry. This new reality requires a new way of thinking about America’s improving energy position and how to facilitate this growth in an environmentally sound way — recognizing the benefits this will bring in an era of economic uncertainty.”

# budget cards

## **No—Fiscal Discipline**

#### **There is already new spending in transportation.**

Snyder 12 (Tanya Snyder, June 26 2012, Capitol Hill editor in September 2010 after covering Congress for Pacifica Radio’s Washington bureau and for public radio stations around the country, D.C. Streets, “Where did the Senate Get the Extra Money to Pay for Its Bill?”, [http://dc.streetsblog.org/2012/06/26/where-did-the-senate-get-the-extra-money-to-pay-for-its-bill](http://dc.streetsblog.org/2012/06/26/where-did-the-senate-get-the-extra-money-to-pay-for-its-bill/))

Congressional leaders announced opaquely last week that they’d “moved forward” on a deal on the highway section of the transportation bill. That means transit, rail, and safety programs are still being negotiated. And it means the financing of the bill hasn’t yet gotten the seal of approval from the House. Still, both houses of Congress have agreed to spend more on the transportation bill than the Highway Trust Fund itself can bear. (The House gave its green light a couple weeks ago when it nixed the Broun motion to keep transportation spending to HTF receipt levels.) To overspend the HTF but still plausibly deny that they’re deficit-spending, the Senate Finance Committee has done some pretty fancy footwork to offset the expenditures with other savings. Chair Max Baucus (D-MT) squeezed blood from the stone of the U.S. budget, and many of his colleagues have lauded him as a miracle worker. But Taxpayers for Common Sense – and lots of other people with common sense – say the numbers don’t really add up. The information below comes from TCS’s report, released last week, on the Senate pay-fors. Stick with me here – this is all a little convoluted, but understanding the funding is a key part of the process. While the Senate transportation bill may be a good stop-gap compared to the option of even shorter extensions, a look at the funding shows why it provides no long-term answers to the question of how to pay for transportation. The sources of new Highway Trust Fund revenue Baucus et al came up with are: A transfer from the general fund: $4.97 billion. This is the most obvious example of deficit spending – just taking money from the Treasury to pay for transportation. That’s on top of $34.5 billion the Treasury has already coughed up in the last four years to bail out the Highway Trust Fund – something no one wanted to repeat. Dedication of imported car tariffs to the Highway Trust Fund: $4.52 billion. This revenue would no longer go to the general fund. A transfer from the Leaking Underground Storage Tank Trust Fund: $3.685 billion. TCS approves of this use of funds, since they come from the gas tax and are under-spent at a three-to-one ratio. This transfer just eliminates most of the backlogged surplus. Dedication of the gas guzzler tax to the Highway Trust Fund: $0.697 billion. The government levies a fee on vehicles whose combined city and highway fuel economy is worse than 22.5 mpg (with exemptions, of course, for some of the worst offenders, like SUVs and minivans). It’s transportation-related, but the tax revenues have always gone into the general fund, so this functions as another transfer from the Treasury. Total new HTF revenues: 13.872 billion. So, since the Senate proposes to take from the general fund to plug the Highway Trust Fund, they have to pay back the Treasury somehow. That’s known on Capitol Hill as an “offset,” to avoid deficit spending. The principal new source of revenue to replenish the general fund is a pension stabilization provision, expected to yield $9.394 billion. By reducing the amount companies have to contribute to employees’ pensions — which are tax-free — that money will become taxable income. Even skeptics seem to agree that $9.394 billion is probably a reasonable amount to expect from this change. But TCS notes that the Pension Benefit Guaranty Corporation (PBGC), which guarantees pension benefits when a company goes bankrupt, has a $23 billion deficit, which they say would be a better fit for this chunk of money. There are 10 more offsets, most of them good for a negligible amount of money, but put them all together (with the pension change) and they total $17 billion. They include changes to arcane tax code provisions, increased enforcement of tax payment on Medicare providers and passport holders, and even a new tax on “roll-your-own” cigarette machines. So that’s enough to pay the general fund back for what the Highway Trust Fund took. But TCS says some of these represent bogus savings. For example, the government is planning to “save” $3.627 billion by further delaying a tax change that hasn’t even taken effect yet. The Senate bill would spend ten years’ worth of this “savings” in little more than a year. But that’s not all! The bill also includes extraneous spending on things that don’t have anything to do with transportation. Most of the non-transportation items have their own funding built in, but TCS wonders why they’re included in the bill at all. They include $3.627 billion for Gulf states’ coastal restoration, paid for out of fines from the BP oil spill; $1.4 billion for reauthorization of the land and water conservation fund, funded with oil drilling money; a change in the definition of a “small-issuer” bond, which is tax-exempt, and therefore forfeiting $0.761 billion in taxes; elimination of the cap on water and sewer bonds; and relief from the alternative minimum tax for investors in private activity bonds (which are often used for infrastructure). The final item under “new spending” does, in fact, deal with transportation. In fact, it’s a key priority for transportation reformers: bringing the transit tax benefit up to the level of the parking benefit for commuters. Currently, the limit is $125 a month for transit and $240 for parking. Putting transit commuters on a level playing field with drivers is a significant transportation goal for this bill to achieve. TCS grumbles that the way to handle the imbalance is to lower the parking subsidy, which is fair enough. But if that’s not going to happen, the $0.139 billion it will cost to raise the transit benefit to achieve parity is well worth it.

