# Econ Updates

## Global Econ

### Global Econ Low

#### Eurozone thumps the global economy

AFP 7/17/12 (Agence France Presse, “IMF Warns of Rising Risks to Global Economy”, <http://www.industryweek.com/emerging-markets/imf-warns-rising-risks-global-economy>)

The International Monetary Fund stepped up its warnings Monday on risks to the global economy, mainly from the crisis-mired eurozone, as it trimmed its growth forecast for the rest of the year. IMF economists said that the frail situations in Spain and Italy especially could quickly turn worse amid market doubts over eurozone leaders' resolve in implementing pledged reforms. But they also pointed to the U.S. "fiscal cliff" trajectory which, if not corrected, could crunch the U.S. economy and heavily impact the rest of the world. "In the past three months, the global recovery, which was not strong to start with, has shown signs of further weakness," the fund said in its quarterly economic forecast. "Financial market and sovereign stress in the euro-area periphery have ratcheted up," it said, while growth has fallen below expectations in a number of major emerging market economies. If policy reactions in major economies remain inadequate or too slow, the IMF said, fissures could deepen, they added. "The main risk is obvious," IMF chief economist Olivier Blanchard told reporters. "It is that the vicious circle in Spain and Italy becomes stronger, that output falls even more than it does, that one of these countries loses its financial access to markets," he told reporters. "The implications of such an event could easily derail the world recovery."

#### Global econ low—Europe and China

Shilling 7/18/12 (A. Gary Shilling, a Bloomberg View columnist, is president of A. Gary Shilling & Co., a consultancy in Springfield, New Jersey. He is the author of “The Age of Deleveraging: Investment Strategies for a Decade of Slow Growth and Deflation.”, “No Good News For The U.S. Economy”, http://www.forbes.com/sites/investor/2012/07/18/no-good-news-for-the-u-s-economy/)

Meanwhile, don’t look abroad for ­relief. The euro zone financial crisis is worsening without any meaningful resolution in sight. China, as I have predicted in other columns, is navigating a hard landing as its GDP growth rate is slowing toward 5% or 6%. Say good-bye to our decadelong, China-fueled global commodity bubble. The economies and financial markets of the world are in the midst of a massive deleveraging, and I believe it will take another five to seven years to return debt levels to their norm. While there may be occasional rays of sunshine, don’t get your hopes up for a cloudless sky anytime soon, especially as a global recession looms.

#### Global econ low—IMF report

Blanchard 7/16/12 (Olivier, Chief Economist at IMF, “World Faces Weak Economic Recovery”, http://www.huffingtonpost.com/olivier-blanchard/global-financial-crisis\_b\_1677246.html)

The global recovery continues, but the recovery is weak; indeed a bit weaker than we forecast in April. In the Euro zone, growth is close to zero, reflecting positive but low growth in the core countries, and negative growth in most periphery countries. In the United States, growth is positive, but too low to make a serious dent to unemployment. Growth has also slowed in major emerging economies, from China to India and Brazil. Downside risks, coming primarily from Europe, have increased. Let me develop these themes in turn. The baseline forecasts In Europe, we are observing an increasing divergence between core and periphery countries. Periphery Euro countries, including Italy and Spain, face a difficult adjustment. Fiscal consolidation is necessary, but weighs heavily on growth. Structural reforms will bear fruit, but only in the future. Banks have to deal not only with bad legacy loans, but also with increasing non performing loans, which reflect depressed economic activity. High debt burdens are making borrowing expensive for governments. The result is negative growth this year and next for both Italy and Spain. Core Euro countries, including France and Germany, face similar problems, but on a more limited scale. The required fiscal consolidation is smaller; banks in general are in better shape. Still, their growth is forecast to be low: 1% for Germany, 0.3% for France in 2012, and a bit higher for both in 2013. In the United States the recovery continues, with some good news early in the year offset by some bad news since. Fiscal consolidation is taking its toll; so are lower exports. The good news is that housing appears to be stabilizing. Still, the recovery is not strong enough to substantially decrease unemployment. Our forecasts are of 2.0% growth for 2012, and 2.3% for 2013, a revision of -0.1% in both cases. Growth in emerging market countries has slowed down a bit more than we expected in April. For example, we have revised our forecast for China down from 8.2% to 8% for 2012, our forecast for India from 6.9% to 6.1%, our forecast for Brazil from 3.0% to 2.5%. The proximate causes vary across countries, with lower exports and lower investment playing a dominant role. In general, we expect these countries to achieve soft landings, but at lower growth rates than in the past. Putting everything together, our forecast for world growth is 3.5% for 2012, 3.9% for 2013, down .1% and .2% respectively. Given the flow of bad news in the press, you might be surprised by this small downward revision. There are two reasons: we were not very optimistic to start with; and in many countries, while the second quarter was worse than forecast, the first quarter was better than forecast. This partly explains the small revision for 2012. The downside risks More worrisome than these revisions to the baseline forecast is the increase in downside risks. The main risk is obvious: the vicious cycles in Spain or Italy become stronger, output falls even more, and one of these countries loses access to financial markets. The implications could easily derail the world recovery. Our baseline forecasts are based on the assumption that policies will be implemented to slowly decrease the spreads on Spanish and Italian bonds from their current high to a still high, but lower level in 2013. This however requires that the right policies be adopted and implemented. On policies For the Euro crisis to be contained, and eventually resolved, two conditions must be satisfied. First, the countries under pressure must follow through with fiscal consolidation, wage and price adjustments, structural reforms, and bank recapitalization if and when needed. Spanish and Italian governments have taken important steps in this direction. But they can only succeed if they can finance themselves at reasonable rates. Second, as long as these governments are committed to reforms, other Euro members have to be willing to help make the adjustment feasible. This implies not only designing a euro level architecture, but also being willing, in the short run, to stabilize funding conditions in sovereign debt markets. Progress was made in recent weeks, but more remains to be done.

## US Economy

### US Econ High

#### Their authors are wrong—growth isn’t slowing—prefer our methodology

Adler 7/18/12 (Lee, Wall Street Examiner, “One Crucial Indicator Shows The US Economy Isn't Slowing At All”, http://www.businessinsider.com/federal-tax-revenues-economy-not-slowing-2012-7)

One Crucial Indicator Shows The US Economy Isn't Slowing At All The mainstream consensus has lately been that the economy is slowing. Based on my tracking of federal revenues in real time, I suspect that that view is incorrect. Instead the recent data reflects only normal oscillations within the ongoing slow growth trend. Total federal tax collections, including withholding taxes, are available to us with just a one day lag in the US Treasury’s Daily Treasury Statements, which makes them an excellent analytical resource. Withholding is mostly for compensation, and thus it is a good measure of the economy’s strength. However, it is extremely volatile day to day so I rely more on a monthly moving average of the 10 day total collections, comparing that with the prior year. Smoothing sacrifices a bit of timeliness to get a clearer picture of the trend without losing too much of the edge that the daily data provides. Unfortunately, I have found even the 10 day total data too noisy for meaningful comparison so I’ve had to resort to additional smoothing. As a result the smoothed data is a little slow, so I also look at raw month to date data after mid month. As of July 11, the 4 week average of the 10 day total of withholding taxes is now up 4.0% in nominal and 1.8% in real terms versus the same period in 2011 (adjusted by the monthly BLS data on average weekly employee compensation which in June rose by 2.2% year to year). This indicator has been in the +1% to +3% range since mid May, with most of that time above +2% suggesting that the economy’s current rate of growth is 2-3%, not the 1-1.6% that most Wall Street economists are now forecasting.

#### Econ growing now

IANS 7/19/12 (IANS is the leading provider of in-depth security insights and decision support delivered through its research, community, and consulting. Fueled by interactions among IANS Faculty and end users, IANS’ experience-driven advice helps information security, risk management, and compliance executives make better, faster technical and managerial decisions, “US economy growing at modest pace, jobs tepid: Federal Reserve”, http://businesstoday.intoday.in/story/us-economy-growing-at-modest-pace-jobs-tepid-federal-reserve/1/186418.html)

The Federal Reserve has said the US economy expanded at a "modest to moderate pace" in June and early July, but the employment situation only improved at a "tepid" pace. In its latest national economic performance survey, the central bank noted that retail sales rose slightly in most areas and manufacturing activity continued to expand slowly in most districts, reported Xinhua. The residential housing market was gaining momentum in recent months, and overall loan demand grew modestly in most districts, according to the Fed report. The survey, known as the Beige Book, is based on economic information supplied by the Fed's 12 regional banks, and released eight times each year to provide a snapshot of the US local economy.

#### The current rate of growth staves off recession—shocks kill the economy

Bloomberg 7/19/12 (“Economists Argue If U.S. Economy Recovering Or Back In Recession”, http://www.bloomberg.com/news/2012-07-19/economists-argue-if-u-s-economy-recovering-or-back-in-recession.html)

Ironically, the slow pace of the recovery could help stave off a recession. Although the economy remains vulnerable to external shocks, like the euro’s collapse or a sharp slowdown in China, growth’s been so weak that the U.S. doesn’t have the sorts of internal imbalances that tend to bring on recessions, like an overheated housing sector or high inflation. “Things are so lean and mean, there aren’t a lot of excesses that need to be reduced,” says Julia Coronado, chief economist at BNP Paribas. “In a way, that’s insulated us” from a deeper downturn. So look on the bright side: If a recession does hit, it might not be so bad.

### US Econ Low

#### Economy is terrible now- unemployment is increasing

**Zuckerman, 07/18** (He has been the publisher and owner of the New York Daily News since 1993 and, as of 2007, is the current editor-in-chief of U.S. News & World Report; Graduate of the Wharton School of Business at the University of Pennsylvania and Harvard Law School; "For the US Economy the News Is Bad and Worse" on July 18, 2012 from in www.usnews.com/opinion/mzuckerman/articles/2012/07/18/for-the-us-economy-the-news-is-bad-and-worse/ak)

It's time to adjust the gambit that people in all situations commonly use when reporting results to a supervisor: What do you want first, the good news or the bad? The formula that more aptly applies to the latest indicator of America's [economic](http://www.usnews.com/opinion/mzuckerman/articles/2012/07/18/for-the-us-economy-the-news-is-bad-and-worse) predicament is: What do you want first, the bad news or the even worse news?¶ The bad news is the disappointing June unemployment numbers released by the Bureau of Labor Statistics. The worse news is that we are failing to train tomorrow's labor force for employment in a world of accelerating competition.¶ Jobs, first. The headline unemployment number remains at 8.2 percent, although President Barack Obama cited the 84,000 new private sector jobs last month as "a step in the right direction." He had the grace to add: "But we can't be satisfied." He can say that again. That 8.2 percent only measures people who have actively applied for a job in the last four weeks by going to an interview or filling out an application. It is not a relevant measure. People who have been unemployed for many months don't go through the business of applying for a job every four weeks.¶ [[See a collection of political cartoons on the economy.](http://www.usnews.com/cartoons/economy-cartoons)]¶ Given that the median period of unemployment is now in the range of five months, vast numbers who want to work are just not counted. If we include, as we should, people who have applied for a job in the last 12 months, and those employed part time who want full-time work, the real unemployment number is closer to 15 percent. And we've made virtually no progress in reducing this number. We need 150,000 jobs every month just to take into account the people entering the labor force. Today we are looking at monthly job creation estimates of only 75,000 over the last three months.¶ A more revealing clue to where we are lies in the term "structural unemployment," which indicates where jobs have vanished because of basic changes in how the [economy](http://www.usnews.com/opinion/mzuckerman/articles/2012/07/18/for-the-us-economy-the-news-is-bad-and-worse) works. In this area, people have little or no prospect of returning to the jobs they once had.¶ This is a fundamental fact similar to what happened to farm workers over several decades with the advent of threshing machines and other devices, easy [credit](http://www.usnews.com/opinion/mzuckerman/articles/2012/07/18/for-the-us-economy-the-news-is-bad-and-worse), land consolidation, and the like. Those workers found jobs in the new factories, but today manufacturing is the great source of our structural unemployment. We've lost some 6 million manufacturing jobs in the last decade or so. Automation has replaced many of them, but today, so different from earlier decades, there is another big jobs thief: globalization. Work is shipped abroad because of competition in skills, speed, and pay in all those places called Somewhere Else.¶ Here now is the worse news: America is adding to the length of unemployment lines in the future by falling behind today in skill areas where global competition has become so intense. Too few of our younger people are benefiting from what is called STEM education. STEM stands for science, technology, engineering, and mathematics, the human capital at the core of any productive economy.¶ America has long been a STEM leader. We have dominated the world in innovation over two centuries but most recently in computer and wireless power, the development of the Internet, and cellphones, and with those innovations came well-paying jobs. But our leadership is at risk.

#### No Eurozone thumper—decline inevitable because of spending cuts

Goldfarb et al. 7/17/12 (Zachary, Zachary A. Goldfarb is a staff writer covering the White House, focusing on President Obama’s economic, financial and fiscal policy. Previously, he covered financial regulation and government investigations into corporate wrongdoing. He also has written about national housing policy. He graduated from the Woodrow Wilson School of Public and International Affairs at Princeton, where he was editor-in-chief of The Daily Princetonian. He lives in Washington, D.C, and Michael A Fletcher, Staff Writer for the Washington Post, “U.S. economic fears shift from Europe toward ‘fiscal cliff’”, http://www.washingtonpost.com/business/economy/bernanke-warns-congress-of-economic-slowdown/2012/07/17/gJQAlCW8qW\_story.html)

The main threat to the economy is shifting from what others may do to us to what we are doing to ourselves. For much of the year, economists worried about the impact of the slowdown in Europe on the U.S. economy. Now, analysts say anxiety about the impact of the fast-approaching fiscal cliff — the series of federal spending cuts and tax hikes set to take effect at the beginning of 2013 if Congress and the Obama administration do not act — is displacing Europe as the primary threat to the nation’s sputtering economy. Chairman Ben S. Bernanke offered a sour assessment of the U.S. economy Tuesday and said the Federal Reserve is ready to take further action if growth doesn't pick up. The campaign’s founders believe policymakers may finally be forced to compromise on an ambitious debt-reduction strategy. AT&T to introduce shared-data plans Morgan Stanley said this week that concerns about the fiscal cliff are reaching new heights across a wide range of industries. It is already seeing reductions in business orders and hiring, among other areas. “While our analysts are somewhat less worried about the impact of European bank strains,” a Morgan Stanley report said Monday, “the negative impact of fiscal cliff uncertainty is becoming more widespread.” The potential economic impact could smother the flickering recovery and further stifle job creation, analysts warn. A new report commissioned by the aerospace industry says federal budget cuts set to take effect in January could cost the country’s economy more than 2 million jobs and raise the national unemployment rate by 1.5 percentage points over the next year. “The results are bleak but clear-cut,” said Stephen S. Fuller, the George Mason University professor who wrote the report. “The unemployment rate will climb above 9 percent, pushing the economy toward recession and reducing projected growth in 2013 by two-thirds.” The report echoes warnings from economists and policymakers who are urging lawmakers to find a way to put the nation on a sustainable fiscal path without derailing short-term growth. “Do no harm,” Federal Reserve Chairman Ben S. Bernanke told lawmakers Tuesday, repeating a warning to policymakers to take action to avoid the sharp spending cuts and tax hikes. Bernanke’s comments at a Senate hearing followed decisions by other top economic forecasters this week to reduce their expectations for U.S. economic growth, in large part because of the uncertainty about the fiscal cliff. Economists say the automatic actions slated to take place at the end of the year — an increase in payroll taxes and in income tax rates, as well as large cuts in domestic and defense spending — would tip the country back into recession. Congress could prevent that outcome, but lawmakers are pledging to do so only on their terms, creating fears of more partisan gridlock. Democrats insist that taxes rise for higher-income earners; Republicans want to include the affluent in any renewal of the George W. Bush-era tax cuts. Meanwhile, the prospect of a government-induced recession is already taking a toll on the economy. “The most effective way that the Congress could help to support the economy right now would be to work to address the nation’s fiscal challenges in a way that takes into account both the need for long-run sustainability and the fragility of the recovery,” Bernanke said in testimony to the Senate banking committee. “Doing so earlier rather than later would help reduce uncertainty and boost household and business confidence.” He said the economic recovery has lost momentum in recent months, sapping consumer confidence and crimping job creation. But Bernanke gave no indication as to whether the Fed would take additional steps to try to boost growth at its meeting later this month. He said the central bank’s decision on any further fiscal stimulus would turn on whether it determines that the job market is recovering or is “stuck in the mud.” Bernanke added that concerns about the fiscal cliff, along with ongoing economic problems in Europe, are a significant drag on U.S. growth. He noted that the Congressional Budget Office has estimated that going over the cliff would trigger a shallow recession early next year. “These estimates do not incorporate the additional negative effects likely to result from public uncertainty about how these matters will be resolved,” he said. After strong gains at the end of 2011 and in the first three months of this year, job creation has slowed substantially. The nation’s unemployment rate is 8.2 percent, marking 41 consecutive months that it has hovered above 8 percent. The manufacturing sector in June contracted for the first time in three years, according to private data released this month. Also, U.S. retail sales fell in June for the third consecutive month as consumers cut spending. Bill Gross, founder of the investment management firm Pimco, said on Twitter that the nation is “approaching recession when measured by employment, retail sales, investment, and corporate profits.”

#### US econ low—most recent and best data

CFS 7/18/12 (Center for Financial Stability, The Center for Financial Stability is dedicated to becoming the leading nonprofit, nonpartisan, and independent think tank focused on financial markets for the benefit of investors, officials, and the public, “CFS June Money Supply Data; Weak Economy And Flight To Safe Haven Assets”, <http://www.sacbee.com/2012/07/18/4639154/cfs-june-money-supply-data-weak.html>)

Today, the Center for Financial Stability (CFS) releases the most current and broadest measure of the money supply available for the US. CFS proprietary money supply data provide a crucial barometer to measure Fed actions, the economy, and financial system in real time. The most recent data for June 2012 illustrate that the US economy is extremely weak. CFS Divisia M4 (DM4) growth registered 2.3% on a year-over-year basis in June 2012 - well below the 6% to 6.5% typically associated with trend growth (see Figure 1). According to CFS President Lawrence Goodman, "CFS monetary data foreshadow a subpar expansion in coming months." "A flight to insured deposits highlights that investors and the public are flocking to safe haven assets," Goodman added. Commercial banks' savings deposits and demand deposits were the largest contributors to monetary growth in June. Similarly, the monetary base contracted for the first time since December 2010, highlighting recent pressures on risky assets as well as policy (see Figure 1). CFS Divisia monetary measures were developed under the direction of Professor William A. Barnett - one of the world's leading experts on monetary and financial aggregation theory. CFS money supply data are essential, especially since the Federal Reserve ceased production of M3 in 2006. Similarly, Divisia measures are superior, as they accurately weight various classifications of money from cash to leverage in the shadow banking system.

