# Keynesian Economics Good

**NOTES:**

This file has some generic ‘Keynesian spending good’ cards in it but most of them are specific to transportation/infrastructure investment, even if they aren’t under the ‘Keynes Good – Transportation Infrastructure’ section. This is especially true with the answers section of the file. For the most part you should use case-specific evidence in the 1AC and use this file to back up the theory of Keynes and fiscal stimulus when it comes to infrastructure investment.

The cards in the frontline can also be found in the specific offense categories under the Keynes Good hat, so watch out for duplicates when reading additional ones. You can probably answer most of the Keynes Bad arguments with the frontline – but you have to be familiar with it (for example over half of the Keynes Bad args are all about a crowding out of private investment but nearly every Keynes Good card explains why it’s the other way around). If you want to read just one general ‘Keynes Good’ card read the first Costa card under ‘Keynes Good – Transportation Infrastructure.’

- Stryker Thompson

## Keynes Good – Frontline

### Keynes Good – 2AC Frontline

#### Keynesian stimulus spending is good –

#### 1. Austerity has ruined economies before and is ruining ours now – public spending is necessary for economic growth – without it we risk a double dip recession

David Woolner ’11 (is a Senior Fellow and Hyde Park Resident Historian for the Roosevelt Institute, Roosevelt Institute, “Repeating Our Mistakes: The ‘Roosevelt Recession’ and the Danger of Austerity,” http://www.rooseveltinstitute.org/new-roosevelt/repeating-our-mistakes-roosevelt-recession-and-danger-austerity)

In 1937, after five years of sustained economic growth and a steadily declining unemployment rate, the Roosevelt Administration began to worry more about possible inflation and the size of the federal deficit than the ability of the economy to sustain the recovery. As a consequence, in the fall of 1937, FDR supported those in his administration who advocated a reduction in federal expenditures (i.e. stimulus spending) and a balanced budget. The results — which included a massive reduction in the number of people employed by such programs as the WPA — were catastrophic. From the fall of 1937 to the summer of 1938, industrial production declined by 33 percent; wages by 35 percent; national income by 13 percent; and not surprisingly, the unemployment rate rose by roughly 5 percentage points, with an estimated 4 million workers losing their jobs. The economic downturn caused by the decline in federal spending was commonly referred to as the “Roosevelt recession,” and to counter it, FDR asked Congress in April of 1938 to support a substantial increase in federal spending and lending. Unlike the current situation, Congress backed FDR’s request, and as a result, the recovery was soon underway again. Equally important, the lessons drawn from the 1937-38 recession convinced FDR that deficit spending and monetary expansion were critical to economic recovery. In essence, the Roosevelt Administration, through hard experience, finally endorsed Keynesian economics, and over the course of the next seven years, government spending on the economy — increasingly fueled by the demands of World War II — would grow to unprecedented levels, all but wiping out unemployment (which fell to below 2 percent by 1943) and turning the United States into a global super-power in the process. Many economists agree that there is a real danger that the reluctance of Congress to pass even the modest measures of new spending called for recently will not only stall the recovery but also lead to a possible double dip recession. The lessons from 1937-38 certainly back this assessment, but unfortunately, it appears that the deficit hawks in Congress are more interested in playing on people’s fears and lack of understanding of the federal government’s role in the economy than in learning from the past.

#### 2. Infrastructure spending can solve the economy with a multiplier effect of 2.8 – significantly larger than any other type of fiscal spending