#### **No Fiscal Discipline Now – it has risen to the level of a national security risk.**

Steelman 12 (Sarah Steelman, June 23, 2012, former Missouri state senator and state treasurer current candidate for the U.S. Senate, The Kansas City Star, “Bringing Fiscal Discipline to Washington.”, http://www.kansascity.com/2012/06/23/3671831/us-senate-candidate-sarah-steelman.html)

Anyone who observes government spending and regulation these days realizes there are plenty of things that need to be changed. The most important thing Washington needs to learn is how to live within its means. As a member of the Missouri Senate, I operated under a constitutional requirement that all budgets be balanced. This is an idea we should apply to Washington. When I served as state treasurer, I kept our bond rating AAA, something Washington has forgotten how to do. Few in Washington seem serious about tackling runaway spending. Instead, when Washington maxes out its credit cards, it just votes itself a higher credit limit. As a result, our national credit rating has been downgraded, and our fiscal irresponsibility has risen to the level of a national security risk. America can no longer exert power internationally or support her troops as it once did because our economic supply lines are hampered. An amendment to the U.S. Constitution requiring that the U.S. balance its budget every year is necessary to bring fiscal prudence to Washington — but that alone is not sufficient. I will lead the fight for Washington to adopt zero-based budgeting. Currently, every federal agency and department submits a budget to the Congress which starts with an existing budget and requests a percentage increase. If that increase isn’t honored, these same agencies complain about cuts. As a result, federal government spending is growing faster than the national economy. Instead, every federally funded organization should have to start each year assuming a budget of zero, and then justify every dollar it wants to spend. When considering budget requests, I will determine if the proposed program is constitutional and if it is, whether it can be better done by a state or local government. The principle of federalism requires that Washington’s power balance with state and local power. I believe that programs receiving federal spending should demonstrate they have been effective, and programs that have not had positive results should not receive more funding simply because they were in the past. I would also like to see most discretionary federal spending levels frozen to where they were in 2008. This freeze would go a long way to balancing the budget in a few years. The problem with Washington is not that Americans pay too little in taxes; the problem is that government spends too much. None of these ideas is revolutionary in Missouri, yet they seem radical to Washington. It is time voters in the Show-Me State take what we know about budgeting state spending and show them a thing or two in Washington.

## Fiscal Discipline kt Growth

#### Fiscal discipline vital for economic growth – Canadian Empirics prove.

Smith 12 (Bruce Campion-Smith, Ottawa Bureau Chief, June 11, 2012, quotes Prime Minister Stephen Harper as he address the International Economic Forum of the Americas in Montreal, The Star, “Fiscal Discipline Vital for Economic Growth, Stephen Harper says.”, <http://www.thestar.com/news/canada/politics/article/1209646--fiscal-discipline-vital-for-economic-growth-stephen-harper-says>)