#### Econ low—unemployment and innovation

Zuckerman 7/18/12 (Mortimer Benjamin Zuckerman is a Canadian-born American businessman. His business holdings include interests in magazines, publishing, and real estate, US News, “For the U.S. Economy the News Is Bad and Worse”, http://www.usnews.com/opinion/mzuckerman/articles/2012/07/18/for-the-us-economy-the-news-is-bad-and-worse)

It's time to adjust the gambit that people in all situations commonly use when reporting results to a supervisor: What do you want first, the good news or the bad? The formula that more aptly applies to the latest indicator of America's economic predicament is: What do you want first, the bad news or the even worse news? The bad news is the disappointing June unemployment numbers released by the Bureau of Labor Statistics. The worse news is that we are failing to train tomorrow's labor force for employment in a world of accelerating competition. Jobs, first. The headline unemployment number remains at 8.2 percent, although President Barack Obama cited the 84,000 new private sector jobs last month as "a step in the right direction." He had the grace to add: "But we can't be satisfied." He can say that again. That 8.2 percent only measures people who have actively applied for a job in the last four weeks by going to an interview or filling out an application. It is not a relevant measure. People who have been unemployed for many months don't go through the business of applying for a job every four weeks. Given that the median period of unemployment is now in the range of five months, vast numbers who want to work are just not counted. If we include, as we should, people who have applied for a job in the last 12 months, and those employed part time who want full-time work, the real unemployment number is closer to 15 percent. And we've made virtually no progress in reducing this number. We need 150,000 jobs every month just to take into account the people entering the labor force. Today we are looking at monthly job creation estimates of only 75,000 over the last three months. A more revealing clue to where we are lies in the term "structural unemployment," which indicates where jobs have vanished because of basic changes in how the economy works. In this area, people have little or no prospect of returning to the jobs they once had. This is a fundamental fact similar to what happened to farm workers over several decades with the advent of threshing machines and other devices, easy credit, land consolidation, and the like. Those workers found jobs in the new factories, but today manufacturing is the great source of our structural unemployment. We've lost some 6 million manufacturing jobs in the last decade or so. Automation has replaced many of them, but today, so different from earlier decades, there is another big jobs thief: globalization. Work is shipped abroad because of competition in skills, speed, and pay in all those places called Somewhere Else. Here now is the worse news: America is adding to the length of unemployment lines in the future by falling behind today in skill areas where global competition has become so intense. Too few of our younger people are benefiting from what is called STEM education. STEM stands for science, technology, engineering, and mathematics, the human capital at the core of any productive economy. America has long been a STEM leader. We have dominated the world in innovation over two centuries but most recently in computer and wireless power, the development of the Internet, and cellphones, and with those innovations came well-paying jobs. But our leadership is at risk.

#### Econ low—job growth increase is key

Hall 7/10/12 (Keith Hall is a senior research fellow at the Mercatus Center at George Mason University, and former commissioner of the Bureau of Labor Statistics, “Why the Economic Recovery Isn't Strong Enough”, http://www.usnews.com/opinion/blogs/economic-intelligence/2012/07/10/why-the-economic-recovery-isnt-strong-enough)

The Great Recession officially ended in June of 2009 and for nearly three years economic growth has been maintained at an annual rate of 2.4 percent. With its usual delay, the labor market hit bottom 8 months after the recession's official end. Since then, we've had 28 straight months of payroll job growth totaling about 3.9 million workers (excluding the temporary government jobs added for the 2010 decennial census). While this superficially sounds like progress, it has been one of the weakest recoveries on record. Here's why: First, economic growth has not been strong. In fact, with the exception of the 1980 downturn that ended in a double-dip recession, we've had by far the weakest post-recession gross domestic product growth in more than 60 years. [See a collection of political cartoons on the economy.] Second, while these job gains are welcome news, they are not nearly enough. A true labor market recovery would mean that job growth would need to outpace population growth. Right now, the share of the population that is employed remains near its 25-year low. In short, what we need is at least 250,000 new jobs per month, every month, for years. At our current rate of job growth, we would literally never reach a labor market recovery. Third, in addition to poor job creation, we've had slow wage growth. Growth in hourly earnings is now just 1.9 percent per year, barely above inflation. In addition, 90 percent of the private sector job growth has been by nonsupervisory production workers and their wage growth has fallen nearly in half over the past three years to just 1.5 percent per year. In fact, earnings growth has virtually stopped in some industries, falling below 1 percent in professional and business services, other services, and durable goods manufacturing, transportation and warehousing, and information services. [HBO Doc Takes a Hard Look at the Long-Term Unemployment Crisis.] Finally, the problem of the long-term jobless only grows. Well over 5 million people are currently counted as long-term unemployed. Plus, millions have lost their work but are not counted as long-term unemployed or even unemployed because they are no longer actively searching for work. The average person that becomes discouraged and quits looking has been jobless for over 21 weeks. This means as many as 9 million people may really be long-term jobless. Past experience shows that this group of unemployed people has a much more difficult time finding new work, even in robust economic recoveries.

#### Econ low now—data

Shilling 7/18/12 (A. Gary Shilling, a Bloomberg View columnist, is president of A. Gary Shilling & Co., a consultancy in Springfield, New Jersey. He is the author of “The Age of Deleveraging: Investment Strategies for a Decade of Slow Growth and Deflation.”, “No Good News For The U.S. Economy”, http://www.forbes.com/sites/investor/2012/07/18/no-good-news-for-the-u-s-economy/)

Here’s my read of the U.S. economy at halftime: If we aren’t already in a ­recession, we’re getting very close. The economic momentum coming into the first quarter of 2012 was strong. GDP growth was running at a solid 3% rate for the final quarter of 2011. Then it slowed a bit to 2.2% in Q1, only to get revised down to a tepid 1.9% annual rate. Expect the same or much worse when Q2 numbers hit. Payroll employment continues to slump, far below the level needed to accommodate new labor-force entrants, much less reduce the 8.2% unemployment rate. More grim news came from the downward revisions in job gains in April and May. Consumer spending is the last, and only, hope for a revival in our economic fortune. But that, too, has been disappointing in recent months, constrained by weak job creation and paltry wage increases. Retail sales actually fell in both April and May. My view is that our nervous markets are anticipating this global recession. Commodity prices have hastened their deceleration lately. Crude oil prices are down 23% since their late-February peak. Copper has seen price declines of 24% since last August and 14% just since February. Cotton has seen huge drops since early 2011. Most stock markets around the world have largely erased their earlier 2012 gains in anticipation of further economic weakness and a collapse in corporate profits. MSCI’s Emerging Markets Index and its Europe Index are down 9% and 2%, respectively, in the last three months. In the last year? Down a painful 20% and 17%. Early this year I predicted the S&P 500 index would fall to 800 on weak corporate earnings. It hasn’t happened yet, and the figure has been scoffed at. But disbelief is exactly how people reacted when I predicted the housing bubble’s burst in this column in early 2005. Don’t shrug off Facebook’s IPO debacle, either. I believe Facebook will become the poster child for the current social media stock bubble, just as Pets.com was for the dot-com bubble. The Treasury-bond rally is all about finding a safe haven. It is symptomatic of the unfolding global recession and gathering evidence of deflation. My three-decade favorite—30-year Treasury bonds—recently achieved my target of 2.5%. Nevertheless, long Treasurys and the U.S. dollar are still buys.

## Consumer Confidence

### Consumer Confidence Low

#### Consumer confidence low—tanks growth

AP 7/16/12 (Associated Press “US economy appears weaker as retail sales slump”, http://www.businessweek.com/ap/2012-07-16/us-retail-sales-fell-0-dot-5-percent-in-june)

WASHINGTON (AP) — The outlook for the U.S. economy appeared dimmer Monday after a report that Americans spent less at retail businesses for a third straight month in June. The report led some economists to downgrade their estimates for economic growth in the April-June quarter. Many now think the economy grew even less than in the first quarter of the year, when it expanded at a sluggish 1.9 percent annual rate. Spending in June fell in nearly every major category — from autos, furniture and appliances to building, garden supplies and department stores. Overall, retail sales slid 0.5 percent from May to June, the Commerce Department said. Retail sales hadn't fallen for three straight months since the fall of 2008, at the height of the financial crisis. The weak U.S. spending figures were released on the same day that the International Monetary Fund slightly lowered its outlook for global growth over the next two years. Stocks fell after the Commerce report was issued. The Dow Jones industrial average sank 74 points in early trading. Broader indexes also declined. Later in the day, stocks regained some of their losses. "However hard you look, there's just no good news in this report," said Paul Ashworth, chief U.S. economist at Capital Economics. Weakening retail spending could make the Federal Reserve more likely to act further to try to encourage more borrowing and spending by lowering long-term interest rates. The Fed's policy committee will meet at the end of this month. Most economists don't expect new Fed action after that meeting. But some said Monday's Commerce report, coming after three straight months of tepid hiring, makes some Fed action more likely by year's end. Fed Chairman Ben Bernanke will testify to Congress about the economy on Tuesday and Wednesday. Despite the lackluster spending in April through June, retail sales were still 4.7 percent higher in the second quarter than in the same period in 2011. And the figures don't include spending on services, which makes up about two-thirds of consumer purchases. Services range from doctor's visits and plane tickets to rent payments and utility bills. Spending figures for services aren't yet available for June. But consumers have spent more on services each month this year. Still, Ashworth said economic growth likely slowed to an annual rate of just 1.5 percent in the second quarter. That's isn't enough to lower high unemployment. The U.S. unemployment rate is 8.2 percent. In Monday's report, Commerce also said Americans spent less in April than previously thought. In part because of that, Michael Feroli, an economist at JPMorgan Chase, lowered his estimate of growth in the April-June quarter from a 1.7 percent annual rate to a 1.4 percent rate. And he lowered his forecast for the July-September quarter to a 1.5 percent growth rate, down from a 2 percent rate.

## Inflation

### Inflation Low

#### Inflation low and stable

Mullaney 7/17/12 (Tim, USA Today, “Inflation index is flat in June as energy prices drop”, http://www.usatoday.com/money/economy/story/2012-07-16/inflation-cpi-june/56266030/1)

Inflation stayed cool in June, as the falling price of gasoline outweighed the a slight pickup in the cost of food. A gallon of unleaded gas could be purchased for less than $3 a gallon July 2, 2012 near Maysville, Ky. The consumer price index was unchanged for the month, the Labor Department reported this morning. That includes a 1.4% drop in the cost of energy and a 0.2% rise in food prices. The rest of the index, known as the core inflation rate, rose 0.2%. Core inflation for the last 12 months was 2.2%, the department said. The inflation data has been one of the few bright spots in recent economic news. Retail sales dropped for a third month in June, while data from the Institute of Supply Management suggest the manufacturing sector is shrinking for the first time since 2009. STORY: After drop, gas prices rising again Tuesday the Federal Reserve said factory output rose 0.7% last month, after falling by the same amount in May. Factories produced more machines and vehicles used by businesses. Auto production rebounded after its first decline of the year.

### Inflation High

#### Inflation increasing now

Economonitor 7/18/12 (The EconoMonitor brings together a community of economic, financial and geopolitical thinkers from around the world, “High Inflation at the Gates?”, http://www.economonitor.com/blog/2012/07/high-inflation-at-the-gates/)

The Federal Reserve needs to raise interest rates to stave off inflation, says Rep. Paul Ryan, R-Wis. “I’m worried they’re not going to pre-empt inflation,” the House Budget Committee Chairman tells CNBC. … “I’m worried they’re going to see it too late and we’re going to have a problem.” That’s a quote from February 2011. It’s useful, I think, to consider what has happened since then (or since October 2009). Figure 1 depicts three measures of three month annualized inflation, while Figure 2 depicts three measures of corresponding core inflation. Note that three month headline inflation is negative, while m/m is zero. Three month core rates are slightly higher, although there is some dispersion. While current inflation is moderate, one could argue — as Representative Ryan has — that future inflation is the concern. Survey based measures indicate little movement.

## Growth Impact

#### Economic growth solves war—strengthens institutions and solves escalation

Strauss-Kahn 2009 (Dominique, Former Professor of Economics at the Paris Institute for Political Studies, Managing Director, International Monetary Fund, “Economic Stability, Economic Cooperation, and Peace—The Role of the IMF”, http://www.imf.org/external/np/speeches/2009/092309.htm)

As I noted, the crisis is not over. Indeed, its human and social costs might get worse before they get better. This is especially true in low-income countries. Here, we don’t just care about growth for growth’s sake, we also want to safeguard peace and prevent war. Indeed, when low-income countries were doing well over the past decade or so, the incidence of war declined significantly. The great fear is that this trend could be reversed. Wars might justifiably be called “development in reverse”. They entail huge economic costs and are the cause of great suffering. They lead to death, disability, disease, and displacement. One particular issue that causes great strain on the country itself and neighboring countries is the issue of refugees. Already, in the world today, there are about 9 million refugees and a further 14 million who are internally displaced—in each case, about half are in low-income countries. So this is a major risk factor. Wars also increase poverty. They reduce growth potential by destroying infrastructure and leading to a loss in financial and human capital. They divert resources toward violence, rent-seeking, and corruption. They weaken institutions. Most wars since the 1970s have been wars within states. It is hard to estimate the true cost of a civil war. Recent research suggests that one year of conflict can knock 2-2½ percentage points off a country’s growth rate. And since the average civil war lasts 7 years, that means an economy that is 15 percent smaller than it would have been with peace. The overall cost of a typical civil war, including forced migration and increased disease, amounts to around 250 percent of GDP on average. Of course, no cost can be put on the loss of life or the great human suffering that always accompanies war. The causality also runs the other way. Just as wars devastate the economy, a weak economy makes a country more prone to war. Economic factors matter more than many people think. The evidence is quite clear on this point—low income or slow economic growth increases the risk of a country falling into civil conflict. Poverty and economic stagnation lead people to become marginalized, lacking a stake in the productive economy. With little hope of employment or a decent standard of living, they might turn instead to violent activities, where income opportunities might be higher. Dependence on natural resources is also a risk factor—competition for control over these resources can trigger conflict and income from natural resources can finance war. And so we can see a vicious circle—war makes economic conditions and prospects worse, and weakens institutions, and this in turn increases the likelihood of war. Once a war has started, it’s hard to stop. And even if it stops, it’s easy to slip back into conflict. During the first decade after a war, there is a 50 percent chance of returning to violence, partly because of weakened institutions.

## Stimulus Updates

#### Stimulus theory wrong- empirically proven

**Reynolds 10**

(NEIL REYNOLDS is a journalist and editor in chief at Vancouver Sun, “The bad economics behind stimulus spending”, June 29 2010, pg online @ http://www.theglobeandmail.com/report-on-business/rob-commentary/the-bad-economics-behind-stimulus-spending/article4323174/)

Economist John Taylor (Stanford University) says government intervention caused the market meltdown of 2008 and that "short-run government spending" has **only made matters worse**. He dismisses the theory that stimulus spending can jump-start an economy as an "old-fashioned" Keynesian **illusion**.¶ Economist John Cochrane (University of Chicago) says the Keynesian theory of stimulus spending to end recessions is so wrong that it is now taught "only for its fallacies."¶ Economist Greg Mankiw (Harvard University) says the Keynesian economic model "pretty much ensures" the conclusions that Keynesian practitioners guarantee - among them, the astonishing multiplier effect that transforms every borrowed dollar into an increase in GDP of $1.57.¶ Economist Robert Barro (Harvard University) says Keynesian assumptions have been **thoroughly disproven**. "Just because an economy is in crisis," he says, "it doesn't invalidate everything we have learned about macroeconomics since 1936."¶ These eminent economists (and many others) affirm celebrated Nobel Prize economist Milton Friedman's conclusion about New Deal stimulus spending in the Great Depression: "It hampered economic recovery, prolonged unemployment and set the stage for ever more intrusive and costly government."¶ In developing his own $60-billion economic stimulus package, Finance Minister Jim Flaherty placed his bet on Keynesian theory as fashionably renovated for U.S. President Barack Obama by a new crew of super-optimistic macroeconomists. The doctrine is politically powerful. Who wouldn't go another dollar into debt if the transaction guaranteed a return of $1.57? And, at first glance, Mr. Flaherty appears to have won his wager. Canada's economic numbers are positive. GDP is up. Unemployment is down. The markets are down but not ominously so. John Maynard Keynes still looks good.¶ Across the border, though, Mr. Obama appears to have lost the bet. The markets are downright skeptical. Unemployment remains high. In May, the U.S. economy generated 400,000 government jobs, but only 40,000 private sector jobs. Many Americans now think their President has assumed massive debt for precious little gain; for these folk, as one economist expressed it, **"stimulus has become a dirty word**."¶ Why the cross-border difference? It could be that Canada, one way and another, did a better job than the U.S. in managing its stimulus spending. Or it could be luck. Or, it could be that Canada didn't actually need any stimulus spending at all - as Mr. Flaherty himself originally suspected.¶ This is the more probable explanation. The United States, after all, out-borrowed and out-spent Canada by a factor of four. This wasn't stimulus. It was a temporary government takeover. But Stanford University's Prof. Taylor, for one, wasn't surprised that it didn't work. Indeed, he anticipated it. In a Wall Street Journal essay last year, Prof. Taylor explained why: Short-term income gains do not increase consumption - the essential assertion of Keynesian doctrine. He cited, as an example, the big one-time tax rebates (household average: $500 U.S.) that the U.S. government mailed to taxpayers in 2008. Rather than increase consumption, the rebates precipitated a national retreat from consumption.¶ One problem with stimulus programs, Prof. Taylor argues, is that they are deliberatively designed as "temporary, targeted and timely." To increase consumption, they would need to be "permanent, pervasive and predictable." The only stimulus programs that meet these three criteria are permanent tax cuts - a definition, for what it's worth, for 20 per cent (or $3.2-billion Canadian) of Mr. Flaherty's $19-billion stimulus program for this year. In contrast, the U.S. increased taxes.¶ Prof. Taylor is an internationally recognized economist. He served as a senior Treasury Department official in three White House administrations (Ford, Bush 1 and Bush 2). He devised the "Taylor rule," a formula used by central banks to determine short-term interest rates. (For every percentage point increase in inflation, the Taylor rule specifies a 1.5-point increase in interest rates; for every percentage-point decline in GDP, it specifies a half-point drop in interest rates.)¶ Last year, Prof. Taylor published a provocative 59-page minibook: Getting Off Track: How Government Actions and Interventions Caused, Prolonged and Worsened the Financial Crisis. What went wrong? Prof. Taylor says the Federal Reserve kept interest rates far too low for far too long, giving people access to an enormous supply of cheap money. He blames Fed chairmen Alan Greenspan and Ben Bernanke for imposing an interest rate policy "with little or no basis in economic theory."¶ Prof. Taylor argues that there never was a significant "liquidity problem" in the U.S. financial system; there was only this cheap money hiding the subsequent rise in risk as lending practices got progressively looser. This error, he says, cost the global economy $12-trillion (U.S.) in lost financial assets.¶ Here at home, Liberal Leader Michael Ignatieff and NDP Leader Jack Layton are calling on the Conservative government not to reduce the corporate tax rate next year - and to use this saving (perhaps $8-billion) to finance more stimulus spending. This would waste as much money as eight G8-G20 summits. Mr. Flaherty should stand firm, as he undoubtedly will.

#### Deficit spending must be financed- stimulus theory flawed

**Foster 9**

(J. D. Foster, Ph.D., is Norman B. Ture Senior¶ Fellow in the Economics of Fiscal Policy in the Thomas¶ A. Roe Institute for Economic Policy Studies at The¶ Heritage Foundation, “Keynesian Fiscal Stimulus Policies¶ Stimulate Debt—Not the Economy”, July 27 2009, pdf)

Simple observation has its place, but how does¶ the Keynesian stimulus approach break down in¶ theory? Keynesian stimulus theory ignores the second¶ half of the story: Deficit spending must still be¶ financed, and financing carries budgetary consequences¶ and economic costs. Proponents generally¶ acknowledge the long-term budgetary costs, but¶ ignore the offsetting near-term consequences that¶ render Keynesian stimulus useless.¶ In a closed economy, government borrowing¶ reduces the pool of saving available for private¶ spending, either investment or consumption. Government¶ lacks a wand to create real purchasing¶ power out of thin air (with the fleeting exception of¶ monetary expansions, discussed below). Government¶ spending or deficit-increasing tax cuts¶ increase demand as advertised; and government¶ borrowing reduces demand by the same amount,¶ for no net change.¶ The dynamics in an open economy are slightly¶ more complicated, but the final outcome for output¶ is unchanged. An open economy permits a government¶ to finance its deficits by importing savings¶ from abroad as the United States has done for years,¶ rather than by tapping domestic sources. However,¶ an increase in deficit spending met by an increase in¶ net imports of foreign savings must, in turn, be¶ matched by an increase in net imports of goods and¶ services to preserve the balance of payments. Thus,¶ the increase in domestic demand due to deficit¶ spending is fully offset by a reduction in demand¶ arising from an increase in net exports. Once again,¶ Keynesian stimulus has no effect.