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

Besides its improving effects on productive capacity as the major reason for the infrastructure investment‘s contribution to the economic growth, a second reason is its relatively larger multiplier effects on the overall economy compared to other types of investment of the same amount. The multiplier effect refers to the dollar amount impact on the economy, measured as GDP, that each dollar of spending could generate; since the effect of each dollar of spending is usually beyond itself – i.e. larger than 1 – due to its stimulating effects on other components of the GDP, such as consumption, investment and net exports, it is often referred to as the multiplier effects. There is more than one kind of multiplier effect based on different investments, but in most studies and ours as well, we are specifically interested in and refer to the fiscal multiplier, that is the dollar amount impact on the economy for each dollar of government spending. As discussed in details in a previous research of mine on the subject of the Automatic Budget Enforcement Procedures, the size of the multiplier under current circumstances is estimated to be 1.88, with the interest rate at the zero lower bound taken into account in illustrations of a series of Keynesian models. With regards to the fact that multiplier specifically for infrastructure investments is larger than other types of investments and thus the general average fiscal multiplier, the theoretical reasons behind are quite easy to understand. The two major reasons infrastructure spending are: (1) less leakage to imports and (2) stronger stimulus in consumption compared to other types of spending such as tax cuts, where a higher proportion of the additional money is saved or spent on imported goods and services. In order to estimate the size of multiplier specifically for infrastructure investments, we utilize the employment effects estimated using the Input-Output Model in the research How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth (Heintz, Pollin and Peltier, 2009). According to their research, for each $1 billion infrastructure investment made, an average of 18,681 jobs will be created in core economic infrastructure through direct, indirect and induced effects. As of December 2010, the total employment in the U.S. was 130.26 million, which translates an increase of 18,681 jobs into a percentage increase of 0.0143%. From there, based on the solid basic assumption on the relationship between employment and GDP increases that was used by Romer and Bernstein in their paper The Job Impact of the American Recovery and Reinvestment Act (Romer and Bernstein, 2009), we can trace back to a reliable estimate of GDP increase in dollar amount for each $1 billion investments in infrastructure, and thus an infrastructure multiplier. The assumption made by Romer and Bernstein and also agreed by Heintz, Pollin and Peltier is that employment will rise by 0.75% for every 1% increase in GDP. Therefore, the 0.0143% increase in employment generated per $1 billion infrastructure investment can be translated as a 0.0191% increase in GDP. With a GDP of $14,660.2 billion in 2010, such percentage increase is equivalent to a dollar amount increase of 19 $2.8 billion in GDP. That said, the conclusion is that, for each $1 billion spending on infrastructure, an increase of approximately $2.8 billion in GDP can be observed, meaning that the multiplier for infrastructure investments specifically is about 2.8, much larger than the average size of 1.88 for all types of investments as estimated in previous study. This well established larger multiplier effects of infrastructure investments become particularly important due to the slow economic recovery we have faced since the crisis. Even without the more influential and fundamental effects of infrastructure investments on productivity improvement, the larger multiplier such investments have is a strong enough reason to call for more spending, or at least less cuts, on infrastructure projects.

#### 3. Infrastructure investments create massive economic growth from a rise in aggregate demand and employment

Claudia Copeland et al ’11 (Copeland is a Specialist in Resources and Environmental Policy, Linda Levine is a Specialist in Labor Economics William J. Mallett is a Specialist in Transportation Policy, “The Role of Public Works Infrastructure in Economic Recovery,” 9/21/2011, CRS Report for Congress, http://www.fas.org/sgp/crs/misc/R42018.pdf)

Others have argued for governmental policy to provide fiscal stimulus, which can involve tax cuts, government spending increases, or both. During debates that preceded enactment of ARRA in February 2009, a wide range of experts—including economists who generally differ in their economic policy views, such as Martin Feldstein 21 and Paul Krugman 22 —contended that, in times when neither consumers nor businesses are spending, a massive infusion of government spending is needed quickly to energize economic activity. Infrastructure investment, they argued, can be an important source of stimulating labor demand when the labor market is underutilized, and enhancing U.S. productivity through long-neglected investments in roads, bridges, water systems, ports, etc. 23 Again today, some advocate using direct fiscal stimulus through a combination of measures such as infrastructure investments, state fiscal relief, employer tax benefits, and expanded unemployment insurance to provide a needed boost for the economy. The economic value of infrastructure investments follows from the cumulative, or multiplier effect, which is described by CBO. Infrastructure spending directly increases employment because workers are hired to undertake construction projects. It also adds to demand for goods and services through purchases of material and equipment and through additional spending by the extra workers who are hired … that increase in demand leads to further hiring. 24 According to this view, spending on projects to address unmet infrastructure needs presents an opportunity to contribute significantly to economic recovery. During recessionary periods and the beginning of recovery, the state of the U.S. economy is such that there is excess capacity of both labor and materials for infrastructure projects. Large number of workers are unemployed, especially in the construction sector, which reported a 13.5% unemployment rate in August 2011. 25 It is widely believed that a large number of those workers (many of whom had been employed in residential construction) could be employed on infrastructure construction projects. This same argument was raised during debate that preceded enactment of ARRA, when similarly high unemployment prevailed among construction workers. Proponents argue that the cumulative, or multiplier, effect of infrastructure spending on the economy, discussed previously, makes it especially beneficial to economic recovery. CBO recently estimated the multiplier effect of major provisions of ARRA and concluded that each dollar transferred to state and local governments for infrastructure raised GDP above what it would have been otherwise by a total of $1 to $2.50 over several quarters. In CBO’s analysis, the output multiplier of infrastructure spending was the same as ARRA provisions for purchases of goods and services by the federal government, and both were greater than impacts of other ARRA provisions such as tax cuts for individuals. 26 However, some critics of using public spending to create jobs argue that the costs far exceed the benefits.