MONTREAL—Prime Minister Stephen Harper says he’s going to next week’s G20 meeting — where Europe’s economic crisis will dominate — with a pointed message for world leaders that economic growth starts with fiscal discipline. That message, to be delivered at the high-level meeting in Los Cabos, Mexico, comes as European leaders struggle to stabilize their banking systems. And it also comes amid signals that political commitments to austerity across Europe could be wavering in favor of government spending sprees to kick-start ailing economies. But in a speech Monday to an economic forum here, Harper gave a preview of his G20 position by warning against the “false choice” he said is taking shape because of “political difficulties.” “A choice between fiscal discipline or economic growth, between austerity or prosperity,” Harper told the International Economic Forum of the Americas. That’s a direct reference to the debate shaping up in Europe that pits an austerity agenda meant to reduce staggering government deficits against spending sprees to stimulate the economies. But Harper cautioned the influential audience of corporate leaders and policy-makers against such a trade-off. “Economic growth and fiscal discipline are not mutually exclusive. They go hand in hand,” he said, suggesting Canada as the model to follow. Harper spoke as the forum’s sessions unfolded behind a tight cordon of security, all in apparent reaction to the student protests across tuition protests that have unfolded on Montreal streets. A wall of police officers blocked the front entrance to the downtown Hilton hotel while inside, security staff and police prowled the halls and searched visitors. Yet for all the preparations, the police vastly outnumbered the handful of protesters, perhaps because the prime minister’s office kept news of Harper’s visit under wraps until just a few hours before he spoke. Harper said Canada’s “strong” record of fiscal discipline meant that the federal government pumped fiscal stimulus into the economy “at the time it mattered most.” And he touted the fact that Ottawa is on track to balance its budget in the fiscal year 2015/2016. “The Canadian approach is what the world needs . . . An approach that includes both fiscal discipline and other growth measures,” Harper said, though he added that Canada doesn’t seek to “impose our views on the world.” While Canada’s position remains “advantageous,” Harper cautioned that the country is enmeshed in the global economy and “sometimes at the mercy of its challenges. “Particularly these days with the crisis in the eurozone,” he said. On that note, he praised the weekend deal by the eurozone to stabilize Spain’s banking system and for now, stem a financial crisis that risks spilling beyond Europe’s borders. “These are the kinds of measures that the Europeans themselves are able to undertake and that they must undertake to move their economy forward,” Harper said. Bank of Canada governor Mark Carney also praised the intervention to bail out the Spanish banks, saying it marked “important progress.” “It’s further evidence of Europe’s resolve to address its problems,” Carney told the crowd. Harper got some support for his views from Bank of France governor Christian Noyer, who said the challenge for most euro nations is to curb their spending. “Countries need to create the conditions for strong and sustainable growth through structural reforms,” Noyer said. He also said the ongoing turmoil underscores the need for a “more coherent and integrated financial union” across the eurozone. The four-day conference features key note speakers such as Quebec Premier Jean Charest, former U.S. Federal Reserve chairman Alan Greenspan, as well ambassadors and corporate leaders.

## at: keynsian spending

#### Deficit spending is never good – empirics from the 60’s prove.

Samuelson July 8 (Robert J. Samuelson, July 8, 2012,contruibutor of Newsweek and The Washington Post, writes about business and economic issues, Newsweek, “1960’s deficit spending led to today’s grief.” <http://business-news.thestreet.com/denver-post/story/1960s-deficit-spending-led-todays-grief/1>)