#### Stimulus theory is only half of a theory- empirics prove

**Foster 9**

(J. D. Foster, Ph.D., is Norman B. Ture Senior¶ Fellow in the Economics of Fiscal Policy in the Thomas¶ A. Roe Institute for Economic Policy Studies at The¶ Heritage Foundation, “Keynesian Fiscal Stimulus Policies¶ Stimulate Debt—Not the Economy”, July 27 2009, pdf)

Recent experience with Keynesian, deficit-based¶ fiscal policy to provide short-term stimulus to the¶ economy very much agrees with the theory described¶ above and essentially agrees with the corpus¶ of modern empirical research: Keynesian stimulus¶ does not work. As the economy was experiencing¶ a mild recession in 2008, the budget deficit¶ jumped by 2 percent of GDP, partly as a result of¶ the $152 billion stimulus signed into law by¶ President Bush. The economy was presented a sizable¶ dose of Keynesian stimulus and remained in¶ the doldrums with employment dropping by¶ 590,000 workers from the third quarter of 2007 to¶ the third quarter of 2008. Then the recession worsened¶ significantly.¶ Consequently, President Obama inherited a budget¶ deficit of almost $1.7 trillion, representing a¶ massive dose of Keynesian stimulus equal to 8.7¶ percent of GDP, almost three times larger than the¶ largest such peacetime increase. He then advocated¶ even more, and signed a $787 billion package of¶ spending hikes and ineffective tax reductions, pushing¶ the projected 2009 deficit to above $1.8 trillion.¶ Despite the massive initial and the additional deficit¶ spending, the unemployment rate rose by almost¶ two full percentage points in the first half of 2009,¶ and Administration officials are cautioning that¶ unemployment will rise above 10 percent.¶ The Keynesian stimulus theory fails for the simple¶ reason that it is only half a theory. It correctly¶ describes how deficit spending can raise the level of¶ demand in part of the economy, and ignores how¶ government borrowing to finance deficit spending¶ automatically reduces demand elsewhere. Exculpatory¶ allusions to idle saving simply do not wash in¶ a modern economy supported by a modern financial¶ system. Deficit spending does not create real¶ purchasing power and so it cannot increase total¶ demand in the economy. Deficit spending can only¶ shift the pattern of demand toward governmentcentric¶ preferences.¶ Empirical research rarely provides a simple, single¶ answer to a policy question, and examinations of¶ Keynesian stimulus are no exception. Yet the available¶ results consistently indicate that, using a modern¶ macroeconomic model and treating monetary¶ policy carefully, Keynesian stimulus’s short-term¶ effects lie somewhere in the narrow range between¶ slim and none. Keynesian stimulus produces debt,¶ not jobs.¶ Bad policy ideas rarely go away forever. Circumstances¶ change, memories fade, political fashions¶ come and go. The current global experiments with¶ Keynesian fiscal stimulus will fail as they have¶ failed before. Unfortunately, the price of learning¶ this lesson yet again is an unnecessarily prolonged¶ recession, a weaker recovery, and millions more lost¶ jobs—and, of course, the massive increases in¶ public debt.

#### Keynesians have faulty models- 08 proves

**Edwards 11**

(Chris Edwards is the director of tax policy studies at the Cato Institute and the editor of Downsizing Government.org., “Keynesian Policies Have Failed, US News and World Report, Dec 2 2011, pg online @ http://www.cato.org/publications/commentary/keynesian-policies-have-failed)

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

#### Keynesian theory fundamentally flawed- several reasons

**Chapman 10**

(Brian Chapman, PhD BMedSc LMusA ¶ Gippsland Medical School,¶ “Fundamental Errors in Keynesian Multiplier Theory and Cross Diagrams”, 2003-2010, pdf pg online @ http://qedinteractive.com.au/Chapman%20Keynesian%20Multiplier%20Paper%20for%20ATEC%202009%20Revised.pdf)

Keynesian multiplier theory is misconceived mathematically and diagrammatically in that: ¶ (1) Keynes's derivation of the multiplier involves (a) an arbitrary distinction between ¶ consumption and investment, (b) an arbitrary choice of causality between investment and ¶ consumption, and (c) circular logic; (2) Keynesian cross diagrams contain false shifts of the ¶ expenditure schedule and unfounded assumptions concerning its shape; (3) Construction of ¶ these diagrams reflects poor understanding of the meaning of equilibrium and the time taken ¶ to reach it; (4) The marginal propensity to consume is neither definable at equilibrium nor ¶ predictable away from it; (5) Saving is not a leak and the true expenditure function is the 45-¶ degree line. It is concluded that there is an urgent need to purge macroeconomic pedagogy of ¶ Keynesian cross diagrams and IS-LM analysis except as historical relics of professional error.

#### Even if their theory is right- there’s no way to predict consumption

**Chapman 10**

(Brian Chapman, PhD BMedSc LMusA ¶ Gippsland Medical School,¶ “Fundamental Errors in Keynesian Multiplier Theory and Cross Diagrams”, 2003-2010, pdf pg online @ http://qedinteractive.com.au/Chapman%20Keynesian%20Multiplier%20Paper%20for%20ATEC%202009%20Revised.pdf)

Ideally, a Keynesian investment ‘shock’ will be initially manifest as a sudden increase in ¶ employment in the capital goods-producing sector. Such increased employment could be ¶ realised in any of the following ways: it could be recruited either ¶ • entirely from the ranks of the unemployed, ¶ • entirely by requiring existing employees to work longer hours, or ¶ • by a combination of these two forms of recruitment.¶ Our task is to find what Keynesian MPC would logically attach to the new employment under ¶ these three different conditions. ¶ Firstly, consider the case where the increased employment derives entirely from enlistment of ¶ previously unemployed persons. Prior to their employment, they would have been living ¶ entirely on welfare (including charity) with a probable average propensity to consume close ¶ to 100%. On becoming employed, they are in a position to decide how to handle the excess ¶ of their new earnings over their former welfare income. What will they do? Will they be so ¶ fearful of the prospect of future unemployment that they will save every extra dollar earned, ¶ making their MPC equal to zero? Or will they eat, drink and be merry pending the next bout ¶ of unemployment, making their MPC equal to 100%? Whatever the answer to this question ¶ might be, it cannot be divined from the average propensity to consume of the employed ¶ population at the pre-‘shock’ equilibrium. ¶ Secondly, consider the case where the increased employment derives entirely from moving ¶ existing employees onto overtime. What will they do with their extra disposable income ¶ (after deduction of high marginal rates of progressive income tax)? Will they consider their ¶ erstwhile saving arrangements to be adequate and not requiring adjustment, making their ¶ MPC equal to 100%. Or will they seize the opportunity to do some really serious saving, ¶ making their MPC equal to zero? Or will they decide with mathematical precision to make ¶ their MPC equal to their pre-‘shock’ average propensity to consume? Only in the last and, ¶ arguably, least likely scenario will there be any information allowing a quantitative prediction ¶ of the MPC for these overtime workers.

\*(MPC) Marginal Propensity to Consume

#### Keynes theorists don’t make a distinction between investment and consumption- no certainty people will spend

**Chapman 10**

(Brian Chapman, PhD BMedSc LMusA ¶ Gippsland Medical School,¶ “Fundamental Errors in Keynesian Multiplier Theory and Cross Diagrams”, 2003-2010, pdf pg online @ http://qedinteractive.com.au/Chapman%20Keynesian%20Multiplier%20Paper%20for%20ATEC%202009%20Revised.pdf)

In choosing to call investment the primary employment, Keynes (1936) is depending on an ¶ arbitrary distinction between investment and consumptiona distinction that is wholly ¶ unsupportable whether referred to the facts of economic life or whether referred to Keynes’s ¶ own permissive attitude toward useless public works. ¶ The distinction between a capital good and a consumption good ultimately rests on the intent ¶ of the purchaser, i.e., whether the good is purchased for current consumption or as an input to ¶ further production. While some goods are almost always used for consumption (e.g., food) ¶ and others are almost always used for production (e.g., airships), the fact is that a continuum ¶ of goods exists between such extremes, and even at the extremes the distinction is rarely ¶ absolute.

#### Keynesian theory good in the abstract but not for policy makers

**White 09**

(William White is the formed BIS chief economist, “Modern Macroeconomics is on the wrong track”, Dec 2009, book)

Postwar empirical models with Keynesian underpinnings have never been good at forecasting turning points in the business cycle. This is a fundamental shortcoming, since we hardly need expensive models to assert that the future will be pretty much like the past. Keynes, as Axel Leijonhufvud (1968) documents, was profoundly skeptical about the usefulness of such models, because their construction ignored one of Keynes greatest insights. Expectations are crucial to all forms of economic behavior, but given the complexity of the economy, the future is uncertain. Faced with uncertainty, economic behavior tends to be guided in large part by heuristic devices and raw emotion ("animal spirits"- Akerlof and Shiller, 2009), which can produce sudden and sharp departures from the past. If there is anything that would characterize the future, it was not the average of past observations. So, although they provide a useful theoretical framework for how the world works, traditional Keynesian models, like the modern models, are not very helpful when it comes to prediction and are of limited use to policymaker., Worse, models in the Keynesian tradition also ignore two other considerations suspected of having real practical importance in the current crisis: the insights of the Austrian school of though and those of Hyman Minsky.

#### They are wrong- empirics prove stimulus creates unemployment

**Reynolds 10**

(Alan Reynolds is a senior fellow with the Cato Institute and the author of Income and Wealth, “The 'Stimulus' Actually Raised Unemployment”, Investor's Business Daily, February 19, 2010.)

President Obama seized on the one-year anniversary of the American Recovery and Reinvestment Act (ARRA) as an opportunity to take credit for the belated and tenuous economic recovery.¶ But the economy always recovered from recessions, long before anyone imagined that government borrowing could "create jobs." And we didn't used to have to wait nearly two years for signs of recovery, as we did this time.¶ A famous 1999 study by Christina Romer, who now heads the Council of Economic Advisers, found the average length of recessions from 1887 to 1929 was only 10.3 months, with the longest lasting 16 months.¶ Recessions lasted longer during the supposedly enlightened postwar era, with three of them lasting 16 to 21 months.¶ Keynesian countercyclical schemes have never worked in this country, just as they never worked in Japan.¶ The issue of "fiscal stimulus" must not be confused with TARP or with the Federal Reserve slashing interest rates and pumping up bank reserves.¶ One might argue that those Treasury and Fed programs helped prevent a hypothetical depression, but it's impossible to make that argument about ARRA.¶ The "fiscal stimulus" refers only to a deliberate $862 billion increase in budget deficits. Importantly, only 23% ($200 billion) was spent in 2009, with 47% in 2010 and 30% in later years (according to the Congressional Budget Office this January).¶ How could the initial $200 billion have possibly had anything to do with the 5.7% rise in fourth-quarter GDP?¶ The Keynesian fable presumes that faster federal spending and consumers spending their federal benefit checks were the driving forces in the rebound.¶ Yet the GDP report clearly said the gain "reflected an increase in private inventory investment, a deceleration of imports and an upturn in nonresidential, fixed investment that was partly offset by decelerations in federal government (defense) spending and in personal consumption expenditures."¶ Since federal spending accounted for exactly zero of the only significant increase in GDP, how could such spending possibly have "created or saved" 2 million jobs?¶ The bill was launched last year amid grandiose promises of "shovel ready" make-work projects.¶ In reality, as the CBO explains, "five programs accounted for more than 80% of the outlays from ARRA in 2009: Medicaid, unemployment compensation, Social Security... grants to state and local governments... and student aid."¶ In other words, what was labeled a "stimulus" bill was actually a stimulus to government transfer payments — cash and benefits that are primarily rewards for not working, or at least not working too hard.¶ Vice President Joe Biden suggested that much of the real stimulus will occur this year. Yet the new budget has a chapter called "Reviving Job Creation" that does not even mention the 2009 giveaway legislation.¶ In 2010, as in 2009, the ARRA is mainly a stimulus to government. Shovel-ready or not, highway programs will get only $10 billion of the borrowed booty, about 2%. "Nearly half of the outlays resulting from ARRA in 2010," says the CBO, "will be for programs administered by Health and Human Services or the Department of Education."¶ From the CBO figures, it appears that 39% to 44% of the $862 billion will be for increased transfer payments, including refundable tax credits (checks to people who don't pay taxes).¶ The American Recovery and Reinvestment Act of 2009 had extended federally funded unemployment benefits by 53 weeks, and another bill in November added 20 more — bringing the total up to 99 weeks in states with high unemployment.¶ As the Federal Reserve's Open Market Committee minutes for January noted: "The several extensions of emergency unemployment insurance benefits appeared to have raised the measured unemployment rate, relative to levels recorded in past downturns, by encouraging some who have lost their jobs to remain in the labor force.... Some estimates suggested it could account for 1 percentage point or more of the increase in the unemployment rate during this recession."¶ My own estimate, in past articles available at cato.org, is that the stimulus act added about 2 percentage points to the unemployment rate.¶ The evidence that extended benefits have that effect is overwhelming, fully documented by the Organization for Economic Cooperation and Development and by at least two economists in the Obama administration.¶ It turns out that raising the unemployment rate by a percentage point or two is the only clearly identifiable effect the stimulus act had on the jobs market. It stimulated unemployment.

#### Japanese stimulus program proves theory is wrong

Kates 09

(Steven Kates, “The Dangerous Return to Keynesian Economics”, March 2009

The most recent large-scale example of an attempt to use a Keynesian deficit-financed spending program to restore growth to a depressed economy occurred in Japan during the 1990s. The end of the 1980s had seen brief recessions across the world from which most economies rapidly recovered.¶ Only Japan attempted to hasten recovery with a series of very large spending packages. Far from achieving recovery, this expenditure drove the Japanese economy into such deep recession that even today its economy, at one time the envy of the world, remains subdued. Yet, oddly, because economic theory continues to insist that the spending could only have been a positive, the example of the Japanese disaster is a lesson no one has been prepared to absorb.

# Impact Uniqueness

## Federalism

### High

#### Federalism high now – Affordable Care Act

**Posner 7/18/12**

**(Paul L. Posner, director Paul L. Posner, director of the public administration program at George Mason University, is a former federal official, a former president of the American Society for Public Administration, and author of "The Politics of Unfunded Mandates,” “The Supreme Court and the Remaking of Federalism,”**

The Supreme Court's ruling upholding the Affordable Care Act will be remembered in the short term as reaffirming President Obama's ambitious health-care-reform program. Yet in ruling as it did, the court tied the federal government's hands for the future by placing new limits on its role in domestic policy.¶ Much attention has been paid to the court's reliance on the taxing power of Congress to uphold the law, but the ruling's constraints on the use of Congress' spending power to achieve expanded coverage through Medicaid are perhaps destined to have greater effects on congressional and presidential actions to project federal goals into new areas.¶ The court essentially held that states failing to expand Medicaid under the new law cannot be penalized by the loss of their existing Medicaid funds. Republican governors in at least six states already have proclaimed that they will not apply for the new Medicaid expansion program. The federal government has little recourse should they opt out.¶ The implications of the new ruling go well beyond Medicaid, however. New questions are raised, for example, about whether Congress can legislate new conditions on existing grant programs. There are more than 950 federal grants that provide the vehicle for most federal mandates, rules and regulations affecting the states. They also are the principal constitutional vehicle that allows Congress to adopt policies beyond its enumerated powers in such areas as education, law enforcement, community development and social services.¶ The court's ruling on Medicaid needs to be viewed in concert with other rulings a decade or more ago that also placed limits on the power of the federal government to "commandeer" states to carry out federal programs. In one notable case, 1997's Printz v. United States, the court ruled that the federal government could not directly order local police to conduct background checks on prospective gun purchasers. The court's previous rulings barring direct-order commandeering had left the door open to use grants instead, since the states could opt out. As my colleague Tim Conlan has noted, in the health-care ruling the court now is saying that some grants are themselves a form of coercive commandeering.¶ In addition, in this ruling, the court deliberately did not provide bright-line tests to define federal coercion. In a decision nearly 20 years ago, the court ruled that withholding 5 percent of highway grant funds was not sufficiently powerful to constitute coercion. But since Medicaid accounts for a far higher percentage of state revenues, federal penalties threatening the entire grant appear to have crossed that undefined coercion line. Would special-education or Title I education mandates be considered equally as coercive?¶ The ruling also raises new questions about whether the federal government can enforce one set of regulations by threatening to withhold funds under a separate program — what are called "crossover sanctions." The court's ruling concluded that the new Medicaid expansion was, in effect, a separate new program that impermissibly used the existing Medicaid program as a weapon to achieve leverage over the states. It is unclear whether existing federal rules that can cause withholding of highway grants for states not in compliance with federal clean-air requirements would withstand appeals based on the new ruling.¶ The ruling raises new uncertainties about the future of the federal role in our system. On first blush, it appears that states were the big winners, gaining newfound leverage in resisting federal grant programs. In fact, the state resistance movement had been picking up steam long before the health-care law. For example, states joined in pushing back against two of President George W. Bush's coercive initiatives: the "Real ID" security mandate for state-issued driver's licenses and the No Child Left Behind law for education.¶ Clearly, the new Medicaid constraints have further boxed in federal officials in responding to new national needs appearing on the federal doorstep. What options do federal officials have in working through states in the future? Given limits on federal coercion through either direct orders or grants, one scenario favored by conservatives might be for the federal government simply to foreswear national policy, leaving it in the states' hands. While appealing to some, this option fails to serve a nation whose economy is increasingly interdependent across states, nor does it account for the irrepressible compulsion by national elected officials of both parties to claim credit for legislating new programs and benefits.¶ Ironically, two other options might present themselves to hard-pressed federal officials. One would be to avoid the issue of coercion by expanding federal funding. In effect, the court ruled that Congress could sidestep the coercion tests by creating fully funded programs that did not burden existing programs with additional conditions.¶ Another option would be for the federal government to carry out the Medicaid program itself, sidestepping the states. Writing in the Fiscal Times, Merrill Goozner raised the prospect that the federal government might reconsider an offer made by President Reagan to nationalize Medicaid, as it nationalized old-age and disability assistance in 1974 under the Supplemental Security Income program.¶ One of the strengths of our existing intergovernmental system is that the federal government joins a partnership with 50 states and numerous local governments and nonprofits to deliver programs in ways that are adapted to the diverse conditions and values throughout our system. The premise of the court's ruling on the health-care law is that the decentralized promises of cooperative federalism have withered as the federal system has become more centralized and coercive. It would be ironic indeed if the ultimate outcome of the court's new federalism were to be a replacement of cooperative federalism with a more centralized system of direct federal management of complex national problems.