### Keynes Good – 1AR Extension

**Keynesian stimulus solves – empirics prove – three reasons:**

**1) Austerity fails – FDR’s policies show a lack of spending ruins the economy – we need Keynes to avoid a double dip – that’s Woolner.**

**2) Multiplier effect – long term job creation and increased aggregate demand means we get back 2.8 of whatever we spend – that’s Han.**

**3) The time is now – the recession is the perfect opportunity to publicly invest in infrastructure – low interest rates, cheap labor and spurs private involvement – that’s Copland.**

## Keynes Good – Offense

### Keynes Good – Transportation Infrastructure

#### Transport infrastructure investment generates millions of jobs, injecting money throughout the economy to create economic growth

Kristina Costa ’11 (is a Special Assistant with the Doing What Works project at the Center for American Progress. Adam Hersh is an Economist at the Center, Center for American Progress, 9/8/11, “Infrastructure Spending Builds American Jobs,” http://www.americanprogress.org/issues/2011/09/jobs\_infrastructure.html)

The construction sector was particularly hard hit by the Great Recession of 2007-2009 and really never quite recovered, with devastating consequences for construction workers. Unemployment in construction remains dismal. In August 2011 the unemployment rate in the construction industry stood at 13.2 percent—substantially higher than the economy-wide unemployment rate of 9.1 percent. The loss of jobs and investment in construction has been dragging down the overall U.S. economy. At the same time, the United States’ transportation and other public infrastructure is underfunded, aging, and growing increasingly inadequate to serve the needs of families and business competitiveness. Fortunately, there is something very simple the federal government can do about these problems: Put more resources into infrastructure investment. We know from very recent experience that infrastructure investments deliver the goods for job creation and business growth. Two years ago, the unemployment rate for construction workers was 17 percent—before federal government stimulus funds boosted construction and the overall economy. In 2009 Congress and the Obama administration allocated an additional $29.9 billion in transportation spending for roads, bridges, and transit systems alongside another $21.7 billion for other infrastructure investments, ranging from funds for improving drinking and wastewater systems to large-scale civil engineering projects overseen by the Army Corps of Engineers. Together, this money accounted for 6 percent of spending through the Recovery and Reinvestment Act of 2009, directly creating 1.1 million jobs by March 2011 in the construction sector. Those 1.1 million jobs represent 17 percent higher construction employment than would have been the case without government action, according to an analysis by Daniel J. Wilson, an economist with the Federal Reserve.[1] Investments in infrastructure, of course, contribute more to the U.S. economy than simply providing much-needed construction sector jobs. Improved infrastructure reduces costs for businesses, making U.S. companies more competitive. Infrastructure and transportation investment indirectly creates jobs in other sectors of the economy, including manufacturing, because construction projects require sophisticated materials and machines. And the good middle-class incomes earned by those newly employed in infrastructure investment projects fuel spending elsewhere in the economy, thereby maintaining and increasing private-sector employment. When construction workers get their paychecks, for example, they may use the money to pay rent or the mortgage, buy groceries, take the kids to the dentist, or for other household spending—the same things all people do when they get paid. These activities generate sales for businesses and help create and maintain jobs for workers throughout the rest of the economy. But for construction workers, the benefits of government spending on transportation and infrastructure investments are direct. The spending helped bring down the high unemployment rates experienced in the construction sector of the economy. The accompanying chart compares the most recent August 2011 construction unemployment rate with the unemployment rates for the same month in preceding years.