Wondering why government can't restart the sluggish economy? Well, one reason is that we are still paying the price for the greatest blunder in domestic policy since World War II. This occurred a half-century ago and helps explain today's policy paralysis. The story is worth understanding. Until the 1960s, Americans generally believed in low inflation and balanced budgets. President John Kennedy shared the consensus but was persuaded to change his mind. His economic advisers argued that, through deficit spending and modest increases in inflation, government could raise economic growth, lower unemployment and smooth business cycles. None of this proved true; all of it led to grief. Chapter 1 involved inflation. Increases weren't modest; by 1980, they approached 14 percent annually. Business cycles weren't smoothed; from 1969 to 1981, there were four recessions. Unemployment, on average, didn't fall; the peak monthly rate was 10.8 percent. Now comes Chapter 2: How the retreat from balanced budgets has weakened America's response to today's downturn, the worst since the Great Depression. It has limited government's ability to "stimulate" the economy through higher spending or deeper tax cuts &mdash; or, at least, to have a legitimate debate over these proposals. The careless resort to deficits in the past has made them harder to use in the present, when the justification is stronger. The balanced-budget tradition was never completely rigid. During wars and deep economic downturns, budgets were allowed to sink into deficit. But in normal times, balance was the standard. Kennedy's economists, fashioning themselves as heirs to John Maynard Keynes (1883-1946), shattered this consensus. They contended that deficits weren't immoral and could be manipulated to boost economic performance. Norms changed. Political leaders and average Americans noticed that continuous deficits did no great economic harm. Neither, of course, did they do much good, but their charm was "something for nothing." Politicians could spend more and tax less. We are now facing the consequences of all these permissive deficits. The recovery is lackluster. Economic growth creeps along at 2 percent annually or less. Unemployment has exceeded 8 percent for 41 months. But economic policy seems ineffective. Since late 2008, the Federal Reserve has kept interest rates low. And budget deficits are enormous, about $5.5 trillion since 2008. Only one group of economists has a coherent response: Keynesians. Led by New York Times columnist Paul Krugman, they argue that the deficits haven't been large enough. If consumers and businesses aren't spending enough to revive the economy, government must substitute. Its support would be temporary until more jobs and profits strengthened private spending. Sounds convincing. But it collides with the 1960s' legacy. Running routine deficits meant that the federal debt (all past annual deficits) was already high before the crisis: 41 percent of gross domestic product in 2008. Huge deficits have raised that to about 70 percent of GDP; Krugmanlike proposals would increase debt further. Now, imagine that the country had adhered to its balanced-budget tradition before the crisis. Some deficits would have remained, but the cumulative debt would have been much lower. There would have been more room for expansion. The blunder of the '60s has had a long afterlife. Economic policy is trapped between weak demand and the fears of too much debt. Yesterday's Keynesians undercut today's Keynesians. "In the long run, we are all dead," Keynes said. But others are alive &mdash; and suffer from bad decisions made decades ago.

#### Deficit Spending is not the answer – it will not help the economy.

MN July 8 (2012, Messenger News, all quotes come from Se. Charles Grassley, The Messenger, “Spending isn’t the Answer.” http://www.messengernews.net/page/content.detail/id/549352/Spending-isn-t-the-answer.html?nav=5087)

The U.S. economy may no longer be in recession, but just about no one would claim that more than a modest recovery from a protracted downturn has been achieved. Politicians in the nation's capital fall basically into two philosophical schools with regard to how best to restore prosperity and put the far-too-many unemployed and underemployed Americans back to work. Some believe that the federal government should increase spending even if that requires deficit spending. They argue that this is necessary to stimulate economic growth. Others counter that the cause of the economic woes is federal spending that is not sustainable without higher taxes. The solution they advocate is reducing federal outlays - or at least the growth in those outlays. Sen. Charles Grassley is clearly in the latter category. The Iowa Republican took to the floor of the U.S. Senate on June 25 to explain why his approach is the better choice for America. His remarks referenced heavily the current economic troubles in Europe and cautioned that our nation could be headed for a similar crisis if we do not learn from the past mistakes that have been made both in this country and abroad. "For Europeans who have grown accustomed to generous social benefits, even modest reforms to government programs are apparently cause to take to the streets," Grassley said. "But, for the millions of Americans who still believe in limited government and who do not feel entitled to programs or benefits paid for by the earnings of others, there's nothing 'austere' about government spending within its means." The senator believes strongly that keeping spending in line with government revenues is the key to long-term prosperity. He contends that those in government and elsewhere who claim that economic growth and frugal spending are incompatible are quite simply mistaken. The lesson of the stimulus - spending in excess of revenues - programs of the Obama administration is that the desired growth outcome didn't materialize. The senator argues persuasively that this approach failed because it represented a misdiagnosis of the problem. "Not only didn't it work, but it made things worse," Grassley said. "All that government spending crowded out private sector activity that would have helped the recovery and saddled our economy and our grandchildren with even more debt. Conversely, reining in government spending will unleash the power of free enterprise to create wealth and grow our economy in ways that no government central planner can." That, of course, is at the heart of the debate between conservatives, such as Grassley, and those who assert more government programs are the key to prosperity. Grassley argues that keeping resources in the private sector is a better growth strategy than increasing the proportion of the economy devoted to governmental projects. "If spending money like water was the answer to our country's problems, we would have no problems now. If ever a nation has spent, spent, spent and spent again, ours has," Grassley said. "Today that dream is over. All of that money has got us nowhere but it still has to come from somewhere." The senator has a straightforward response to those who claim spending discipline is a heartless approach. "Those who urge us to relax the squeeze, to spend yet more money indiscriminately in the belief that it will help the unemployed and the small businessman are not being kind, or compassionate, or caring. They are not the friends of the unemployed or the small business. They are asking us to do again the very thing that caused the problems in the first place." The Messenger agrees strongly. Building an economic future based on a firm commitment to the private sector as the engine of growth is by far the best game plan for this nation. Overreliance on government solutions has weakened the American economy. Continuing down that path would be a tragic mistake.