### Low

#### Federalism low – Arizona immigration policy

**McDaniel 6/28/12**

**(Chris McDaniel, state senator, “McDaniel – Immigration ruling: federalism eroded by federal judiciary,” Y’all Politics, 6/28/12,** <http://yallpolitics.com/index.php/yp/post/32584/> /mr)

During the past ten years, over a third of the nation’s illegal border crossings occurred in the State of Arizona. ¶ It has experienced the brunt of the republic’s illegal immigration problem, with its citizens describing themselves as under siege by large numbers of illegal immigrants who invade their property, strain their social services and even place their lives in jeopardy. ¶ Although the people of Arizona have long demanded federal action to assist in curbing the tide, our national government has refused to protect its border integrity. The state therefore had little choice but to pass legislation designed to address the problems associated with unfettered illegal immigration. In 2010, it passed SB 1070, known as “The Support Our Law Enforcement and Safe Neighborhoods Act."¶ In response, the US Department of Justice filed a lawsuit on July 6, 2010, requesting that it be declared invalid since it interferes with powers vested in the federal government. ¶ After the matter was appealed from a lower court, the Ninth Circuit Court of Appeals ruled that four of the provisions were unconstitutional. Arizona then fought to reverse that decision. The Supreme Court, in December of 2011, agreed to consider the case.¶ On June 25, the Court issued a surprising majority opinion which affirmed much of the Ninth Circuit’s injunction against enforcement of the four challenged provisions, declaring it unconstitutional for Arizona to make it a state crime for an immigrant not to be carrying papers, to allow for warrantless arrests in select situations and to forbid illegal immigrants from working in Arizona.¶ In an about-face, it then upheld the most controversial part of the law -- a provision which requires law enforcement officers to make a reasonable attempt to determine the immigration status of a person stopped, detained or arrested if there is reasonable suspicion that the person is in the country illegally.¶ In striking down three of the four provisions, however, the majority opinion ignored the states’ traditional role in regulating immigration. Before the ratification of the Constitution, each state had the authority to prevent itself from being burdened by an influx of persons. The Constitution, upon adoption, did not strip them of that power.¶ There is nothing improper, traditionally speaking, with states prohibiting actions already prohibited by federal law, just as there is nothing wrong in assisting with enforcement when federal laws are violated. As noted by Justice Antonin Scalia in his dissent, Arizona did nothing more than attempt to protect its sovereignty. It was not in contradiction of federal law, but in complete compliance with it. SB 1070 did not extend or revise federal immigration restrictions, but merely enforced those restrictions more effectively. ¶ "What this case comes down to," Scalia argued, "is whether the Arizona law conflicts with federal immigration law -- whether it excludes those whom federal law would admit, or admits those whom federal law would exclude. It does not purport to do so. It applies only to aliens who neither possess a privilege to be present under federal law nor have been removed pursuant to the Federal Government’s inherent authority." ¶ He eloquently explained, "federal power over immigration comes from the same source as state power over immigration: it is an inherent attribute – perhaps the fundamental attribute – of sovereignty. The States, of course, are sovereign, the United States being a Union of sovereign States. To be sovereign is necessarily to possess the power to exclude unwanted persons and things from the territory.”¶ In short, the Court essentially deprived Arizona of what most would consider the defining characteristic of its sovereignty, which is the power to exclude those who have absolutely no right to be there. ¶ Spin doctors on both sides of the immigration debate will attempt to paint the Court’s majority opinion as a victory. And to be sure, both sides will be correct.¶ But the states will suffer because core features of federalism continue to be eroded by the federal judiciary. ¶ And, in large part, Arizona still remains at the mercy of the central government’s refusal to enforce the nation’s immigration laws.

## Auto Industry

### High

#### Improving now

#### Hersh and Farrell 4/6/12

**(Adam Hersh, economist at the Center for American Progress Action Fund, and Jane Farrell, Special Assistant for Economic Policy at CAPAF, “Auto Industry Provides Bright Spot in Jobs Report, Proving Again That Letting It Fail Would Have Been the Wrong Course,” 4/6/12, Think Progress Economy,** <http://thinkprogress.org/economy/2012/04/06/459857/auto-industry-bright-spot/> /mr)

Today’s jobs report from the Department of Labor shows that the private sector has added jobs for the past 25 months consecutively. One particular bright spot: auto industry employment continued its winning streak.¶ Nearly ten percent of the 120,000 U.S. jobs added in March were a result of strong growth in the motor vehicles and parts manufacturing sector, serving as yet another wake-up call regarding whose ideas are working for the economy. Many Republicans — including the GOP’s presidential front-runner, Mitt Romney, said we should “let Detroit go bankrupt“.¶ Auto industry jobs suffered a steady decline in the 2000s even before the Great Recession hit. From March 2001 — the previous cycle peak — to December 2007, auto jobs fell from 1.24 million to 956,000. As the housing bubble economy deflated and the financial crisis on Wall Street threw us further into a tailspin, auto industry employment fell by another one-third.¶ Fortunately, the Obama administration had the vision and perseverance to come to the aid of the auto industry in early 2009. By organizing a restructuring of the industry instead of letting it go bankrupt, the Administration saved hundreds of thousands of American jobs and a vital sector of the U.S. economy.¶ The graph here shows the cumulative net change in motor vehicles and parts industries jobs since June 2009–the month that General Motors filed for Chapter 11 bankruptcy and the Obama administration’s strategy for restructuring the American auto industry really kicked into high gear.¶ From June 2009 to March 2012, the industry increased employment by more than 22 percent, or 139,000 new jobs created. And last week, U.S. automakers registered their strongest sales growth since early 2008, even stronger than during the successful “Cash for Clunkers” program in summer 2009.¶ Industry output growth recovered, too. After falling 60 percent in 2008 and 25 percent in 2009, U.S. motor vehicle output grew by 27 percent in 2010 and 12 percent in 2011, adjusting for inflation. Growth in 2011 was held back by the March 2011 Japanese earthquake, which disrupted global automotive supply chains.¶ Without the Obama administration’s bold efforts to restructure the American auto industry, not only would these auto industry jobs not exist, but hundreds of thousands of other jobs upstream and downstream from the auto industry would have disappeared as well.

#### Auto industry high now

#### Boston Globe 1/3/12

**(Tom Krisher, Associated Press, “US auto industry poised for 2d year of growth,” 1/3/12, Boston Globe Business,** <http://www.bostonglobe.com/business/2012/01/03/auto-industry-poised-for-year-growth/Pq0nW0n93YrBrenzQkQylJ/story.html> /mr)

DETROIT - After hitting a 30-year low in 2009, US auto sales are poised for a second straight year of growth in 2012, the result of easier credit, low interest rates, and pent-up demand for cars and trucks.¶ The sales forecast bodes well for the industry’s continued recovery from the Great Recession and for the broader American economy.¶ Just two years ago, Detroit automakers were in peril. Sales plunged as unemployment soared, and loans became harder to get. Chrysler and General Motors filed for bankruptcy protection. Ford avoided bankruptcy only by borrowing billions.¶ Now credit is more available, interest rates are low, and Americans need to replace old cars and trucks they kept during and after the downturn. Millions of drivers in their teens and 20s are expected to buy vehicles, too. That could mean more jobs, more factory shifts, and overall growth.¶ Vince Powell, a retiree from Winfield, Pa., recently traded in his wife’s seven-year-old Chrysler 300 luxury sedan for a 2011 model. The old car had 145,000 miles on it, but it was the deal he got that most attracted him: a low interest rate (2.7 percent per year), a six-year loan term, and a big discount off the $31,900 sticker price.¶ “I’m getting a $300-per-month payment,’’ he said just before closing the sale at Beaver Motors in Beaver Springs, Pa., near Harrisburg. “I’ve never had a new car for 300 bucks a month.’’¶ In their effort to survive, all three automakers downsized and positioned themselves to turn profits - even if sales remained depressed. Now that sales are rising, the outlook has brightened considerably.¶ Automakers report US sales for 2011 tomorrow. Sales of new cars and trucks are expected to reach 12.7 million, up from 11.5 million in 2010 and 10.4 million in 2009, the worst year since 1982.¶ In 2012, they could climb as high as 13.8 million, close to the 14 million that analysts consider a healthy market.¶ December sales could reach an annual rate of 13.4 million, which would make it the second-strongest month of the year. Only November was better.¶ Edmunds.com forecasts a 37 percent rise in sales at Chrysler Group LLC in December, thanks to new and revamped products such as the Jeep Grand Cherokee SUV and the Chrysler 200 midsize sedan.¶ Carmakers have announced plans to crank up factories and add thousands of jobs. Last January, Ford said it would hire 7,000 workers over the next two years. During the summer, GM said it would add 2,500 at the Detroit factory that makes the Chevrolet Volt electric car. Volkswagen hired 2,000 for a new plant in Tennessee, and Honda added 1,000 in Indiana.¶ The industry will add 167,000 jobs by 2015, a 28 percent increase over current levels, predicts The Center for Automotive Research in Ann Arbor, Mich.¶ During the summer, the auto industry was adding jobs at a faster pace than airplane manufacturers, shipbuilders, health care providers, and the federal government. It kept adding jobs even when the national unemployment rate rose above 9 percent, Standard & Poor’s downgraded US debt for the first time, and the stock market tumbled.¶ Government estimates show Americans spent roughly $40 billion more on new cars and trucks in 2011 than in 2009. Based on annualized figures from the first quarter of 2011, new-car spending totaled $206 billion, or 1.3 percent of the gross domestic product, Commerce Department data show. That compares with $166 billion in 2009, about 1.2 percent of the country’s economy.¶ And the momentum in auto sales is likely to continue because people need to replace aging cars, said Jeff Schuster, senior vice president of forecasting for LMC Automotive, an automotive consulting company in Troy, Mich. The average American car is now 11 years old.¶ US auto sales peaked at 17 million in 2005, when Detroit’s automakers were much bigger and overproduced cars that they were forced to discount heavily. Sales could eventually reach that level again around 2018, Schuster said, because of 70 million so-called millennials born between 1981 and 2000 who need to set up households and buy cars.¶ Other trends emerged in 2011. Many people bought smaller vehicles as gas prices hit a record average of $3.53 per gallon. Fuel-efficient compact cars, which have been vastly improved by automakers, are likely to unseat the midsize sedan as America’s favorite passenger car for the first time in 20 years.¶ At the other extreme, pickups rebounded as businesses started to replace older trucks. Sales for the year were expected to rise 11 percent, and Ford’s F-Series will remain the country’s top-selling model, a title it has held for more than three decades.¶ For much of the year, US-based automakers took advantage of Japanese car shortages to increase sales, especially in the compact car segment normally dominated by the Honda Civic and Toyota Corolla. Japanese companies ran short of popular models after an earthquake and tsunami disrupted production in Japan in March.¶ Ford, GM, and Chrysler saw their combined share of the US market rise by 200,000 cars and trucks between the end of 2010 and November 2011.¶ The Detroit Three’s market share rose from 45.1 percent last year to 47 percent through November of last year. At the same time, Honda’s share fell 1.6 percentage points to 9 percent, while Toyota’s dropped 2.5 percentage points to 12.7 percent.¶ Schuster expects Japanese carmakers to take back some of the sales they lost.¶ Geoff Pohanka, who runs a chain of car dealers in the Washington area, said his December has been strong, thanks especially to the restocking of cars at his Honda and Toyota showrooms.

### Low

#### **Despite positive appearances – auto industry is failing**

Strategy Business 8/23/11

(Strategy Business, “Is the U.S. Auto Industry Ready for Growth?” 8/23/11, <http://www.strategy-business.com/article/11301?pg=1> /mr)

To many people, the U.S. auto industry appears to be on the mend. After an epic sales collapse in the wake of the 2008–09 recession, General Motors, Ford, and Chrysler were all profitable again in early 2011, and European and Korean manufacturers in the U.S. were also enjoying strong results. Only the Japanese transplants are facing earnings pressure, as they wrestle with massive disruptions to their global supply chains and production facilities, due to the earthquake and tsunami at home. Although the U.S. has slipped to number two behind China in auto sales, the U.S. market is still among the world’s most profitable, thanks to consumers’ enthusiasm for high-margin luxury cars, SUVs, and light trucks. Leading forecasters predict that light-vehicle sales in the U.S. will rise to more than 16 million in 2015, up from 11.6 million in 2010.¶ Yet auto industry insiders themselves are anything but sanguine. A Booz & Company survey of more than 200 executives from 40-plus automakers and suppliers revealed more modest expectations — only 13.5 million in vehicle sales in 2013 and 14.5 million in 2015. The reason: By the executives’ own reckoning, most automobile companies have not fully gotten their managerial houses in order. Almost half of the survey respondents said that the auto industry restructuring of 2009–10 did not go far enough. Two-thirds said that automakers and auto suppliers in general were not yet on a path to achieving sustained, full returns on invested capital. In fact, the auto executives viewed the overall tenuousness of their industry as so potentially serious that almost 30 percent said they expect a major automobile company to fail in the next two years.¶ For U.S. auto companies, the bankruptcies and restructurings — as well as the stronger focus on lean factories and new union agreements that grew out of the recession — have significantly reduced operational costs, sanitized balance sheets, and eliminated health and pension legacy expenses, or at least helped to make them more manageable. In many ways, however, those steps were the bare minimum necessary for the industry to survive the downturn. As Edward Tse, Bill Russo, and Ronald Haddock suggest in “Competing for the Global Middle Class” (s+b, Autumn 2011), car sales are increasing rapidly in the dynamic new global middle class of emerging markets — but new competitors are also proliferating to serve this market. Can today’s automakers con­tinue to thrive in an industry that will be more in flux and more competitive than ever before? According to the survey, auto executives themselves are not sure.¶ “If you look at the industry before the sales downturn, it was hyperinflated,” says Ernest Bastien, vice president of retail market development at Toyota USA. “People were using their home equity and easy-to-get loans to take advantage of extraordinary incentives that were being offered. In fact, the industry was not as robust as it looked. Going forward, automakers are going to have to rely on a more fundamental but complex equation for growth: making the right amount of great, high-quality cars and proving to consumers that their brand is the best in terms of total cost of ownership, drivability, and reliability.”¶ When asked to rank their companies’ most critical challenges, more than 50 percent of the manufacturing executives surveyed chose increasing competitive pressure. (See Exhibit 1.) And although Japanese, Korean, and European rivals are certainly formidable competitors, the looming presence of Chinese companies casts the largest shadow. Fully 90 percent of these executives said that Chinese automakers would be making cars equal in quality to American-made vehicles by 2021. About half of all survey respondents, from manufacturers and suppliers, said this could occur by 2016. In other words, the executives said they believe that companies like Geely Automobile Holdings, which acquired the Volvo brand from Ford, and BYD Company, partially owned by Warren Buffett, will achieve in 10 years what Toyota and other Japanese companies took 30 years, and Korean automakers took 20 years, to do. For auto suppliers, the future is uncertain as well — not because of potential changes in industry dynamics some years down the road, but rather because of a problem they have struggled with for at least a decade: Many find themselves unable to command full value for their products. Owing to an overabundance of competitors in most product categories, many suppliers lack the leverage to set terms with their automaker customers that would allow them to earn a positive return on their invested capital. They’ve become, in effect, low-cost order takers. As a result, many suppliers find themselves too short of cash to invest heavily in research and development. But that investment is imperative if they hope to distinguish their products from their competitors’ and go beyond merely selling commodities. Not surprisingly, given the dynamics of supplier relationships with the automakers, the two most widely chosen concerns expressed by suppliers in the survey involved cost position and engineering, research, and development (ER&D)/innovation. (See Exhibit 2.)¶ “A product’s price is directly proportional to the value it creates,” says David Johnson, chief executive officer of Achates Power Inc., which is developing an energy-efficient engine. “Any time that you aren’t delivering a unique technology or unique features that will create market demand or fill a real need in the market, your product becomes commoditized, and the next thing you are doing is price and quality competition. That is not a long-term winning formula.”¶ Clearly, suppliers have a long way to go to improve their relationships with automakers and to drive more value into their products. But according to the survey, auto suppliers do not see the path they need to take to get there. When asked to name the most important keys to winning, most suppliers did not cite two facets of a business’s operations that routinely count among the prerequisites for long-term viability: a well-defined strategy and deep market insight. Understandably, no business leader would argue against the importance of achieving the low cost position or providing superior customer service. But without a well-defined strategy rooted in deep market insight, it is nearly impossible to achieve a sustainable, differentiated position — which, in the end, is key to capturing the value created.¶ Given the responses to the survey, and taking a close look at current conditions in the U.S. auto industry, automakers and suppliers face different priorities in the United States (and elsewhere in the world).

\*Exhibits 1 and 2 were cut out from this evidence

## Aviation Industry

### High

#### **Aviation industry high now**

Fox Business 7/10/12

(Jennifer Booton, “Boeing Forecasts $2.4 Trillion Commercial Aviation Industry,” 7/10/12, <http://www.foxbusiness.com/industries/2012/07/10/boeing-forecasts-24-trillion-commercial-aviation-industry/> /mr)

Boeing (BA: 74.24, +1.13, +1.55%), which has been securing billions of dollars worth of deals this week at an air show, said it sees the commercial aviation services market reaching $2.4 trillion over the next 20 years.¶ The Chicago-based jet maker unveiled a $7.2 billion deal with Air Lease (AL: 18.86, +0.10, +0.53%) on Monday for 100 new 737 MAX jets and on Tuesday said it has struck a deal with Kuwait airplane leasing company ALAFCO for 20 MAX jets valued at $1.9 billion.¶ At the Farnborough Air Show on Tuesday, Boeing’s senior vice president of commercial aviation services, Lou Mancini, said the commercial market is expected to grow at an annual rate of 4% over the next two decades, bringing the industry to $2.4 trillion by 2032.¶ "Airlines are looking for every possible advantage to succeed, from efficiencies in maintenance services to breakthroughs in flight operations and information technology," Mancini said. "Demand for this kind of support and services is only going to grow as fuel prices remain high, fleet size increases and airlines look for ways to improve their overall operations and reduce costs."¶ The company forecasts long-term growth in the maintenance, repair and overhaul market as demand grows for parts. It also anticipates better information integration among airline maintenance engineering, flight operations and information technology departments.¶ Boeing said its deal with ALAFCO represents the first commitment for the 737 MAX from the Middle East, which is one of the aviation industry’s fastest growing regions.¶ The 737 has accumulated more than 1,000 orders and commitments from 17 customers worldwide since its launch last August.