[2] Prior to the Great Recession, average August unemployment in the construction industry was around 6.5 percent. As the real estate market collapsed and the recession took hold, construction unemployment shot up precipitously, reaching 8.7 percent in 2008 and 17 percent in 2009. Infrastructure projects often have long planning stages, but as Recovery Act infrastructure investment kicked into gear, construction unemployment notched steadily down, falling to 16.3 percent in 2010 and then to 13.2 percent in August 2011. Academic, private-sector, and nonpartisan government studies alike confirm the positive effects of infrastructure and transportation investments on private-sector employment. Data collected and published by the Transportation and Infrastructure Committee in the House of Representatives show that every $1 billion in additional funds committed to highway projects between 2009 and 2010 produced 2.4 million job-hours, according to an analysis by Smart Growth America.[3] The return on investment on transit projects was even higher, with 4.2 million job-hours produced by every $1 billion in investment. With $21.5 billion in highway funding alone, the Recovery Act put Americans to work on our nation’s roadways for 51 million hours—time they may have otherwise spent idle and unpaid. The fact that transportation spending translates to real jobs in construction and other industries isn’t surprising. The Federal Highway Administration periodically estimates the impact of highway spending on direct employment, defined as: Jobs created directly by the firms working on a given project Jobs supported indirectly by the project, including those in firms supplying materials and equipment for projects Jobs induced by direct and indirect hires when they make consumer purchases with their paychecks In 2007 every $1 billion in federal highway expenditures supported about 30,000 jobs—10,300 in construction, 4,675 in supporting industries, and 15,094 in induced employment.[4] To be sure, not all infrastructure projects create equivalent numbers of jobs. According to a 2009 analysis by the Metropolitan Research Center at the University of Utah, transit projects and road and bridge repairs generate larger employment impacts than new road and bridge construction. According to their model, repair work on roads and bridges generates 16 percent more jobs than new construction, and transit projects generate 31 percent more jobs than new construction.[5] Today, previous government spending on infrastructure is winding down—and so is the pace of private-sector job creation. To make matters worse, the current federal highway bill, which allows Congress to collect gasoline excise duties and authorizes funding for surface transportation projects across the country, will expire on September 30. Failure to reauthorize the highway bill will endanger 1.8 million jobs nationwide, according to estimates released by the Senate Environment and Public Works Committee. Competing proposals for reauthorization have been raised by both chambers. The Senate has suggested a two-year extension, with $109 billion in funding ($54.5 billion annually). The House has put forth a six-year bill offering just $39.1 billion annually, for a total of $235 billion. Both proposals are significantly lower than the $556 billion proposed in President Obama’s budget for fiscal year 2012. With high unemployment, especially in the construction industry, a crumbling national infrastructure, and the effects of previous government spending winding down, the time is ripe for a jobs plan that includes serious investment in transportation and infrastructure.

#### Infrastructure investments create massive economic growth as a result of the multiplier effect

Claudia Copeland et al ’11 (Copeland is a Specialist in Resources and Environmental Policy, Linda Levine is a Specialist in Labor Economics William J. Mallett is a Specialist in Transportation Policy, “The Role of Public Works Infrastructure in Economic Recovery,” 9/21/2011, CRS Report for Congress, http://www.fas.org/sgp/crs/misc/R42018.pdf)