#### They don’t solve the economy—Keynesian stimulus fails

Cochrane 2009 - Myron S. Scholes Professor of Finance @ U Chicago Booth School of Business 9 Professor of Finance University of Chicago Booth School of Business (John H, “Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?” 2/27/, <http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm>)

Most fiscal stimulus arguments are based on fallacies, because they ignore three basic facts. First, if money is not going to be printed, it has to come from somewhere. If the government borrows a dollar from you, that is a dollar that you do not spend, or that you do not lend to a company to spend on new investment. Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal stimulus can’t help us to build more of both[1](http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm#Fn1) . This form of “crowding out” is just accounting, and doesn't rest on any perceptions or behavioral assumptions. Second, investment is “spending” every bit as much as is consumption. Keynesian fiscal stimulus advocates want money spent on consumption, not saved. They evaluate past stimulus programs by whether people who got stimulus money spent it on consumption goods rather than save it. But the economy overall does not care if you buy a car, or if you lend money to a company that buys a forklift. Third, people must ignore the fact that the government will raise future taxes to pay back the debt. If you know your taxes will go up in the future, the right thing to do with a stimulus check is to buy government bonds so you can pay those higher taxes. Now the net effect of fiscal stimulus is exactly zero, except to raise future tax distortions. The classic arguments for fiscal stimulus presume that the government can systematically fool people. The central question is whether fiscal stimulus can do *anything* to raise the level of output. The question is not whether the “multiplier” exceeds one – whether deficit spending raises output by more than the value of that spending. The baseline question is whether the multiplier exceeds *zero.*[2](http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm#Fn2) A cure should have something to do with the diagnosis. The classic argument for fiscal stimulus presumes that the central cause of our current economic problems is this: We, the people and our government, are not doing nearly enough borrowing and spending on consumer goods. The government must step in force us all to borrow and spend more. This diagnosis is tragically comic once said aloud.

#### Their macroeconomic theory is flawed—empirical data proves government stimulus DAMPENS economic activity

Barro, 9 economics professor at Harvard University and a senior fellow at Stanford University's Hoover Institution (Robert, Wall Street Journal, "Government Spending Is No Free Lunch," 1/22/09 <http://online.wsj.com/article/SB123258618204604599.html#printMode>)

What's the flaw? The theory (a simple Keynesian macroeconomic model) implicitly assumes that the government is better than the private market at marshaling idle resources to produce useful stuff. Unemployed labor and capital can be utilized at essentially zero social cost, but the private market is somehow unable to figure any of this out. In other words, there is something wrong with the price system. John Maynard Keynes thought that the problem lay with wages and prices that were stuck at excessive levels. But this problem could be readily fixed by expansionary monetary policy, enough of which will mean that wages and prices do not have to fall. So, something deeper must be involved -- but economists have not come up with explanations, such as incomplete information, for multipliers above one. A much more plausible starting point is a multiplier of zero. In this case, the GDP is given, and a rise in government purchases requires an equal fall in the total of other parts of GDP -- consumption, investment and net exports. In other words, the social cost of one unit of additional government purchases is one. This approach is the one usually applied to cost-benefit analyses of public projects. In particular, the value of the project (counting, say, the whole flow of future benefits from a bridge or a road) has to justify the social cost. I think this perspective, not the supposed macroeconomic benefits from fiscal stimulus, is the right one to apply to the many new and expanded government programs that we are likely to see this year and next. What do the data show about multipliers? Because it is not easy to separate movements in government purchases from overall business fluctuations, the best evidence comes from large changes in military purchases that are driven by shifts in war and peace. A particularly good experiment is the massive expansion of U.S. defense expenditures during World War II. The usual Keynesian view is that the World War II fiscal expansion provided the stimulus that finally got us out of the Great Depression. Thus, I think that most macroeconomists would regard this case as a fair one for seeing whether a large multiplier ever exists. I have estimated that World War II raised U.S. defense expenditures by $540 billion (1996 dollars) per year at the peak in 1943-44, amounting to 44% of real GDP. I also estimated that the war raised real GDP by $430 billion per year in 1943-44. Thus, the multiplier was 0.8 (430/540). The other way to put this is that the war lowered components of GDP aside from military purchases. The main declines were in private investment, nonmilitary parts of government purchases, and net exports -- personal consumer expenditure changed little. Wartime production siphoned off resources from other economic uses -- there was a dampener, rather than a multiplier. We can consider similarly three other U.S. wartime experiences -- World War I, the Korean War, and the Vietnam War -- although the magnitudes of the added defense expenditures were much smaller in comparison to GDP. Combining the evidence with that of World War II (which gets a lot of the weight because the added government spending is so large in that case) yields an overall estimate of the multiplier of 0.8 -- the same value as before. (These estimates were published last year in my book, "Macroeconomics, a Modern Approach.")There are reasons to believe that the war-based multiplier of 0.8 substantially overstates the multiplier that applies to peacetime government purchases. For one thing, people would expect the added wartime outlays to be partly temporary (so that consumer demand would not fall a lot). Second, the use of the military draft in wartime has a direct, coercive effect on total employment. Finally, the U.S. economy was already growing rapidly after 1933 (aside from the 1938 recession), and it is probably unfair to ascribe all of the rapid GDP growth from 1941 to 1945 to the added military outlays. In any event, when I attempted to estimate directly the multiplier associated with peacetime government purchases, I got a number insignificantly different from zero.