#### Status quo solves aviation problems

#### Avia **Solutions Group 7/5/12**

**(Avia Solutions Group, “the global aviation industry unites in the struggle with future HR-shortage,” 7/5/12,** <http://www.aviasg.com/en/press-release/aviationcv-com-the-global-aviation-industry-unites-in-the-struggle-with-future-hr-shortage.html> /mr)

For already several years the industry has been fiercely discussing the issue of the upcoming shortage of pilots and MRO specialists, which is fated to hamper the development of airlines, airports and other aviation-related segments of the travel industry. With the IATA to forecast more than a triple increase in passenger traffic – up to 16 billion passengers by 2050 – airlines will inevitably develop a keen desire to carry every single of those passengers. However, acquiring additional aircraft – one of the 34 000 forecasted by Boeing – is just the first (and maybe the easiest) step. Securing the necessary skilful human resources – this is the point where the entire industry should act unanimously – from airlines, MROs and HR-resourcing companies to manufacturers and governments.¶ ‘The lack of pilots and MRO specialists is not the issue relevant to airlines and MRO providers only. Even as we speak some airlines are placing their aircraft orders on hold due to the increasing possibility that there will be no one to operate the new aircraft. At the same time, the MRO industry is sure to face certain development limitations due to the very same situation with aircraft technicians and engineers. Moreover, the current situation implicates an increasing financial burden on the companies, since the shortage is triggering higher salary demands from aviation professionals,’ commented the CEO of AviationCV.com Skaiste Knyzaite.¶ For some time airlines and MROs had been forced to seek for ways to satisfy their HR-demand on their own, using own in-house training departments. However, recently other aviation industry players have started to realize the actual gravity of pilots’ and MRO specialists’ shortage. For instance, in the end of June 2012 Boeing together with the Indonesian authorities announced of its plans to establish a major training facility in the country in order to help the region meet its growing demand for skilled aviation professionals. Prior to this, the U.S. aircraft manufacturer had also conducted a promo campaign aimed at promoting aviation-related professions, including those of aircraft technicians and engineers. At the very same time, a training subsidiary of Airports Authorities of India (AAI) had announced of the agreement to provide training support for aviation specialists from African states.¶ ‘Now we can see that manufacturers, operators, MRO providers, airports and governments – everyone is doing one’s best in order to avoid the forecasted bleak industry prospects. Without any doubt, the HR-resourcing industry is also contributing to the issue. Some recruitment agencies help fresh pilots to obtain their initial experience required to work for commercial airlines. Others help operators to find skilful first officers in order to train and promote them to captains. Of course, HR-resourcing companies are also the first step for many young people embarked on seeking a career in aviation, since we help airlines, MROs and other related companies to organize, promote and conduct job-fares, screenings and other related activities aimed at promoting the prospects of aviation professions,’ commented Skaiste Knyzaite.¶

### Low

#### **Low now – only our ev is predictive**

#### **Aero News Network 7/7/12**

**(Aero News Network, “Is the Current Slump the ‘New Normal’?” 7/7/12,** <http://www.aero-news.net/index.cfm?do=main.textpost&id=268b700f-1354-43dc-a7d5-6894031fa535> /mr)

Since 2008 the general aviation industry has been reeling from a downturn that, to many, seems to be lasting an eternity. So what’s really going on? ¶ "That's probably the most important single question we're being asked these days," notes industry advisor Brian Foley (pictured). "We sympathize with those who worry because this has indeed been an epic correction. But historically, the general aviation industry has averaged five-year cycles, which would normally suggest another year of weakness, more or less. That's not exactly a predictor because these averages, by nature, are highly governed by extremes. This recession is concerning because it is both deep and prolonged, affecting certain companies and sectors more than others."¶ As an example, Foley cites the fact that large-cabin business jets have been relatively unscathed. But other segments are still a long way from recovery. The high-profile bankruptcy of Hawker Beechcraft, one of the "Big Six" manufacturers competing mainly in small and midsize jets, has caused concern throughout the industry. "This case generated a lot of media coverage," Foley says, "not only because of Hawker Beechcraft's prominence but also because of its public reporting requirements. Surely the industry must have other name-brand providers in the industry in similar difficulties that we don't know about, because they're not subject to the same reporting obligations. That's a spooky thought."¶ Some hail the recent business jet record breaking fleet orders from fractional provider NetJets, a Berkshire Hathaway company, as a sign that the market has finally returned. Foley is more cautious: “These deliveries are spaced out over the next decade so there’s no quick benefit, and they're principally intended to replace (as opposed to grow) existing fleet aircraft averaging some seven years in age. There’s perhaps a little bit of gaming going on here as well, with NetJets' ability strike a better bargain in low-market conditions and to have these new jets on line when the economy picks up (while still being able to defer and/or cancel orders if it does not)."¶ So what’s really going on? And how much longer must we sing the blues? ¶ Foley believes that, for most general aviation companies, the safest mindset is to view the current situation as the "new normal" and adapt accordingly. "The pessimist in me says we'll be in something of a steady-state situation for the foreseeable future, with occasional setbacks balanced out by spots of growth. For example, while Europe's situation worsens and red-hot China moderates, North America may well begin to percolate and take up slack. And the optimist in me says that companies geared to live through these hard times will invariably have the edge when this recession's over. Generally speaking, they're the ones who can spot a welcome uptick as a gift (rather than a given) and profit from it."

#### **Airline industry low – lack of experienced pilots**

Action 10 News 7/13/12

(Action 10 News, “Airline Industry Facing Pilot Shortage,” 7/13/12, <http://www.kztv10.com/news/airline-industry-facing-pilot-shortage/> /mr)

WASHINGTON (AP) - An industry forecast that nearly half a million new airline pilots will be needed worldwide over the next 20 years as airlines expand their fleets has raised safety concerns that airlines will hire lower caliber pilots as they struggle to fill slots.¶ Boeing, one of the world's largest makers of commercial jetliners, forecasts about 460,000 new pilots will be needed worldwide between now and 2031 as global economies expand and airlines take deliveries of tens of thousands of new commercial jetliners. The forecast includes 69,000 new pilots in the North America, mostly in the U.S. The greatest growth will be in the Asia-Pacific region, where an estimated 185,600 new pilots will be needed.¶ Likewise, Boeing predicts 601,000 new aircraft maintenance technicians will be needed over the same period, with greatest demand - 243,500 technicians - in the Asia-Pacific region. An estimated 92,500 new technicians will North America.¶ The rising global demand for airline pilots has raised concern among industry and government officials that there will be a global and a domestic pilot shortage.¶ "In many regions of the world, a pilot shortage is already here," the Boeing forecast said. "Asia Pacific in particular is experiencing delays and operational interruptions due to pilot scheduling constraints."¶ That's particularly true in China and India, industry officials said. Airlines based in Asia and the Middle East have been holding pilot job fairs in the U.S. and thousands of pilots laid off due to U.S. airline bankruptcies and mergers are now flying for foreign carriers.¶ "We have airlines around the world as they buy our airplanes and come to us on the training side of the house, saying 'We're struggling to fill (pilot) seats. Can you help us?' " said Carl Davis, Boeing's chief of pilot services. Davis presented his company's forecast Thursday at a conference in Washington on pilot training hosted by the Air Line Pilots Association, the world's largest pilot union.¶ U.S. industry and government officials are also concerned that the rising global demand for pilots, combined with an anticipated wave in pilot retirements and tougher qualification standards for new pilots that kick in next year, will create a domestic shortage as well.¶ "I'm concerned because it has safety implications," John Allen, the Federal Aviation Administration's director of flight services, told The Associated Press.¶ Allen said he wants to spur a discussion among industry, labor unions and academia about a potential shortage that will "really look at this and address it, not to just sweep it under the rug ... Is this a problem? And, if it is a problem, how bad is it?"¶ He said he is fearful that if there is a shortage, airlines will hire pilots who are technically qualified but don't have the "right stuff."¶ "If the industry is stretched pretty thin ... that can result in someone getting into the system that maybe isn't really the right person to be a pilot. Not everybody is supposed to be a pilot," Allen said.¶ Jean Medina, a spokeswoman for Airlines for America, responding to Allen's comments, said: "Safety is always our top priority and our airlines hire pilots that meet the rigorous standards set by the FAA." The International Air Transport Association didn't respond to a request for comment.¶ Lee Moak, president of the pilots union, said he doubts a pilot shortage will be felt in the U.S. for about three to five years. If U.S. airlines start hiring pilots in large numbers, he said, pilots now flying for foreign carriers will likely return home. There are currently about 90,000 airline pilots in the U.S. and Canada.¶ "Globally is another matter," Moak said.¶ Industry and government officials anticipate a wave of pilot retirements at U.S. airlines beginning this year. Five years ago, the FAA raised the mandatory retirement age for pilots from 60 to 65. The fifth anniversary of that decision is Dec. 13. Pilots who were age 60 on that date five years ago are reaching the age where they have to retire.¶ Also, FAA regulations created in response to an aviation safety law passed by Congress two years ago will raise the experience threshold required to be an airline first officer from the current 250 hours of flying time to 1,500 hours, the same level as required of captains. That's expected to make it harder for airlines to find qualified new applicants.¶ At the same time, the pool of military-trained pilots that airlines have relied upon in the past has largely dried up as more pilots choose to remain in the military rather than seek airline careers, industry officials said. That means airlines have had to rely on new hires that have accumulated their experience at flight schools and, later, working as flight instructors at local airports and the flight schools.¶ "The cost of getting into flying is very expensive," Davis said. "When I talk to college students, if they're coming out of a four-year collegiate (aviation) program, most of them are $150,000 to $160,000 in debt. And that only gives them the qualifications to go be a flight instructor. If you're making $20,000 a year as a flight instructor you're lucky."¶ A shortage in the U.S. will likely first be felt at regional airlines, which tend to fly smaller airliners and hire less experienced pilots than mainline careers. A typical pilot career path is to get hired as a first officer at a regional airline, get promoted to captain and then get hired by a mainline carrier.¶ "It appears based on retirements alone there is going to be a massive need for mainline hiring," said Dave Ryter, a regional airline captain who spoke at the training conference.¶ "If that comes to fruition," Ryter said, "the mainlines will draw from the regionals. ... It's the regionals that will have to find the entry-level pilot. That will be the first challenge, although it will eventually trickle up to the mainlines."

## Manufacturing Industry

### High

#### Manufacturing sector is improving

#### New York Times 1/5/12

#### (Flo**yd Norris, comments on finance and the economy at New York Times, “Manufacturing Is Surprising Bright Spot in U.S. Economy,” New York Times, 1/5/12,** <http://www.nytimes.com/2012/01/06/business/us-manufacturing-is-a-bright-spot-for-the-economy.html> /mr)

For the first time in many years, manufacturing stands out as an area of strength in the American economy.¶ When the Labor Department reports December employment numbers on Friday, it is expected that manufacturing companies will have added jobs in two consecutive years. Until last year, there had not been a single year when manufacturing employment rose since 1997.¶ And this week the Institute for Supply Management, which has been surveying American manufacturers since 1948, reported that its employment index for December was 55.1, the highest reading since June. Any number above 50 indicates that more companies say they are hiring than say they are reducing employment.¶ There were new signs Thursday that the overall jobs climate was improving, as the Labor Department reported that new claims for unemployment benefits fell last week and a payroll company’s report showed strong growth in private-sector jobs in December.¶ As stores have filled with inexpensive imports from China and other Asian countries, the perception has risen that the United States no longer makes much of anything. Certainly there has been a long decline in manufacturing employment, which peaked in 1979 at 19.6 million workers. Now even with hiring over the last two years, the figure is 11.8 million, a decline of 40 percent from the high.¶ But those numbers obscure the fact that the United States remains a manufacturing power, albeit one that has been forced to specialize in higher-value items because its labor costs are far above those in Asia. The value of American manufactured exports over a 12-month period peaked at $1.095 trillion in the summer of 2008, just before the credit crisis caused world trade volumes to plunge. At the low, the 12-month figure fell below $800 billion, but it has since climbed back to $1.074 trillion. Those figures are not adjusted for inflation.¶ In total exports, including manufactured goods as well as other commodities like agricultural products, the United States ranked second in the world in 2010, behind China but just ahead of Germany. For the first 10 months of 2011, Germany is slightly ahead of the United States.¶ The United States is particularly strong in machinery, chemicals and transportation equipment, which together make up nearly half of the exports. Exports of computers and electronic products are growing, but are well below their precrisis levels. Production of cheaper computers and parts shifted to Asia long ago.¶ Just how long the rise in manufactured exports can last depends, in part, on the health of other economies. The euro zone no longer takes as large a share of American exports as it once did, but it is still a major customer. A recession there this year, as has been widely forecast, would hurt all major exporters, including the United States.¶ Similarly, the strong exports provide a stark reminder of how vulnerable this country could be to protectionist trade wars. The Doha round of world trade talks, which was supposed to result in the lowering of more trade barriers, has stalled. And last month China imposed punitive duties on imports of American large cars and sport utility vehicles, which total about $4 billion a year.¶ That move was seen as retaliation for United States requests that the World Trade Organization rule that Chinese subsidies for its solar and poultry industries violated international law. The Chinese denounced those requests as protectionist.¶ The American government denies that, of course. “Part of a foundation of a rules-based system is dispute settlement," said Ron Kirk, the United States trade representative, in an interview with Reuters after the Chinese announced the new tariffs. "That’s what we think is so important about the W.T.O. How China reacts to that is up to China. But I just cannot buy into the argument that our standing and protecting the rights of our exporters and workers is somehow igniting a trade war or being protectionist.”¶ Since employment in the United States hit its recent low, in February 2010, the economy has added 2.4 million jobs through November, of which 302,000 were in manufacturing. With government payrolls shrinking, and financial services jobs also fewer, manufacturing employment has played an important role in keeping the economy growing. It also is helping that construction employment appears to have hit bottom. In the first 11 months of 2011, it is up a small amount.¶ To be sure, the gains in manufacturing employment and exports have come after sharp declines during the recession and credit crisis. There are still 6 percent fewer manufacturing jobs than there were when President Obama took office at the beginning of 2009, and it seems very unlikely that he will be the first president since Bill Clinton, in his first term, to preside over growing manufacturing employment during a four-year term.¶ During George W. Bush’s two terms, the number of manufacturing jobs fell by 17 percent in the first four years and by 12 percent in the following four years. The number declined by 1 percent in Mr. Clinton’s second term.¶ The Institute for Supply Management survey of manufacturers has shown more companies planning to hire than to fire in every month since October 2009. That string of 27 months is the longest such string since 1972, but remains well behind the longest one, 36 months, which ended in December 1966.¶ Over all, that survey has indicated that a plurality of companies has believed business is getting better for 29 consecutive months, and December’s reading of 53.9 was the strongest since June.¶ This summer, one widely watched part of the Institute for Supply Management survey showed that a small plurality of companies reported new orders were falling, a fact that helped to stimulate talk of a double-dip recession. But the latest reading, of 57.6, indicates widespread strength in new orders.¶ In an economy where there is widespread concern over consumer spending, and in which government spending and payrolls are under heavy pressure, manufacturing has become a bright spot. It is not enough to produce a strong rebound, and it remains vulnerable to weakness overseas. But it has helped to keep a weak economic recovery from turning into a new recession.

#### **Manufacturing improving – multiple indicators prove**

#### **Automation World 1/30/12**

**(Gary Mintchell, Co-Founder and Editor in Chief of Automation World, “U.S. Industrial Manufacturers Expect Moderate Growth in 2012,” 1/30/12,** <http://www.automationworld.com/automation-team/us-industrial-manufacturers-expect-moderate-growth-2012> /mr)

U.S. industrial manufacturers expect continued domestic and international growth in 2012, although forecasts have fallen below 2011 actual growth rates, according to the findings of the Q4 2011 Manufacturing Barometer released today by PwC US (www.pwc.com), the U.S. arm of PricewaterhouseCoopers. While uncertainty still prevails and own-company revenue expectations have moderated, optimism about the worldwide economy rose in the fourth quarter of 2011, including a notable improvement in sentiment regarding prospects for the U.S., as compared to an all-time low in domestic sentiment in the third quarter of 2011. In addition, U.S. industrial manufacturers continue to forecast increased investment spending in the year ahead, including major outlays in operational spending. Plans for merger and acquisition (M&A) activity also increased, and there was significant emphasis on expansion into new markets.¶ Optimism regarding the prospects of the U.S. economy over the next 12 months rose to 30 percent in the fourth quarter of 2011 - up from only 5 percent in the third quarter of 2011 - and 28 percent of respondents believe that the U.S. economy grew in 4Q 2011, up 21 points from the prior quarter. However, the majority of respondents, 57 percent, remain uncertain, rather than outright pessimistic. Among U.S. industrial companies operating abroad, uncertainty also remains high at 64 percent, with 36 percent believing that the world economy is declining and 48 percent reporting that they saw no change. However, 16 percent of respondents marketing abroad view the world economy as growing in the fourth quarter of 2011, up 9 points from the prior quarter. ¶ “While forecasts remain guarded with growth rates trailing prior year actual performance, optimism about the worldwide economy increased among U.S. industrial manufacturers in the fourth quarter of 2011," said Barry Misthal, global industrial manufacturing leader for PwC. “Despite the improved sentiment, however, the majority of U.S. industrial manufacturers remain cautious regarding the outlook ahead. Expectations for moderate growth in 2012 appear to be balanced by healthy cash levels, improving gross margins and continued strategic investment spending among the major industrial manufacturers. Management teams continue to seek avenues to expand globally and gain market share, while carefully managing their risk exposure.”¶ Growth¶ Although the projected average growth rate for own-company revenue for 2012 was lowered from 5.0 percent in the prior quarter to 4.4 percent in the fourth quarter of 2011, 83 percent of respondents expect positive revenue growth for their own companies in the year ahead, while 7 percent expect growth to be negative and 10 percent expect no growth. With regard to the international contribution, industrial manufacturers continue to expect international sales to deliver 38 percent of total company revenue in 2012, the same as the prior quarter and one year ago.¶ “While optimism about the international economy remains well below sentiment recorded in last year’s fourth quarter, expected sales contributions from overseas operations remain identical with prior year levels,” added Misthal. “At the same time, plans for spending and M&A activity continue to be a major international focus over the next 12 months. Given ongoing issues facing Asia and Europe, these findings may point to a stabilization of sentiment regarding the global outlook.”¶ Looking back at full year 2011, the composite average growth estimate for own-company calendar year revenue growth was 5.3 percent, down slightly from 5.6 percent projected in the third quarter survey. Eighty-seven percent of respondents said they had positive own-company growth in 2011, with 19 percent forecasting double digit gains and 68 percent projecting single digit gains. Eight percent were negative, while only 5 percent had zero growth. ¶ Spending¶ Over the next 12 months, 67 percent of industrial manufacturing panelists plan major new capital investments, up 12 points from the third quarter of 2011. The level represents the highest in the past five quarters, with two-out-of-three U.S. industrial manufacturers planning spending. However, the average level of new investment spending is expected to be lower at 4.2 percent of sales, in comparison to 5.9 percent in the third quarter of 2011. Ninety percent of respondents plan to increase operational spending, an increase of 5 points from the previous quarter. Increased operational spending is cited for new product or service introductions (57 percent), information technology (50 percent) and business acquisitions (40 percent). Forecasts for research and development spending declined 8 points to 40 percent from 48 percent in the third quarter of 2011, while spending forecasts pertaining to marketing, sales promotion and advertising remained low.¶ M&A¶ On the M&A front, 38 percent of industrial manufacturers say they planned activity, with virtually all of them seeking to pursue acquisitions. Forty percent plan for expansion into new markets abroad, and 40 percent plan new joint ventures. The number planning strategic alliances rose to 35 percent, and new facilities abroad increased to 32 percent. ¶ “The increase in planned operational spending, as well as M&A activities reflects an ongoing focus among U.S. industrial manufacturers in investing for growth in the face of an uncertain global outlook,” added Misthal. “In addition, industrial manufacturing companies have continued to build liquidity, while taking steps to improve margins and provide ample support for investment in growth initiatives with a global focus.”¶ During the fourth quarter of 2011, 38 percent of respondents reported higher gross margins, while only 15 percent said they were lower, for a net gain of 23 percent. These results are up 15 points from the third quarter of 2011, despite a continued high level of costs. In fact, 32 percent of U.S.-based industrial manufacturers reported higher costs, while 15 percent reported cost reductions, for a net plus of 17 percent, 11 points below the third quarter. In addition, 30 percent raised prices, but 8 percent lowered them, for a net plus 22 percent reporting higher prices, up 12 points from the third quarter. ¶ Employment¶ Looking at the employment picture, 37 percent of respondents plan to add employees to their workforces over the next 12 months, off 1 point from the third quarter of 2011. However, the net workforce composite projection rose from a minus 0.2 percent in the prior quarter to a plus 0.7 percent, representing modest gains and a break from what had been a declining hiring pattern in past surveys. Among those respondents planning to hire, the most sought after employees will be professionals and technicians (28 percent) and skilled workers (23 percent). Interest in production workers declined to 13 percent, off 14 points from the third quarter of 2011.¶ Regarding expected barriers to business growth, legislative and regulatory pressures were cited most by respondents at 50 percent. Lack of demand and oil/energy prices were next at 47 percent, with both being down from the previous quarter. Taxation concerns dropped 7 points to 33 percent, while concerns about decreasing profitability fell sharply to 18 percent.¶ “The success of U.S. industrial manufacturers in increasing operating profitability remains a major bright spot in the prolonged challenging global marketplace,” added Misthal. “In the fourth quarter PwC Manufacturing Barometer, concerns about profitability holding back growth were the lowest in over 12 months, highlighting the fundamental strength of U.S. manufacturers in spite of ongoing sales pressures and intense global competition.”¶ Special Topic: Supply Chain and Global Operations¶ U.S. industrial manufacturers continue to focus on improving company supply chains globally. According to the fourth quarter PwC Manufacturing Barometer, three quarters (77 percent) of industrial manufacturers surveyed believe it is very or extremely important to the growth of their global businesses to improve their companies’ supply chain over the next two to three years. ¶ Forty three percent of respondents confirmed it is very/extremely important to improve their companies’ globalized product development operations, while 40 percent sited their supply base and 39 percent cited their manufacturing footprint as major priorities. In addition, 75 percent of respondents confirmed definite plans for major/minor improvement of their globalized distribution systems over the next 12 to 18 months. ¶ Moreover, 78 percent of industrial manufacturers surveyed believe their current business is scalable to meet global requirements at target performance levels over the next two to three years – 50 percent definitely and 28 percent probably. The majority (52 percent) of respondents envision the need to rethink and/or reprioritize their companies’ manufacturing core competences to grow and optimize their business during the next two to three years. Overall, 57 percent of industrial manufacturers see a need to partner in new ways with their strategic suppliers to grow and optimize their business over the next two to three years. ¶ About the Manufacturing Barometer¶ PwC's Manufacturing Barometer is a quarterly survey based on interviews with 60 senior executives of large, multinational U.S. industrial manufacturing companies about their current business performance, the state of the economy and their expectations for growth over the next 12 months. This survey summarizes the results for Q4 2011 and was conducted from October 26 through January 11, 2012.