Others have argued for governmental policy to provide fiscal stimulus, which can involve tax cuts, government spending increases, or both. During debates that preceded enactment of ARRA in February 2009, a wide range of experts—including economists who generally differ in their economic policy views, such as Martin Feldstein 21 and Paul Krugman 22 —contended that, in times when neither consumers nor businesses are spending, a massive infusion of government spending is needed quickly to energize economic activity. Infrastructure investment, they argued, can be an important source of stimulating labor demand when the labor market is underutilized, and enhancing U.S. productivity through long-neglected investments in roads, bridges, water systems, ports, etc. 23 Again today, some advocate using direct fiscal stimulus through a combination of measures such as infrastructure investments, state fiscal relief, employer tax benefits, and expanded unemployment insurance to provide a needed boost for the economy. The economic value of infrastructure investments follows from the cumulative, or multiplier effect, which is described by CBO. Infrastructure spending directly increases employment because workers are hired to undertake construction projects. It also adds to demand for goods and services through purchases of material and equipment and through additional spending by the extra workers who are hired … that increase in demand leads to further hiring. 24 According to this view, spending on projects to address unmet infrastructure needs presents an opportunity to contribute significantly to economic recovery. During recessionary periods and the beginning of recovery, the state of the U.S. economy is such that there is excess capacity of both labor and materials for infrastructure projects. Large number of workers are unemployed, especially in the construction sector, which reported a 13.5% unemployment rate in August 2011. 25 It is widely believed that a large number of those workers (many of whom had been employed in residential construction) could be employed on infrastructure construction projects. This same argument was raised during debate that preceded enactment of ARRA, when similarly high unemployment prevailed among construction workers. Proponents argue that the cumulative, or multiplier, effect of infrastructure spending on the economy, discussed previously, makes it especially beneficial to economic recovery. CBO recently estimated the multiplier effect of major provisions of ARRA and concluded that each dollar transferred to state and local governments for infrastructure raised GDP above what it would have been otherwise by a total of $1 to $2.50 over several quarters. In CBO’s analysis, the output multiplier of infrastructure spending was the same as ARRA provisions for purchases of goods and services by the federal government, and both were greater than impacts of other ARRA provisions such as tax cuts for individuals. 26 However, some critics of using public spending to create jobs argue that the costs far exceed the benefits.

#### **Investments in infrastructure take us out of the recession – improved productivity and huge multiplier effects in the private sector**

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

With the economy still in the prolonged slump after the financial crisis in 2008, the stimulating effects of infrastructure investments on economic growth becomes even more important for speeding up the recovery. Infrastructure investments‘ contribution to economic growth come from two aspects: improvement of productivity and relatively larger multiplier effects. Firstly, both fundamental theories and statistical evidences tell us that investments in public infrastructure improve private-sector productivity, leading to a ―crowding-in‖ instead of ―crowding-out‖ of private investments. More specifically, as suggested by Heintz, Pollin and Peltier, a sustained one-percentage point increase in the growth rate of core public economic infrastructure leads to an increase in the growth rate of private sector GDP of 0.6 percentage points. Secondly, due to its relatively larger multiplier effects than that of other types of spending, infrastructure investment still has a strong stimulus on economic growth even without consideration of its productivity improving effects, which serves as the more ultimate reason. Using the reliable estimates on employment generated from a Input-Output model in How infrastructure investment support the U.S. economy (Heintz, Pollin and Peltier, 2009) and a solid assumption on the relationship between GDP increase and employment effects made by Romer and Bernstein, the multiplier effect featured by investment specifically in infrastructure is estimated at 2.8, a lot bigger compared to the general fiscal multiplier of all types of government spending at 1.88, as estimated in my previous research Deficit Reduction and Multiplier Effects. This paper has also spent a section on the employment effects of infrastructure investment, which comes in three ways: direct effects, indirect effects and induced effects. As estimated in How Infrastructure Investments Support the U.S. Economy (Heintz, Pollin and Peltier, 2009), each $1 billion in infrastructure investment will generate between 9,819 and 17,784 jobs if we consider only direct and indirect effects and between 14,515 and 23,784 jobs if we account for induced effects, which is far beyond the number of jobs created with the same amount of investment in tax cuts. Besides, other benefits of infrastructure investment include its effects on environmental sustainability and competitiveness of U.S. An effective infrastructure investment program can both raise productivity and promote clean energy agenda. Meantime, by raising productivity and reducing production costs, a decent infrastructure helps the U.S. to hold a competitive position in the global trades. Therefore, more infrastructure investments, or at least smaller budget cuts on infrastructure projects are called for, due to its urgent necessities and profound benefits to the current economy