#### Keynesian stimulus is a proven sham—zero benefits to the economy

Riedl 2008 – Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies (11/12, Brian M., Heritage Foundation, “Why Government Spending Does Not Stimulate Economic Growth”,<http://www.heritage.org/Research/Budget/bg2208.cfm>

Most government spending has historically reduced productivity and long-term economic growth due to: [3] 1. Taxes. Most government spending is financed by taxes, and high tax rates reduce incentives to work, save, and invest—resulting in a less motivated workforce as well as less business investment in new capital and technology. Few government expenditures raise productivity enough to offset the productivity lost due to taxes; 2. Incentives. Social spending often reduces in­centives for productivity by subsidizing leisure and unemployment. Combined with taxes, it is clear that taxing Peter to subsidize Paul reduces both of their incentives to be productive, since productivity no longer determines one's income; 3. Displacement. Every dollar spent by politicians means one dollar less to be allocated based on market forces within the more productive pri­vate sector. For example, rather than allowing the market to allocate investments, politicians seize that money and earmark it for favored organizations with little regard for improve­ments to economic efficiency; and 4. Inefficiencies. Government provision of housing, education, and postal operations are often much less efficient than the private sector. Government also distorts existing health care and education markets by promoting third-party payers, resulting in over-consumption and insensitivity to prices and outcomes. Another example of inefficiency is when politicians earmark highway money for wasteful pork projects rather than expanding highway capacity where it is most needed. Mountains of academic studies show how gov­ernment expansions reduce economic growth.

## at: multiplier effect

#### There’s an anti-multiplier effect—state spending is key to jumpstart growth

Mitchell 2005 – PhD, McKenna Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies (3/15, Daniel J., Heritage Foundation, “The Impact of Government Spending on Economic Growth”, <http://www.heritage.org/research/budget/bg1831.cfm>)

Costs vs. Benefits. Economists will generally agree that government spending becomes a burden at some point, either because government becomes too large or because outlays are misallocated. In such cases, the cost of government exceeds the benefit. The downward sloping portion of the curve in Figure 1 can exist for a number of reasons, including:

The extraction cost. Government spending requires costly financing choices. The federal government cannot spend money without first taking that money from someone. All of the options used to finance government spending have adverse consequences. Taxes discourage productive behavior, particularly in the current U.S. tax system, which imposes high tax rates on work, saving, investment, and other forms of productive behavior. Borrowing consumes capital that otherwise would be available for private investment and, in extreme cases, may lead to higher interest rates. Inflation debases a nation's currency, causing widespread economic distortion.

**The displacement cost.** Government spending displaces private-sector activity. Every dollar that the government spends necessarily means one less dollar in the productive sector of the economy. This dampens growth since economic forces guide the allocation of resources in the private sector, whereas political forces dominate when politicians and bureaucrats decide how money is spent. Some government spending, such as maintaining a well-functioning legal system, can have a high "rate-of-return." In general, however, governments do not use resources efficiently, resulting in less economic output.