#### Manufacturing increasing – rising wages in China and job opportunities

#### Forbes 5/24/12

**(Joel Kotkin, covers demographic, social, and economic trends around the world, “Cities Leading An American Manufacturing Revival,” 5/24/12,** <http://www.forbes.com/sites/joelkotkin/2012/05/24/seattle-is-leading-an-american-manufacturing-revival/> /mr)

In this still tepid recovery, the biggest feel-good story has been the resurgence of American manufacturing. As industrial production has fallen in Europe and growth has slowed in China, U.S. factories have continued an expansion that has stretched on for over 33 months. In April, manufacturing growth was the strongest in 10 months.¶ There are a number of reasons for this revival. Rising wages in China – up from roughly one-third U.S. levels to half that in a decade — and problems associated with protection of trademarks and other issues have led many U.S. executives to look back home. Some 22% of U.S. product manufacturers surveyed by MFGWatch reported moving some production back to America in the fourth quarter of 2011, and one in three said they were studying the proposition.¶ Certainly how long this expansion can last is an open question, particularly given weakness in Europe and the slowdown in formerly fast-growing developing countries. But one thing is clear: the industrial resurgence is reshaping the economic and employment map in often unexpected ways.¶ Now rather than being pulled down by manufacturing, our Best Cities For Jobs survey, conducted by Pepperdine University’s Michael Shires, found that many industrial regions are benefiting from their prowess.¶ From 2010 through March, manufacturers added 470,000 jobs and enjoyed a rate of job growth 10% faster than the rest of the private economy. In the past many areas suffered from having too many industrial workers. Now it looks like we will have too few skilled ones, even in hard-hit sectors like the auto industry. In 2011 there were 50,000 unfilled U.S. job openings in industrial engineering, welding, and computer-controlled machine tool operating, according to the forecasting firm EMSI. If the revival continues, this shortage could worsen.¶ To determine the cities that are leading the manufacturing revival, we assessed manufacturing employment growth in the 65 largest metropolitan statistical areas. Rankings are based on recent growth trends, as well as job growth over the past five and 10 years, and the MSAs’ momentum.¶ Where Technology Meets Manufacturing¶ In an era of excitement over the Internet, it is often forgotten that a majority of the country’s scientists and engineers work for manufacturers, and that industrial companies account for 68% of business R&D spending, which in turn accounts for about 70% of total R&D spending.¶ Nowhere is this linkage between technology and industry more evident than in the Seattle-Bellevue-Everett area, which ranks first on our list of the metropolitan areas leading the manufacturing revival. Over the past year the region was No. 2 in the nation in manufacturing growth, with employment expanding 7.9%. The aerospace sector, led by Boeing, accounted for roughly half this expansion.¶ The growth in aerospace and high-tech employment creates precisely the kinds of high-wage jobs, including for blue-collar workers, that are lacking in many parts of the country. In 2010 the average factory wage in the area was $64,925, up 9% from 2007. Most critically, manufacturing activity drives growth in other sectors of the economy. About one in six of all private-sector jobs depend on the manufacturing sector, and every dollar of sales of manufactured products generates $1.40 in output from other sectors, the highest of any industry.¶ Full List: The 10 Cities Leading The U.S. Manufacturing Revival¶ As manufacturing employment overall has dropped, the percentage of higher-wage, skilled industrial jobs has been climbing over the last decades, particularly in high-technology related fields Overall, according to EMSI data, the average American factory worker earned $73,000 in 2011, $20,000 more than the average job.¶ Seattle is not alone in creating high-tech-oriented industrial jobs. Over the past two years Salt Lake City, Utah, which ranks third on our list, has seen significant growth in both electronics and aerospace employment, including a new Northrop Grumman facility. Firms connected to the medical device industry such as Biomerics are also expanding in the area.¶ Manufacturing is also rebounding in Austin-Round Rock-San Marcos, Texas, which ranks eighth on our list and No. 1 on our overall list of Best Big Cities For Jobs. Last year industrial employment in the Texas state capital area jumped 5%. Semiconductor firms are a big force, employing over 10,000 workers. Although more known for its high-tech electronics, Austin has also enjoyed an expansion in automobile-related employment as well as medical devices.¶ The largest grouping of manufacturing stars have emerged from the Texas-Oklahoma energy belt. With the shale drilling boom unlocking ample supplies of natural gas and lowering prices, petrochemical companies have undertaken major expansions. The rise in drilling and exploration has also sparked greater demand for industrial products such as pipes, drill rigs and other machinery. No surprise that the biggest backers of shale gas exploration are prominent CEOs of industrial firms. A recent study by PwC suggests that shale gas could lead to the development of 1 million industrial jobs.¶ The shale drilling revolution is making an impact across the country, in places like North Dakota and Youngstown, Ohio, but the epicenter of this boom remains firmly in the oil patch. The Thunder you hear in Oklahoma City is not just on the basketball court — energy growth has propelled a 1,500 person jump in manufacturing employment, a 6.1% increase, with another 1,000 new jobs expected this year. Oklahoma City ranks second on our list.¶ Other energy capitals are also thriving on the industrial front, including Houston (fourth place), San Antonio (seventh) and Ft. Worth-Arlington (ninth). Although energy is the main driver, manufacturing has been on the rise in a broad array of areas, including aerospace, biomedical and food processing. The surging export economy — Texas is easily the nation’s number one exporter — has further bolstered this growth.¶ Rustbelt Rebounders¶ The high-tech and energy economies may be fast-breaking in terms of industrial growth, but manufacturing’s comeback has put some new bounce in the step of many long forlorn parts of the nation’s “rustbelt.” Warren-Troy-Farmington Hills, Mich., epitomizes this trend. Unlike Detroit, which has suffered mass disinvestment, this more suburban area a half hour drive away has become the epicenter of a new, more tech-oriented auto industry.¶ The Warren-Troy area’s rich concentration of skilled tradespeople and industrial engineers has been described as America’s “automation alley.” It continues to attract high-industrial firms from abroad such as Brose, a German car parts manufacturer, which has recently announced a $60 million investment in the area. Even housing is on the rebound, with rents rising at the fourth highest clip in the country, just behind such standouts as San Francisco and Miami.¶ Nor is the Midwest manufacturing rebound limited to Michigan. Over the past year sixth-ranked Cincinnati enjoyed 5.4% growth in industrial employment. Manufacturing growth was also strong in Milwaukee-Waukesha-West Allis, Wisc., a center for the production of machine tools and other precision equipment that ranks 10th on our list.¶ Who’s Falling Behind¶ Of course not all regions have benefited from the industrial resurgence. For example, the nation’s largest industrial area, Los Angeles, ranks a miserable 49th. The area lost some 20% of its industrial jobs since 2006, and the losses continued over the past year. This goes a long way to explain the area’s continued underperformance before, during and, now, in the early days of recovery from the financial crisis.¶ Some other large regions did even worse, including such one-time industrial powerhouses as Philadelphia (55th) and New York (59th). Some may argue that these, and other areas, which have been losing manufacturing jobs for decades, no longer need to engage in the messy business of making stuff. But that long fashionable way thinking may be outdated itself, as seen by the improving fortunes of our industrial top 10.

### Low

Lack of jobs and experience

US News Money 10/24/11

(Ben Baden, “Skills Gap Plagues U.S. Manufacturing Industry,” 10/24/11, US News, <http://money.usnews.com/money/careers/articles/2011/10/24/skills-gap-plagues-us-manufacturing-industry?page=2> /mr)

Pick up the latest issue of the popular car enthusiast magazine Road & Track, and you'll find a letter written by David MacNeil, founder and CEO of MacNeil Automotive, based in Bolingbrook, Ill.¶ In the ad, he's photographed in one of the company's newest U.S. factories. MacNeil writes, "The exporting of American jobs is a trend that must be stopped and reversed." He goes on to say, "So in 2007 we transferred all of our floor mat manufacturing back to the United States. Today, we build the best fitting, highest quality automotive floor mats in the world, right here in America." MacNeil's message is clear: Rather than save a few dollars in the manufacturing process by outsourcing work overseas, he's determined to do his part to bring manufacturing jobs back to the United States because he believes the industry is vital to the country's economic health.¶ [See The 50 Best Careers for 2011.]¶ The U.S. manufacturing industry has its work cut out for it. Since 2001, the country has lost almost 5 million manufacturing jobs, according to economic consulting firm Economic Modeling Specialists Inc. (EMSI) of Moscow, Idaho. Of the 460 sectors EMSI tracks, only 50 sectors added jobs over the past 10 years. A big concern is that many of the industry's most rapidly growing areas are heavily subsidized by the government. For instance, the ethyl alcohol manufacturing industry, which produces ethanol, currently employs about 11,000 workers and grew by more than 7,400 jobs, or by 227 percent, over the 10-year period, the biggest percentage leap of any group. Another big growth sector: military armored vehicle, tank, and tank component manufacturing, which grew by 84 percent and added almost 5,000 workers over the same time period.¶ Last year was an important milestone for U.S. manufacturing, as the number of jobs in the industry increased for the first time since 1997. Still, those gains fell well short of the number of jobs needed to revive the sector. Since 2010, the number of manufacturing jobs has increased by about 150,000, which brings the industry total to just over 12 million jobs.¶ Two major problems plague the industry. Technological advances in manufacturing have resulted in fewer positions. And, as MacNeil points out, many companies have chosen to outsource a lot of low-skilled labor to countries with lower labor costs. "As a global trend, dramatic increases in manufacturing productivity mean that the same volume of goods are produced with less labor," says Hank Robison, chief economist at EMSI. "In addition, China's cheap yuan policy makes U.S. goods expensive relative to Chinese, and U.S. labor costs are among the highest in the world."¶ That's led to a shift in the number of manufacturing workers who have moved into service-sector jobs, Robison says. In 1950, 30 percent of all U.S. jobs were in manufacturing, while 63 percent were in services, according to EMSI. Currently, 9 percent of jobs are in manufacturing, and 86 percent are in services. Many job openings in the manufacturing sector are "replacement jobs"—meaning openings are for positions that already exist.¶ [See The Ranks of the Underemployed Continue to Grow.]¶ But the news isn't all bad. Recent research from global consulting company Accenture found that many companies are reconsidering their rationale for shipping many jobs overseas. In the study, 61 percent of respondents, which included more than 200 manufacturing executives from a wide range of industries throughout the world, reported that they were considering more closely matching supply location with demand location by onshoring or "nearshoring" manufacturing and supply. Executives said they're focusing more on where consumer demand is coming from and relocating accordingly, says John Ferreira, executive director of Accenture's North American manufacturing division. Being closer to the customer base allows for more flexibility, and as labor rates and transportation costs rise in other countries, U.S. companies are reassessing their decisions to offshore. "Decisions have often been made to move offshore without a complete understanding of the impacts of total costs," Ferreira says. This has mixed implications for those seeking manufacturing jobs in the United States. While the United States is the largest market for many types of goods, emerging economies with rapidly growing middle classes are catching up. One example of a large, multinational firm that recently decided to add to its manufacturing capacity in the United States is German carmaker BMW. In a bid to remain the leading luxury carmaker in the United States, BMW has recently invested $250 million to develop its headquarters in New Jersey and create two regional distribution centers, according to the Accenture report. On the other hand, Ferreira points out other manufacturers are considering moving to Latin America, which is geographically close to the U.S. market but also near expanding markets in South America.¶ [In Pictures: 7 Occupations With the Highest Hiring Demand.]¶ As for Ferreira's outlook for the future of U.S. manufacturing jobs, he says "It's mixed, but with a positive expectation. ... Making the changes to a supply chain doesn't happen overnight. If that has to be modified, it doesn't happen with the flip of a switch."¶ However, the biggest issue for the manufacturing industry in the United States may not be a lack of jobs, but a gap between what skills manufacturing companies demand and the experience of the American workforce. A recent survey on talent in the manufacturing industry sponsored by Deloitte and The Manufacturing Institute found that 67 percent of more than 1,100 manufacturers reported a moderate to severe shortage of available, qualified workers. Of those surveyed, 56 percent said they anticipated the shortage would grow worse over the next three to five years. Overall, the study found that about 5 percent of current jobs, or up to 600,000 jobs, remain unfilled due to a lack of qualified candidates—a frustrating number considering the country's 14 million unemployed. "We just don't have the skilled workforce that allows us to expand and compete," says Jennifer McNelly, senior vice president at The Manufacturing Institute.¶ It's partially a public perception problem. Eighty-six percent of respondents in a separate survey indicate that America's manufacturing base is "important" or "very important" to our standard of living. But at the same time, manufacturing ranked second to last among seven key industries that Americans wanted to work in. "Everybody agrees hands-down that they want manufacturing jobs in their community, just not necessarily for them or their children," McNelly says. Education and retraining will play a huge role in the fate of the industry going forward, she says.

#### Small chance of recovery

Bryant 4/29/11

(James Bryant, writer and editor for the First Research team and Hoover’s, “Can the US Manufacturing Industry Survive in the Years to Come?” 4/29/11, <http://bizmology.hoovers.com/2011/04/29/can-the-us-manufacturing-industry-survive-in-the-years-to-come/> /mr)

The notion of the slow death of the US manufacturing sector has been an ongoing point of debate since the onset of the recession in 2008. Thursday the US Bureau of Economic Analysis released its advance estimate for 2011 Q1 GDP and the news was disappointing. GDP grew by an annualized rate of 1.8 percent, which was lower than the 2.0 percent growth that was expected. Relative to Q4 2010, personal consumption, durable and nondurable goods production, and exports were all down. Prices, however, went up. Food and energy were among the chief culprits for higher prices — surprise, surprise.¶ So what does this mean for the US manufacturing sector? It may be too early to tell, but the V-shaped recovery everyone has hoped for is increasingly looking like a pipe dream. What we get may end up looking more like a slightly-tilted-hyphen-shaped recovery.¶ The damage the recession visited on the US manufacturing sector is hard to ignore. According to the Census Bureau’s 2009 Annual Survey of Manufacturers, between 2008 and 2009 more than $1 trillion bled out of the US manufacturing sector. Nearly 20 percent of America’s manufacturing activity simply vanished.¶ While there has been significant rebound in 2010 and into 2011, manufacturing output is still well below pre-recessionary levels. Industrial production in the manufacturing sector grew nearly 6 percent in 2010 over 2009 levels, but 2009 was a pretty deep trough. In fact, excluding 2008 and 2009, average annual manufacturing production in 2010 was the worst it’s been since 2002.¶ Employment is usually the last metric to begin recovering after a major economic downturn, and the Great Recession is certainly no exception. But US manufacturing employment has been in general decline for more than a decade — on average, the sector has declined by nearly 4 percent every year since 2001. Manufacturing employment in 2009 dropped by nearly 12 percent.¶ The overall trend in lower manufacturing employment in the past decade is partly due to increased automation and other gains in production efficiency (not to mention the dreaded outsourcing of jobs overseas). Manufacturing productivity as measured by output-per-hour has increased every year since 2000, except in 2008. But productivity is increasing while overall manufacturing output is in decline. Many economists doubt that US manufacturing will ever be the same. If that’s true, what does it mean for your business, your customers?

#### Low wage rate and lack of knowledge industries

#### Economy in Crisis 5/15/12

(Thomas Heffner, “American Manufacturing Can No Longer Compete,” Economy in Crisis, 5/15/12, <http://economyincrisis.org/content/american-manufacturing-can-no-longer-compete> /mr)

Today there are fewer manufacturing employees than in 1955, and over the past 20 years 6.4 million manufacturing jobs have been lost. These figures are a grim reminder that America can no longer manufacture competitively.¶ How did this happen? Two causes stand out: low international wage rates in countries like China and Mexico that America will not and cannot compete with, and America’s abandonment of capital and knowledge intensive industries.¶ American workers can not and should not have to compete with third world wage rates. Some Chinese manufacturers are paid 33 cents an hour according to a 2005 AFLCIO report. This cents-an-hour pay in many countries around the world has caused American companies and entire industries to move abroad. It also led Princeton economist Alan Blinder to estimate 42-56 million jobs could potentially be sent overseas.¶ Japan has successfully navigated the problem of China’s low wage rates. China is one of Japan’s biggest trading partners and yet Japan maintains a trade surplus with them. The labor in Japan is leveraged; one person operates equipment that can do the work of 100 ordinary laborers. America used to manufacture this way but now produces little by comparison and increasingly depends on imports at a net cost of $1.5 million per minute ($765 billion per year) to maintain our standards of living.¶ Auto and other manufacturing industries were once proud centers of American productivity, but have since seen their superiority usurped by technology based economies like that of Japan. The Japanese realized the gains of encouraging industrial growth and with hardly any natural resources turned their economy into an economic superpower that last year alone generated an $88 billion trade surplus with America and a $170 billion current account surplus with the rest of the world, the second largest next to China.¶ Meanwhile, the U.S. has resigned itself to live on increasing debts. Since 1987 home mortgages have gone from $1.8 trillion to $8.2 trillion, consumer debt from $2.7 trillion to $11 trillion and household debt has quadrupled. Add to that a national debt approaching $9 trillion and you do not have to be an economist to realize the economy may not be as rosy as America’s GDP rating system would deceptively lead you to believe.¶ The U.S. is increasing debt, decreasing savings and selling off our principal assets, our wealth producing companies abroad. This is not a sustainable or responsible long-term economic policy.¶ America can, and must, do better. How do we get out of this debt-ridden rut? The solution is to copy Japan’s model. Taiwan, Korea and many other Asian countries have adopted the Japanese East Asian economic model and are extremely successful.¶ What if the economy had always operated as it does today with companies being sold abroad diverting wealth, jobs and production to other countries.¶ Imagine the consequences in WWII if Chrysler had been under its recent 9 year-long German ownership. Chrysler produced the main combat vehicle for troops on the ground the Sherman M-4 tank. German ownership would likely have forced production of tanks for the Axis rather than America. That one acquisition would have deprived America of one of its best on the ground assets and could have greatly changed the course of the war.¶ The World War II scenario is of course a hypothetical, but it illustrates the potential risk of continuing to sell our best companies from vital industries abroad. Investing in industry before WWII turned America into the most productive labor force and strongest country in the world. It’s time to make that investment again.