#### Infrastructure investment brings in private investment and saves money in the long term because of current economic conditions

Ethan Pollack ’12 (M.P.P. The George Washington University B.A. University of California, Los Angeles, Economic Policy Institute, 3/30/12, “Infrastructure is win-win-win-win,” http://www.epi.org/blog/infrastructure-benefits/)

My response, which I’d like to flesh out a bit more here, is that just because budgeting is all about tradeoffs doesn’t mean that win-win policies aren’t out there. One notable example is infrastructure investment, which both creates jobs in the short run and raises long-run economic growth. In fact, the situation today is especially ripe for infrastructure for a number of reasons: Low financing costs: The cost of borrowing is at historically-low levels, with interest rates on five-, seven-, and 10-year inflation-protected securities (TIPS) actually negative. This means the markets are paying the government to borrow money. But this is a temporary situation—as the economy picks up again, private returns will increase and the government will be forced to offer more generous borrowing terms to remain competitive. Great deals: As state and local governments remain stuck in fiscal straitjackets, private commercial construction contractors are desperate for work, and their asking prices for projects has gone down. In fact, the Department of Transportation estimates that more than 2,000 additional transportation projects were funded due to competitively low bids or projects completed under budget. In other words, we’re getting much more bang for our buck than we usually do. Fixing infrastructure costs less than rebuilding: Neglecting our infrastructure needs only makes the cost of inevitable repair compound over time. It’s a lot cheaper to repair a bridge than to rebuild one from scratch. For every $1 spent on preventative pavement maintenance, between $4 and $10 is saved on rehabilitation. Right now we’ve got an amazing opportunity to do something that we need to do anyway at record-low costs, we’re practically being given the money, and if we delay investments, their eventual cost will be much higher. Oh, and it will create jobs. This isn’t win-win, this is win-win-win-win.

#### **Transport infrastructure investment spurs a continuous cycle of economic growth**

Joshua Behr ’11 ( Research associate professor, brings to VMASC social sciences research a background and expertise in healthcare delivery and emergency departments, complex social phenomena, election systems and political behavior, community vulnerability and emergency preparedness, and environmental health and built environments - EAIA '11 Proceedings of the 2011 Emerging M&S Applications in Industry and Academia Symposium Pages 46-53, http://delivery.acm.org/10.1145/2050000/2048523/p46-behr.pdf?ip=199.76.149.33&acc=ACTIVE%20SERVICE&CFID=92096148&CFTOKEN=66331611&\_\_acm\_\_=1340858271\_1b81ec9032c2f29dec304152d427f9b1)

Investment in transportation infrastructure may be used to induce a country or region’s economic development. This investment may target new or improved ways (e.g., highways, roads) and ports (e.g., airports, railroads, marine ports). The focus of this study is road infrastructure which includes roads, highways, and bridges that facilitate surface transportation. The expression „infrastructure investment‟ as used in this paper has the narrow meaning of investment in road infrastructure, specifically urban road infrastructure, consisting of a combination of interstate highways/freeways and major and minor arterial roads. There are several positive benefits associated with investments in road infrastructure. First, such investment improves the quality of life in the region by allowing rapid movement throughout the region at one‟s convenience. Second, the transportation project itself leads to large spending on construction materials and manpower in the region, creating jobs and business opportunities, contributing to an increase in per capita income. This, in turn, promotes consumer spending in the region leading to further job and business creation. Thus, investment in road infrastructure effectively disseminates economic health and wealth in a region.