The negative multiplier cost. Government spending finances harmful intervention. Portions of the federal budget are used to finance activities that generate a distinctly negative effect on economic activity. For instance, many regulatory agencies have comparatively small budgets, but they impose large costs on the economy's productive sector. Outlays for international organizations are another good example. The direct expense to taxpayers of membership in organizations such as the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD) is often trivial compared to the economic damage resulting from the anti-growth policies advocated by these multinational bureaucracies.

**The behavioral subsidy cost.** Government spending encourages destructive choices. Many government programs subsidize economically undesirable decisions. welfare programs encourage people to choose leisure over work. Unemployment insurance programs provide an incentive to remain unemployed. Flood insurance programs encourage construction in flood plains. These are all examples of government programs that reduce economic growth and diminish national output because they promote misallocation or underutilization of resources.

**The behavioral penalty cost.** Government spending discourages productive choices. Government programs often discourage economically desirable decisions. Saving is important to help provide capital for new investment, yet the incentive to save has been undermined by government programs that subsidize retirement, housing, and education. Why should a person set aside income if government programs finance these big-ticket expenses? Other government spending programs-Medicaid is a good example-generate a negative economic impact because of eligibility rules that encourage individuals to depress their incomes artificially and misallocate their wealth.

**The market distortion cost.** Government spending distorts resource allocation. Buyers and sellers in competitive markets determine prices in a process that ensures the most efficient allocation of resources, but some government programs interfere with competitive markets. In both health care and education, government subsidies to reduce out-of-pocket expenses have created a "third-party payer" problem. When individuals use other people's money, they become less concerned about price. This undermines the critical role of competitive markets, causing significant inefficiency in sectors such as health care and education. Government programs also lead to resource misallocation because individuals, organizations, and companies spend time, energy, and money seeking either to obtain special government favors or to minimize their share of the cost of government.

**The inefficiency cost.** Government spending is a less effective way to deliver services. Government directly provides many services and activities such as education, airports, and postal operations. However, there is evidence that the private sector could provide these important services at a higher quality and lower cost. In some cases, such as airports and postal services, the improvement would take place because of privatization. In other cases, such as education, the economic benefits would accrue by shifting to a model based on competition and choice.

**The stagnation cost.** Government spending inhibits innovation. Because of competition and the desire to increase income and wealth, individuals and entities in the private sector constantly search for new options and opportunities. Economic growth is greatly enhanced by this discovery process of "creative destruction." Government programs, however, are inherently inflexible, both because of centralization and because of bureaucracy. Reducing government-or devolving federal programs to the state and local levels-can eliminate or mitigate this effect.

## at: transportation bill

#### **Transportation Bill was too much and won’t meet goals.**

Goff and Fraser 12 (Emily J. Goff, Research Associate in, and Alison Acosta Fraser, Director of, the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation, June 28, 2012, The Heritage Foundation: Leadership for America, “Transportation Conference Bill: Some Good Reforms, but Too Much Spending.” http://www.heritage.org/research/reports/2012/06/transportation-conference-bill-some-good-reforms-but-too-much-spending)