## Hegemony

### High

#### Heg high – no challengers now

#### Farley 3/7/12

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The intellectual battle over the future of American hegemony has been joined. Andrew Bacevich argues that the American Century has ended and that further American pretentions to hegemony will lead to disaster. Michael Cohen argues that the United States suffers from critical domestic problems that undermine long-term U.S. capability. On the other side of the debate, Dan Drezner, Robert Kagan and others (.pdf) argue that U.S. military and economic advantage are likely to persist over the foreseeable future. ¶ How might we know that the American Century has actually ended? Shifts in hegemony rarely come with a herald; even when the U.S. was at its most dominant in 1945, the shape of the future was hardly clear. Indeed, the United States surpassed the United Kingdom in economic power -- and in latent military power -- around the turn of the 20th century, yet no one claims that the American Century began in 1900, or that British hegemony ended when the GDP numbers turned south. Indeed, while the United States surely played a pre-eminent role in global politics after 1945, the existence of the Soviet Union put a wide swath of the globe off limits to direct U.S. influence. In military terms, we are still many years from a replay of the kind of global military and ideological competition that characterized the Cold War, even if we accept worst-case assumptions about China’s growth and belligerence. ¶ The rise of China and India seems inevitable, and it is quite likely that both will exceed the total GDP of the United States before the end of the 21st century. However, the rise of Japan and Europe relative to the U.S. seemed inevitable 25 years ago. Moreover, while the rise of China and India might introduce uncertainty, economic power does not translate automatically into military and political influence. Recall again that the United States possessed the world’s largest economy for some 40 years before “its” century is supposed to have begun. The U.S. also benefitted from advantages that neither China nor India currently enjoy, such as a relatively high per capita GDP and a secure geographic position. Even if the United States holds only a plurality of global military and economic power, it still may remain the most influential state in the world. Russia, China, Japan and India will have more to fear from one another than from the United States, allowing the U.S. to play a critical balancing role. Moreover, the United States has weathered the financial crisis better than some, particularly the European Union. And while China and India have maintained robust growth during the past five years, social, economic and political cracks may be emerging. ¶ Intentions matter, too. The United States could have pursued, if not military hegemony, then at least military primacy in 1918. At the time, its economic power and industrial production could have overwhelmed -- albeit with some difficulty -- the combined capacity of both Japan and the United Kingdom. The 1922 Washington Naval Treaty effectively allowed Japan and the U.K. to avoid a ruinous arms race with the United States, a race that the U.S. could have run and won but chose not to. As long as the United States continues to pursue the tasks associated with hegemony -- such as maintenance of the reserve currency, defense of global maritime trade and the underwriting of major international institutions -- some sort of American Century will persist. ¶ What can the U.S. do to extend the American Century? The most important step for the U.S. to take is to gain the acquiescence, grudging or not, of most of the rest of the major international players in modern global society. Accommodating Indian, Chinese or even Russian concerns within the U.S.-managed global framework demonstrates the utility and flexibility of that system, and reinforces the sense that the United States plays a unique role. The strength and resilience of a system -- and when we speak of U.S. hegemony, we really mean the system of norms and institutions that the United States has established -- depends more on its ability to co-opt competitors than to crush or isolate them. This hardly means that the United States must concede to every demand from every competitor, but we shouldn’t think of the need for careful diplomacy as weakness; rather, the ability to handle problems diplomatically reflects strength.

### Low

#### Heg low – rise of China and economy

#### Financial Times 11

**(Lionel Barber, “The end of US hegemony: Legacy of 9/11,” 9/5/11, Financial Times Analysis,** <http://www.ft.com/intl/cms/s/0/f6acf1a6-d54d-11e0-bd7e-00144feab49a.html#axzz217uvLMKO> /mr)

On the morning of September 11, 2001, America’s prospects appeared as bright as the clear blue sky over Lower Manhattan. The price of Brent crude oil was $28 a barrel, the Federal government was running a budget surplus, the US economy was turning (albeit imperceptibly) after the dotcom crash. The most powerful nation on earth was at peace.¶ Ten years on, the oil price hovers around $115 a barrel, the US is projected to run a budget deficit for 2011 of $1,580bn, the largest in its history; the economy remains deeply troubled after the financial crash of 2008; and America’s military and intelligence services remain at war, battling insurgency and radical Islamic terrorism, from Afghanistan and Pakistan to Niger and Yemen.¶ More¶ Admiral Mike Mullen, outgoing chairman of the Joint Chiefs of Staff, has described the national debt as the greatest threat to US national security. Standard & Poor’s recent downgrade of America’s credit rating appears to confirm the superpower’s steady slippage. And while there is no linear narrative from the September 2001 attacks to America’s present economic plight, the inflation-adjusted cost of the ensuing “global war on terror” at more than $2,000bn amounts to twice the cost of the Vietnam war.¶ President George W. Bush’s response to the assault on the Twin Towers and the Pentagon was to launch two wars of choice against Afghanistan and Iraq, a pugnacious unilateralism at the expense of alliances and international law, and a near evangelical promotion of liberal democracy in the Middle East. His administration’s hard-edged policies fractured alliances in Europe and triggered a sharp fall in America’s standing abroad.¶ On the positive side of the ledger, America has so far escaped another terrorist attack on its own soil. Others have not been so fortunate. The bombings in Bali (2002), Madrid (2004), and London (2005) did not match the scale of September 11, but they claimed several hundred victims. Al-Qaeda is down but not entirely out. Dozens of computer disks recovered from Osama bin Laden’s hideout in Abbottabad, Pakistan, suggest the al-Qaeda leader, killed last May during a daring raid by US Navy Seals, was planning another spectacular outrage, perhaps to coincide with the September 11 anniversary this weekend.¶ Moreover, this year’s Arab awakening has dispelled the notion that the Middle East – with the exception of Israel – is congenitally incapable of embracing democracy, One by one, the region’s autocrats, from Zine el-Abidine Ben Ali in Tunisia to Hosni Mubarak in Egypt, have been toppled by protesters demanding dignity, freedom and jobs. True, the fall of Muammer Gaddafi in Libya was precipitated by armed rebellions assisted by Nato warplanes; but President Bashar al-Assad of Syria may be the next leader to feel the hot breath of the Arab street.¶ Twin Towers memorial rises from rubble¶ A decade and a day after the terrorist attacks on New York and Washington, the public will be able to return for the first time to the place where the Twin Towers stood¶ The question is whether the much-maligned Mr Bush was correct in arguing that the autocratic status quo in the Middle East created an incubator for radical Islamic terrorism and consequently a clear and present danger to the US. If the answer is yes, then his administration’s failings were due less to a flawed diagnosis and more to a matter of execution.¶ A second related question is whether the administration’s military response to September 11 amounted to a costly and disproportionate diversion of attention and resources at a time when the world was being reshaped by the rise of powerful new actors, notably China?¶ . . .¶ In the aftermath of the attack on the Twin Towers, a geopolitical re-alignment comparable to those of 1815, 1945 or 1989 appeared to take shape. The US mustered a coalition against terrorism that included rivals such as Russia and China, as well as one-time pariahs such as Cuba, Iran and Sudan.¶ The military response was equally effective. Having identified the perpetrators, the US staged a brilliant improvised campaign to topple the Taliban in Afghanistan. US special forces combined with warlords and overwhelming air-power to break the Kabul regime within weeks. Although the leaders, notably Mullah Omar and his proxy Bin-Laden, slipped away, the al-Qaeda network was relentlessly targeted and disrupted.¶ Within a year, the US had lost the moral high ground. Mr Bush’s error was to make clear that regime change in Iraq was only one step for dealing with what he described as an “axis of evil” including Iran, North Korea and potentially other adversaries suspected of harbouring or sponsoring terrorists. Overnight, the US was cast as a rogue nation.¶ Concerns rose with the publication of a revised national security doctrine in 2002, which ditched cold war concepts of containment and deterrence. In their place came a “forward-leaning” strategy of pre-emptive military action, regime change, and a new kind of warfare that justified torture and denied the rights of the Geneva Convention to suspected terrorists.¶ Thus the Iraq war was fought without the support of traditional allies such as Canada, France and Germany; without the backing of the UN Security Council; and without conclusive evidence that Saddam Hussein possessed weapons of mass destruction posing an immediate threat to the US. As for allies, Britain’s prime minister Tony Blair provided loyal political cover, though Donald Rumsfeld, US defence secretary, declared witheringly that UK forces were redundant in military terms.¶ Nato, having for the first time invoked article five to commit all members to collective defence, was similarly sidelined. Washington’s motto was “the mission determines the coalition”. But selective alliances work both ways. By the end of the decade, European allies were using caveats to opt out of military operations in Afghanistan, Iraq and Libya. Hence outgoing US defence secretary Robert Gates’ warning this year that Nato was fast becoming irrelevant.¶ Europe, too, emerged much diminished – and not just during the Libyan conflict where Germany opted out and Britain and France ran short of munitions within weeks. At the beginning of the new century, flush with the success of launching a new monetary union, Europe’s leaders agreed plans to make the European Union the most competitive economic zone in the world. In retrospect, the much-vaunted Lisbon agenda marked the summit of ambitions coinciding with the bursting of the dotcom bubble.¶ Ten years on, the original design of European monetary union has shown itself to be fundamentally flawed. The enforcement mechanisms for budgetary discipline were ignored by big and smaller members alike, including Germany; peripheral economies in Greece, Ireland, Portugal and Spain, which soared on the back of low interest rates, have been exposed as uncompetitive. Contagion in the bond markets now threatens to spread to Italy, a “core” eurozone member.¶ . . .¶ By Mr Bush’s second term, abrasive rhetoric gave way to a more tempered approach. As an occupation force in Afghanistan and Iraq, the US became sucked into the nation-building that Mr Rumsfeld had long derided. In a similar confusion, President Barack Obama and David Cameron, UK prime minister, declared either one or both of these missions to be militarily vital and then acted as if they were discretionary by setting a (political) timetable for withdrawal.¶ The accountants will tot up the collective bill for the Afghan and Iraq ventures at close to $2,000bn in inflation-adjusted terms; but Robert Zoellick, president of the World Bank and a former deputy US secretary of state, argues that a country as rich as the US can well afford the cost. In 1948, says Mr Zoellick, the average gross national product per head in the US was one quarter of where it stands today. Yet Americans readily supported President Truman’s doctrine to prop up democracies in Europe and counter communism around the world to the tune of billions of dollars.¶ Whether the seeds of democratic transformation will take root in Iraq is more debatable. The much-vaunted US military “surge” rescued the country from chaos and possible break-up, but relations between Iraq’s ethnic groups – Kurds, Sunnis and the majority Shia – remain precarious. Arguably, the toppling of Saddam Hussein has allowed Iran to become the dominant regional power, exerting influence through the Shia government in Baghdad. Meanwhile, Tehran’s nuclear ambitions remain unchecked.¶ Nor did 9/11 boost efforts to tackle the other serious and unresolved threat to regional stability: the Israel-Palestinian conflict. Both Mr Bush and Mr Obama have failed to break the deadlock over the occupied territories of Gaza and the West Bank, and the status of Jerusalem. Successive Israeli prime ministers from Ariel Sharon to Benjamin Netanyahu have turned the war on terror to their own advantage, arguing that concessions jeopardise Israel’s security and entities such as Hamas – which easily won elections in Gaza in 2005 – are terrorists masquerading as legitimate representatives of the Palestinians.¶ Despite the focus on fighting terrorism, the US was still alert to broader geopolitical trends. The most important breakthrough took place between the US and India with the signing in 2008 of the“123” deal on civil nuclear co-operation. The new strategic partnership between Washington and New Delhi not only offers a counterweight to the rise of China, but also to nuclear-armed Pakistan, America’s long-time but increasingly unmanageable ally in South Asia.¶ By contrast, Sino-US relations amount to not much more than an uneasy accommodation. Beijing sees Washington (at best) as “neither friend nor enemy”, while the US has belatedly woken up to China’s challenge to its dominance in the Pacific. Beijing has grudgingly applied pressure to its brooding nuclear neighbour in North Korea, but nationalist fervour means the leadership remains neuralgic over Taiwan and acutely sensitive to territorial disputes with Japan, South Korea and Vietnam.¶ . . .¶ In the final resort, the most significant geopolitical development of the past 10 years took place not on the battlefield but in the financial system. The global banking crisis stemmed from flawed regulation and perverse incentives for banks to sell mortgages to poor Americans with no ability to repay, as well as gigantic leverage in the financial system. These distortions were created, in part, by global imbalances driven by Americans living on cheap credit and Chinese exporters and savers contributing to a vast current account surplus.¶ Until the Great Crash of 2008, this financial merry-go-round spun regardless. Thanks to cheap labour costs, China exported deflation to the rest of the world. China financed the US current account deficit by recycling its own surplus into US Treasury bonds. Now, three years into the financial crisis, the world economy has been turned upside down. The US is diminished, Europe sidelined, and Asia, for now, in the ascendant.¶ Consider the broader historical trend. Developing Asia’s share of the global economy in purchasing power parity terms has risen steadily from 8 per cent in 1980 to 24 per cent last year. Taken as a whole, Asian stock markets now account for 31 per cent of global market capitalisation, ahead of Europe at 25 per cent and within a whisker of the US at 32 per cent. Last year, China overtook Germany to become the world’s largest exporter. Chinese banks now rank among the biggest in the world by market capitalisation.¶ Import numbers are equally revealing: the developing world is becoming a driver of the global economy. From the consumption of cement to eggs, China leads the world; it has also just overtaken US to become the world’s largest market for cars.¶ China’s voracious appetite for commodities is creating new trade routes, especially with emerging powerhouses such as Brazil. Last year, China surpassed the US as Brazil’s biggest trading partner. Latin America, a region once best known for instability, has emerged through the crisis virtually unscathed. Poverty is falling, the middle classes are expanding and asset markets are bubbling.¶ Condoleezza Rice, Mr Bush’s national security adviser and secretary of state, once described multi-polarity as a theory of rivalry, a necessary evil. In economic terms, multi-polarity spells a new order in which interdependence is the norm and the US, while still overwhelmingly powerful, no longer occupies the role of hegemon.¶ As for the legacy of 9/11, Gerard Lyons, chief economist of Standard Chartered Bank, says the three most important words in the past decade were not “war on terror” but “made in China”. On present trends, he adds, the three most important words of this decade will be “owned by China”.¶

#### Credit downgrade

**International Policy Digest 11**

**(Dr. Jo Coghlan, “U.S. Credit Rating: American Hegemony in Decline?” 8/9/11,** <http://www.internationalpolicydigest.org/2011/08/09/u-s-credit-rating-american-hegemony-in-decline/> /mr)

Standard and Poor’s (S&P) have reduced America’s sovereign credit rating from AAA to AA+. The rating puts the U.S. on par with Kuwait and Taiwan.¶ America’s $14.3 trillion debt makes “the world’s richest nation” a worse credit risk than Australia, Germany, Britain and the Isle of Man. The downgrade followed the biggest weekly selloff in U.S. stocks in 32 months.¶ S&P’s decision rested on two factors: America’s decision to raise the debt ceiling and concerns about America’s political processes. S&P were reportedly concerned about the “political brinksmanship of recent months” which had highlighted what they saw as “America’s governance and policymaking becoming less stable, less effective, and less predictable” than what they had previously believed. S&P were “pessimistic” about the ability of Congress and the White House to reach a broader plan to rein in the deficit “any time soon.”¶ It has been widely reported that the legislation signed by Barack Obama on 2 August to reduce the fiscal deficit by $2.1 trillion over 10 years was well short of S&P expectations of US$4 trillion.¶ The rating agency is also reportedly considering the possibility of lowering the rating to AA within two years if the U.S. government does not cut spending as much as recently pledged, or if higher interest rates and new fiscal pressures worsen the state’s financial picture.¶ The Wall Street Journal has reported that the S&P decision will likely send “shock waves through global financial markets and potentially undermine world economic growth.”¶ In July, S&P had placed the United States’ rating on “credit watch with negative implications” as the debt ceiling debate devolved into partisan bickering. In the same month, Moody’s Investors Services announced it had initiated a review of America’s sterling bond rating because of the likelihood of a U.S. default on its debts. Unlike S&P, who wanted to see no increase in the debt ceiling, Moody’s concern was based on the fact that the rise in the debt ceiling would not be high enough. In both cases, however, it seemed America’s rating was in trouble last month.¶ The downgrade of America’s credit rating is the first time the U.S. was downgraded since it received an AAA rating from Moody’s in 1917 and S&P in 1941. It is the first time that S&P has issued a “negative” outlook on the U.S. government since it began rating the credit-worthiness of railroad bonds in 1860.¶ “A downgrade is uncharted territory for the U.S., but one outcome seems likely: Americans could face higher interest rates on mortgages, car loans, credit cardsand other consumer loans. Business probably will also have to pay more to borrow money,” according to MSN Money, none of which will boost the already flagging economy.¶ The likely domestic cost of the downgrading will be increased borrowing costs, which will have a drag effect on economic growth. It is predicted that the U.S. downgrade is likely to cost the U.S. economy $100 billion a year. Variable borrowing rates and mortgage rates will rise; conversely mortgage-backed bonds will face a downgrade. Money market mutual funds will come under significant pressure.¶ The downgrade will negatively impact on the borrowing capabilities of American state and municipalities and companies, particularly those with debts linked to federal payments.¶ A larger concern will be whether the appetite for U.S. debt might change among foreign investors, in particular China, the world’s largest foreign holder of U.S. Treasuries. In 1945, foreigners owned just 1 percent of US Treasuries. Today, they own a record high 46 percent. U.S. Treasury bonds, once undisputedly seen as the safest security in the world, are now rated lower than bonds issued by countries such as Britain, Germany, France, or Canada.¶ Prior to the S&P decision, Dagong, China’s Global Credit Rating agency, had already pushed the U.S. rating from A+ to A, and placed the rating on negative watch (indicating the potential for a further cut). Other than the U.S. Federal Reserve, China is the biggest holder of American debt, with $1.16 trillion. It maintains the value of its currency through buying U.S dollars: a monetary policy that is likely to continue if only to protect its own currency.¶ The downgrade, accompanied by a continuing weak U.S dollar, could affect Chinese exports and this will directly affect the Australian economy. Less demand for consumer goods in both the regional and global economy would directly lead to weaker demand for China’s exported goods; this then weakens demands for imports, particularly in the energy sector. If the Chinese currency appreciates as a response to the weakening U.S dollar, it will make Chinese goods more expensive. This will result in China shifting its focus away from export production to production for domestic consumption. With China continuing to buy U.S debt and shifting its focus to domestic economic production, the results will mean less Chinese currency floating in the regional and global economy. This coupled with contractions in Eurozone spending, bodes badly for any economy that is being driven by exports: as Australia currently is.¶ Prime Minister Julia Gillard has immediately responded to the downgrade saying: “Australia’s economy is strong and should not be badly affected.” She maintained the Labor mantra that the Australian economy was, and would remain strong, because of China’s demand for Australian resources. However,world stock markets had already plunged prior to the S&P decision, stripping more than $100 billion from the value of listed Australian companies. Following the downgrade decision, the Australian share market is expected to face more losses. No amount of Gillard or Swan rhetoric is likely to stop further significant domestic losses.¶ Similarly, the Canadian government is putting on a brave face in its acknowledgement of its interconnectedness with the U.S. The country’s finance minister Jim Flaherty has said that Canada is “well-positioned to face global headwinds.”¶ Apart from the economic impact of the downgrade on American and international economies, the downgrade has a political context. The world’s economic superpower has been sharply criticised for its political handling of the debt ceiling issue. S&P issued a “sharply worded critique of the American political system”.¶ There is a view that the U.S. does not deserve a triple-A rating, and the reason has nothing whatsoever to do with its debt ratios. America’s ability to pay is not the issue: the problem is its willingness to pay. It is not entirely clear that this is the position of Barack Obama and the Democrats, rather is likely being driven by those in Washington who are willing to “drive the U.S. into default.”¶ It is possible that the S&P factored in the machinations of the Republican Party, and in particular the Tea Party, that took the U.S. to the brink of default. A smaller deficit-reduction deal was on offer, but was refused by the Republicans possibly hyped up by the Tea Party, who are desperate to remain relevant is a rapidly changing political landscape. This being the case, the S&P have punished America because of the action of recalcitrant Republicans for refusing to accept any legislation that would increase taxes. The political machinations of Washington confirmed to S&P the debilitating state of American politics.¶ America emerged as the dominant, hegemonic power at the end of the Cold War. It played a preeminent role in shaping the post-war international economic system and was a key actor in many of the international organisations that now shape global economic and monetary policy. The decision to downgrade its credit rating is economic, political but also powerfully symbolic. In New Zealand, the downgrade was reported as “a dramatic reversal of fortune for the world’s largest economy.” The Australian media is reporting it as “a symbolic embarrassment for President Barack Obama, his administration and the Americans” and as a “symbolic blow.”¶ As one American commentator has said: “The symbolism is undeniable.” The downgrade is a “blow to U.S. prestige.”¶ The downgrade to America’s credit rating is a historic assault on the superpower’s prestige and a symbol of the changing world order: that is, the demise of the U.S. and the rise of China.