Senate and House conferees have reached an agreement to fund surface transportation programs through 2014. The bill, MAP-21 (H.R. 4348), should be measured against how it steers the country away from its current path of reckless spending and whether it improves congestion, mobility, and safety. Lawmakers deserve credit for including reforms such as environmental review streamlining, consolidating or eliminating programs, and giving states more flexibility on how to use their federal transportation dollars. However, the bill spends too much and does not keep spending in line with what the Highway Trust Fund (HTF) brings in through the federal gas tax. Positive Reforms Conferees made welcome improvements that reduce the federal government’s role in transportation policy and give more freedom to states and localities, which know their transportation needs better than Washington does. No earmarks. The bill stayed consistent with the original House bill (H.R. 7) and got rid of all earmarks, sharply reversing course from its predecessor, SAFETEA-LU, and its 6,300 earmarks.[1] Eliminating earmarks removes some of the politics from the legislative process and reduces the bias toward favoring certain projects over other, potentially less important ones. Consolidates and eliminates programs. This bill consolidates over two-thirds of highway programs and eliminates unnecessary programs, saving $700 million on the Land and Water Conservation Fund alone, for example. However, it retains some competitive grants such as New Starts, allowing Washington to pick winners and losers instead of giving states that money through normal formula funding to use as they see fit. Gives states flexibility. States are currently unable to fully set their transportation priorities, because the federal government dictates how they can spend portions of their money. Their limited resources are diverted from urgent infrastructure projects to so-called enhancements, such as flower plantings, bicycle and nature trails, and roadside transportation museums.[2] This bill would send 50 percent of the funds meant for these alternative transportation programs to the local level, and the rest would go to the state. States would have the ability of opting out of spending money on pedestrian and bike trails and safety-related infrastructure. With other projects eligible for this once-sacrosanct funding, states will have more control and freedom to meet their transportation needs without the micromanagement of Congress or federal bureaucrats. Streamlines the regulatory process. The bill would speed up the environmental review process for approving projects, in part by allowing certain projects to fall under categorical exclusions. Cutting the project delivery time for these projects in half—from 15 years to about seven—would free up resources for others. Cutting red tape saves states both time and money and stretches their highway dollars further. Irresponsible Spending Continues The bill spends too much, and to pay for this overspending, it contains transfers from the general fund, which are themselves paid for through new revenue streams. Some of the policy changes that yield new revenues are unacceptable, but beyond that, new revenue should not be used for new spending. The bill also continues diverting HTF funds to costly and wasteful transit programs. Spending Is Too High. To fund transportation programs through 2014, the bill would spend $120 billion, or $60 billion per year. Though consistent with current spending levels, it is well above what the HTF will collect: According to the Congressional Budget Office, the trust fund will run out of money in 2013, meaning spending is clearly outpacing revenues.[3] Keeping spending within the limit of the trust fund puts pressure on lawmakers to return control of transportation programs and their funding to the states. Transfers from the general fund to pay for the bill would be offset mostly by pension and flood insurance changes. One pension-related reform would allow private businesses to invest less money in their employees’ defined-benefit pension plans. This is terrible policy that would harm the position of many under-funded plans. It also increases taxpayer risk of a pension bailout through the Pension Benefit Guaranty Corporation (PBGC).[4] The other increases the premiums that an employer must pay to the PBGC for insurance. This change is good policy, but revenues should shore up PBGC instead of paying for additional spending. Similarly, revenue gained from higher premiums to the National Flood Insurance Program (NFIP) should begin to repay the $17.5 billion the program owes to taxpayers—not to pay for more spending.[5] A different change to the NFIP would require that homes located near a levee or similar structure must have NFIP coverage. This would protect both homeowners and taxpayers. However, new revenues generated by sound policy reforms should go toward reducing the country’s unsustainable deficits—not new spending. Continues Transit Diversion. The HTF is in an unhealthy state due to declining gas tax revenues, caused in part by changes in motorist habits, gas prices, and increasingly fuel-efficient cars. The diversion of up to 35 percent of funds to non-general-purpose road projects exacerbates this problem. Transit programs are the most egregious recipient, siphoning off 20 percent of revenues. They are incredibly costly, do not deliver on promises to reduce congestion or improve air quality, and commit state taxpayers to paying operating subsidies for years to come that they cannot afford. Continues Subsidizing Student Loans. The bill would extend the 3.4 percent interest rate on subsidized Stafford student loans, saving the average student about $7 per month.[6] However, keeping these college loan rates artificially low and saddling taxpayers with the $6 billion price tag fails to fundamentally drive down the cost of college in the long term. Ever-increasing federal higher education subsidies have exacerbated the college cost problem, and maintaining the 3.4 percent rate on Stafford loans is yet another federal subsidy. Part of the pension reform described above would offset the cost of extending the loan rates, but this amounts to one bad policy on top of another. Get Serious The federal government’s overreach into transportation program and funding decisions has increased, fueled by the misguided premise that Washington must have a say in how every transportation dollar is spent. With this has come more regulation—as well as funds being spent on programs that have little to do with general purpose roads. Some of the reforms in this bill that give states more flexibility over their money and reduce the burden of red tape are positive steps toward reversing those trends. Lawmakers are responsible for changing course, and that means cutting spending to live within the federal government’s means—in this case, within the limits of the HTF. This bill does not meet that goal. The use of new revenues—from both good and bad policy changes—to pay for the overspending is particularly unacceptable. Congress should demonstrate that it is serious about curbing its overspending habit.