# Topic Uniqueness

## Yes Funding

### Transportation Bill

#### Transportation bill thumps

Journal Times 7/16/12 - Daily newspaper for Racine County, Wisconsin (“Journal Times editorial: Congress should make hard choices before raising taxes”, <http://www.journaltimes.com/news/local/journal-times-editorial-congress-should-make-hard-choices-before-raising/article_842bb994-cf95-11e1-9022-0019bb2963f4.html>) JE

Here we go again. Last week, President Barack Obama signed a highway and transit spending bill, sent to his desk by Congress, that is not fully funded. It’s nice for once that the members of Congress worked together to pass something, but they failed to make the hard choices. The bill is estimated to come up $20 billion short over two years. One word best describes this sort of plan: Dysfunctional. As Erich Zimmermann, a senior policy analyst for transportation at Taxpayers for Common Sense, a Washington budget watchdog, was quoted in a McClatchy Newspapers report: “We’d all love to budget by pretending we can pull money out of thin air ... this is clearly going on the nation’s credit card.”

#### It’s expensive

Urban 6/30/12 - Stephens Washington Bureau of Times Record (Peter, “Congress Moves On Transportation Funding; Arkansas Expects $1 Billion Over Two Years”, <http://www.swtimes.com/sections/news/politics/congress-moves-transportation-funding-arkansas-expects-1-billion-over-two>) JE

Facing a Saturday deadline, Congress on Friday approved legislation extending federal highway and transit aid for another two years. The reauthorization of transportation funding is expected to provide about $1 billion to Arkansas for its road and bridge construction programs over the next two years. The federal government’s authority to levy federal fuel taxes would have expired today without congressional action. Rather than pass another short-term extension, House and Senate conferees reached an agreement on a two-year authorization. Rep. Rick Crawford, R-Jonesboro, who served on the conference committee, said he would have preferred a longer-term deal but was satisfied with the outcome. “The highway bill we finalized today provides certainty that the states and contractors are looking for,” Crawford said. “It was bicameral and bipartisan and will probably be viewed as the biggest jobs bill passed by this Congress.” Sen. Mark Pryor, D-Ark., said the bill means about 27,000 jobs for Arkansans working on roads and bridges. “It’s a good investment in the future,” he said. The highway reauthorization was contained in a larger package that overhauls the federal flood insurance program and keeps interest rates on new federal student loans at 3.4 percent for another year. The rates would otherwise have doubled starting Sunday. The House approved the bill, 373-52, and the Senate passed it, 74-19. The entire Arkansas delegation supported it. “This transportation extension will allow us to construct new roads and highways and make much-needed improvements and repairs to our current infrastructure,” said Rep. Mike Ross, D-Prescott. Rep. Tim Griffin, R-Little Rock, said he voted for the conference bill even though it removed a provision that he supported to approve the Keystone XL pipeline to transport shale oil from Canada to refineries in Texas. “This bill is fully paid for, reduces the deficit and will help lay the groundwork necessary for economic growth by repairing our crumbling infrastructure and streamlining the project approval process,” Griffin said. Ryan Alexander, president of Taxpayers for Common Sense, said Congress had failed to address acute funding challenges facing the nation’s transportation program. “Congress relies on a transfer of nearly $19 billion from the Treasury to pay for increased transportation spending, on the heels of $34.5 billion in transfers since 2008. Stealing from Peter to pay Paul is irresponsibility at its very worst, especially when Peter — the Treasury — is already broke,” she said.

### TIGER

#### TIGER increasing transportation funding now

Clark 6/22/12 - Has been on staff at The Washington Post, Congressional Quarterly, National Journal, Time-Life Books, Tax Analysts, the Association of Governing Boards of Universities and Colleges, and the National Center on Education and the Economy (Charles, Government Executive, “Government funds 47 transportation projects”, <http://www.govexec.com/management/2012/06/government-funds-47-transportation-projects/56422/>) JE

Forty-seven local and regional infrastructure projects have won funding through the Transportation Investment Generating Economic Recovery program, Transportation Secretary Ray LaHood announced Friday, when he also called on Congress to break its impasse on the stalled surface transportation bill. Following a nationwide TIGER competition for shares of a $500 million pot for capital investments in surface transportation infrastructure, LaHood announced the winners from 34 states. They include a streetcar project in Fort Lauderdale, Fla.; high-speed and intercity passenger rail projects such as one at Raleigh Union Station in North Carolina; a freight rail congestion-easing project in Chicago; and various multimodal, bicycle and pedestrian projects such as a corridor connecting Memphis and West Memphis in Tennessee. More than $120 million will go to projects in rural areas, particularly to repair decaying roads and bridges.

#### TIGER funding now

Fundbook 6/25/12 - Comprised of former congressional staff, municipal lobbyists, and grant writers, the FundBook Team is a group of professionals dedicated to helping local governments take their search for federal support one step further (“TIGER IV Grantees Announced”, <http://fundbook.org/tiger-iv-grantees-announced/>) JE

The U.S. Department of Transportation (DOT) recently awarded nearly $500 million from the TIGER 2012 Discretionary Grant Program to 47 transportation projects in 34 states and the District of Columbia. The fourth round of this highly competitive and successful grant program will be combined with state and local funding for a total of more than $1.7 billion in infrastructure investment. This year’s round of TIGER grants did not include a set aside for planning grants. Although the total demand for TIGER funding has slipped as of late, the grant program remains one of the most competitive and over-subscribed funding opportunities in the federal government’s entire grant suite. Since its inception in the American Recovery and Reinvestment Act in 2009, demand for TIGER grants has continually exceeded available funding. During the latest application period, DOT received 703 applications totaling $10.2 billion and far exceeding the $500 million set aside for the program through the FY12 Appropriations Act.

### Port Security Funding

#### Port Funding Now

Lautenberg ’12 - Senior United States Senator from New Jersey, Democrat (Frank, 5/22/12, “Lautenberg Announces Committee Approval Of Increased Funding For Homeland Security Grants”, <http://www.lautenberg.senate.gov/newsroom/record.cfm?id=336841&>) JE

Below are funding totals for Homeland Security grant programs, as approved by the Senate Appropriations Committee today: Urban Area Security Initiative (UASI) - $663.9 million, a 35 percent increase over last year’s level of $490.4 million. UASI grants address the unique security needs of high-threat, high-density urban areas to help them prevent, protect against, respond to, and recover from acts of terrorism. Port Security - $132 million, a 35 percent increase over last year’s level of $97.5 million. Port Security grants help port operators and local governments implement security initiatives to prevent attacks at ports.

#### Port Funding Increasing

Holdeman ’12 - Principal for Eric Holdeman and Associates. His areas of expertise include building regional coalitions between agencies, governments, the private sector and non-profits, works professionally in the areas of port security, emergency management and risk management (Eric, 5/28/12, Port Security Today, “FFY2013 Senate Budget has 35% Increase for Port Security”, <http://www.emergencymgmt.com/emergency-blogs/disaster-zone/port-security/FFY2013-Senate-budget-has-35_-increase-for-port-security-052812.html>) JE

I would not start counting my chicks just yet, but an egg was laid in the Senate with the potential for an increase in Homeland Security funding for 2013. New Jersey Senator Frank Lautenberg has some of the details posted on his website The total for ports includes: Rail/Bus/Transit Security - $132 million, a 35 percent increase over last year’s level of $97.5 million. These grants protect critical surface transportation infrastructure and travelers from acts of terrorism, major disasters and other emergencies.

## No Funding

### AT: Transportation Bill

#### Transportation bill cut overall funding

Committee of Appropriations 6/29/12 – US House of Representatives Committee of Appropriations (“House Approves the Fiscal Year 2013 Transportation, Housing and Urban Development Funding Bill”, <http://appropriations.house.gov/news/documentsingle.aspx?DocumentID=301672>) JE

The House today approved the fiscal year 2013 Transportation, Housing and Urban Development funding bill on a vote of 261-163. The legislation includes funding for the Department of Transportation, the Department of Housing and Urban Development, and other related agencies. In total, the bill provides $51.6 billion in discretionary spending – a reduction of $3.9 billion below last year’s level and $1.9 billion below the President’s budget request. “The safe and responsible shepherding of taxpayer dollars is important government-wide – particularly when dealing with our nation’s infrastructure and housing. This bill helps guarantee that taxpayer dollars aren’t slipping through the cracks by implementing strict oversight and eliminating wasteful, unnecessary programs,” House Appropriations Chairman Hal Rogers said. Subcommittee Chairman Tom Latham added, “This legislation continues my goal and dedicated work of ending the budgeting gimmicks and accounting tricks that have plagued Washington in recent years. I’m proud that we meet our nation’s transportation and housing needs while remaining fiscally responsible and accountable to hardworking American taxpayers.”

#### Doesn’t increase funding

Jackson 6/29/12 – Staff writer for the Oregon Daily Journal of Commerce - covers transportation (Reed, “For transportation funding, no change is better than a decrease”, <http://djcoregon.com/news/2012/06/29/for-transportation-funding-no-change-is-better-than-a-decrease/>) JE

After months of heated discussions between congressional Democrats and Republicans, a two-year transportation bill was passed today. Although not enough time has been given for the 599-page document to be digested entirely, state officials and local transportation organizations both say the outcome could have been worse. “We see flat funding coming out of this – no increase in funding, no decrease in funding. And that, in the current environment, is a significant victory,” said Travis Brouwer, federal affairs liaison for the Oregon Department of Transportation. “Flat is the new up, as people are saying in the public sector.” In the months leading up to the approval, ODOT assumed federal funding would fall by as much as 20 percent. Instead, the bill, which will allocate $8.4 billion per year in total funding, sets the decrease at around 5 percent. As a result, the transportation department will not have to make any significant cuts to projects, Brouwer said.

#### It’s not long term funding

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However, ODOT is not entirely pleased with the bill, either. The bill does little to address the long-term funding shortage as a result of the failing federal gasoline tax. Consequently, ODOT is planning on significantly cutting back on the money it spends on project after 2014, when the bill will expire. While that move will not affect any projects currently under construction or planned, Brouwer said it could impact proposed projects in the future. “Going forward, those same fiscal challenges remain in the highway trust fund,” he said. “We’re likely going to have a prudent approach (to funding).”

#### Structural issues mean funds remain level

Hartford Courant 7/13/12 - Largest daily newspaper in the state of Connecticut, oldest continuously-published newspaper in the United States (“Transportation Funding Comes Up Far Short”, <http://articles.courant.com/2012-07-13/news/hc-ed-transportation-bill-0714-20120713_1_transportation-funding-federal-transportation-act-highway-trust-fund>) JE

The vision for a nationwide multimodal transportation system certainly did not shine forth from the $105 billion surface transportation bill passed by Congress and signed into law last week by President Obama. The best that can be said about it is that it could have been worse. A compromise between a good Senate bill and a terrible House proposal, the bill provides essentially level funding for roads and transit when both are in dire need of much more funding. But Congress can't make a larger commitment because the Highway Trust Fund is going broke and Congress has neither the foresight nor the fortitude to either raise the federal gas tax, which has been at 18.4 cents a gallon since 1993, or find some other way to pay for transportation. So we have a bill that reduces environmental protections by easing regulations on certain projects, cuts funding for pedestrian and biking projects and — incredibly — gives a smaller tax benefit to commuters who use transit than to those who park. Don't we want people to use transit?

### AT: Tiger

#### TIGER funding was already allocated to the DOT

DOT ’12 – United States Department of Transportation (“FY 2012 TIGER Grants”, <http://www.dot.gov/tiger/index.html>) JE

DOT is authorized to award $500 million in TIGER Discretionary Grants pursuant to the Consolidated and Further Continuing Appropriations Act, 2012 (Pub. L. 112-055, Nov. 18, 2011). This appropriation is similar, but not identical to the appropriation for the “TIGER” program authorized and implemented pursuant to the American Recovery and Reinvestment Act of 2009 (the “Recovery Act”). Because of the similarity in program structure, DOT will continue to refer to the program as ‘‘TIGER Discretionary Grants.’’ As with previous rounds of TIGER, funds for the FY 2012 TIGER program are to be awarded on a competitive basis for projects that will have a significant impact on the Nation, a metropolitan area or a region. Prospective applicants are encouraged to look through Frequently Asked Questions, webinars and other guidance at the Application Resources page. Program Background: The Transportation Investment Generating Economic Recovery, or TIGER Discretionary Grant program, provides a unique opportunity for the U.S. Department of Transportation to invest in road, rail, transit and port projects that promise to achieve critical national objectives. Congress dedicated $1.5 billion for TIGER I, $600 million for TIGER II, and $526.944 million for the FY 2011 round of TIGER Grants to fund projects that have a significant impact on the Nation, a region or a metropolitan area. TIGER's highly competitive process, galvanized by tremendous applicant interest, allowed DOT to fund 51 innovative capital projects in TIGER I, and an additional 42 capital projects in TIGER II. TIGER II also featured a new Planning Grant category and 33 planning projects were also funded through TIGER II. In the FY 2011 round of TIGER Grants, DOT awarded 46 capital projects in 33 states and Puerto Rico. Each project is multi-modal, multi-jurisdictional or otherwise challenging to fund through existing programs. The TIGER program enables DOT to use a rigorous process to select projects with exceptional benefits, explore ways to deliver projects faster and save on construction costs, and make investments in our Nation's infrastructure that make communities more livable and sustainable. "These are innovative, 21st century projects that will change the U.S. transportation landscape by strengthening the economy and creating jobs, reducing gridlock and providing safe, affordable and environmentally sustainable transportation choices," said Secretary LaHood. "Many of these projects could not have been funded without this program."

### Budget Cuts

#### HSR, Aviation and Highway cuts all coming

Ehl 7/15/12 – Publisher and editor of Transportation Issues Daily, fifteen years of public and private sector experience in transportation policy, funding, and over twenty years in public and private sector government relations (Larry, Transportation Issues Daily, “Deep Funding Cuts Scheduled for Popular Transit Program, Amtrak, and Aviation Programs”, http://www.transportationissues daily.com/deep-funding-cuts-scheduled-for-popular-transit-program-amtrak-and-aviation-programs/) JE

The New Starts program, Amtrak, and several aviation programs face deep cuts in January unless Congress acts later this year. [Update: several folks contacted me to indicate there is some conflicting legislative language that could mean highway programs are NOT exempt. We'll have a follow up story about this.] Federal spending in nearly all areas (although only a few transportation programs) is scheduled for automatic cuts of nearly 8% on January 2. The cuts (aka “sequestration”) total $1.2 trillion over nine years, split equally between defense and non-defense discretionary spending. It’s a result of the debt ceiling debate and the subsequent failure of the “super committee” to reach a deal in late 2011 to reduce spending and the deficit. The non-partisan Congressional Budget Office projects that sequestration could result in: Reductions ranging from 7.8 percent (in 2013) to 5.5 percent (in 2021) in the caps on new discretionary appropriations for non-defense programs; and Reductions ranging from 10.0 percent (in 2013) to 8.5 percent (in 2021) in mandatory budgetary resources for nonexempt defense programs The sequestration is part of another unprecedented fiscal cliff facing Congress and the president after the November elections. A number of major tax provisions are scheduled to expire and the debt ceiling will likely be reached. All of this will be occurring while Congress attempts to finalize the fiscal year 2013 spending bill. Congress does have the ability to strike a “grand deal” which adjusts, delays or eliminates the cuts, though they’ve been unable to reach such a deal in the past. [See bottom of story for links to learn more about sequestration.] How will this impact transportation? Highway, transit and aviation programs which are funded through the Trust Fund (which are nearly all of the programs) are protected from automatic cuts. The transportation programs and activities exempted are: Federal-Aid Highways Highway Traffic Safety Grants NHTSA operations and research, and National Driver Register Motor Carrier Safety Operations and Programs Motor Carrier Safety Grants Transit Formula and Bus Grants Airport Improvement program What transportation programs are subject to funding cuts? New Starts (link to APA’s short, plain English report on MAP-21 changes; FTA webpage) Amtrak and other passenger rail programs, FAA Operations, FAA Facilities and Equipment, FAA Research, Also, Jeff Davis of Transportation Weekly reported earlier this year that roughly $700 million of annual highway contract authority that is typically exempt from the obligation limitation appears to be subject to sequester. The spending cuts will be across the board and determined by the Office of Management and Budget (OMB). The final say on how the sequester will be implemented will be made by OMB in the coming months.

### AT: Port Funding

#### SMART Act didn’t increase spending

Kimery ’12 – Editor of Counter Terror Expo - expo and conference designed specifically to address the issues facing all of the disparate groups responsible for countering terrorism in the United States (Anthony, 6/26/12, “Information Technology

Full House To Consider SMART Port Security Act”, <http://www.hstoday.us/focused-topics/information-technology/single-article-page/full-house-to-consider-smart-port-security-act.html>) JE

 “The SMART Port Security Act is a step in the right direction that encourages all our homeland security assets to better coordinate and more effectively secure the maritime environment … and does so without an increase in spending,” she said. The legislation, as amended, will bolster the nation’s maritime security by directing DHS components with maritime security responsibilities to improve cooperation and coordination with other federal, state and local law enforcement agencies. It will also support and enhance risk-based supply chain programs and find cost savings.