### Keynes Good – Generic

#### Austerity has ruined economies before and is ruining ours now – public spending is necessary for economic growth – without it we risk a double dip recession

David Woolner ’11 (is a Senior Fellow and Hyde Park Resident Historian for the Roosevelt Institute, Roosevelt Institute, “Repeating Our Mistakes: The ‘Roosevelt Recession’ and the Danger of Austerity,” http://www.rooseveltinstitute.org/new-roosevelt/repeating-our-mistakes-roosevelt-recession-and-danger-austerity)

In 1937, after five years of sustained economic growth and a steadily declining unemployment rate, the Roosevelt Administration began to worry more about possible inflation and the size of the federal deficit than the ability of the economy to sustain the recovery. As a consequence, in the fall of 1937, FDR supported those in his administration who advocated a reduction in federal expenditures (i.e. stimulus spending) and a balanced budget. The results — which included a massive reduction in the number of people employed by such programs as the WPA — were catastrophic. From the fall of 1937 to the summer of 1938, industrial production declined by 33 percent; wages by 35 percent; national income by 13 percent; and not surprisingly, the unemployment rate rose by roughly 5 percentage points, with an estimated 4 million workers losing their jobs. The economic downturn caused by the decline in federal spending was commonly referred to as the “Roosevelt recession,” and to counter it, FDR asked Congress in April of 1938 to support a substantial increase in federal spending and lending. Unlike the current situation, Congress backed FDR’s request, and as a result, the recovery was soon underway again. Equally important, the lessons drawn from the 1937-38 recession convinced FDR that deficit spending and monetary expansion were critical to economic recovery. In essence, the Roosevelt Administration, through hard experience, finally endorsed Keynesian economics, and over the course of the next seven years, government spending on the economy — increasingly fueled by the demands of World War II — would grow to unprecedented levels, all but wiping out unemployment (which fell to below 2 percent by 1943) and turning the United States into a global super-power in the process. Many economists agree that there is a real danger that the reluctance of Congress to pass even the modest measures of new spending called for recently will not only stall the recovery but also lead to a possible double dip recession. The lessons from 1937-38 certainly back this assessment, but unfortunately, it appears that the deficit hawks in Congress are more interested in playing on people’s fears and lack of understanding of the federal government’s role in the economy than in learning from the past.

#### Fiscal stimulus is necessary to solve the recession

Krugman ’09 (Paul, joined The New York Times in 1999 as a columnist on the Op-Ed Page and continues as professor of Economics and International Affairs at Princeton University. Mr. Krugman received his B.A. from Yale University in 1974 and his Ph.D. from MIT in 1977. He has taught at Yale, MIT and Stanford. At MIT he became the Ford International Professor of Economics, “How Did Economists Get It So Wrong?” 9/6/9, http://www.csus.edu/indiv/d/dowellm/Econ100A/krugman\_macro.pdf)

Now what? This is the second time America has been up against the zero lower bound, the previous occasion being the Great Depression. And it was precisely the observation that there’s a lower bound to interest rates that led Keynes to advocate higher government spending: when monetary policy is ineffective and the private sector can’t be persuaded to spend more, the public sector must take its place in supporting the economy. Fiscal stimulus is the Keynesian answer to the kind of depression-type economic situation we’re currently in.

#### **Government stimulus generates private investment and fixes the economy**

Richard Striner ’12 (professor of history at Washington College, American Scholar, Winter2012, Vol. 81, Issue 1, “How to Pay for What We Need,” [http://web.ebscohost.com/ehost/detail?sid=e541e28e-66d7-4c81-8dc1-12675d32912b%40sessionmgr112&vid=1&hid=125&bdata=JnNpdGU9ZWhvc3QtbGl2ZSZzY29wZT1zaXRl#db=aph&AN=69610938](http://web.ebscohost.com/ehost/detail?sid=e541e28e-66d7-4c81-8dc1-12675d32912b%40sessionmgr112&vid=1&hid=125&bdata=JnNpdGU9ZWhvc3QtbGl2ZSZzY29wZT1zaXRl" \l "db=aph&AN=69610938))

The best way to launch such a system--to give it a low-risk test--would be to start small. Have Congress create just enough money to pay for some public necessities--say, a few billion dollars' worth--and then see what happens. If inflation develops that can be traced to the small increase in the money supply, corrective action by the Fed could quickly counteract it. And if the action by the Fed succeeds in counteracting the inflation, the scale of this experiment in fiscal and monetary policy could be increased. Novel as it is, a mixed system such as this could work well through responsible management. Its management would not be simple or foolproof, but neither is the system that we have in place now. If it works, the new infusion of government funds could be a shot in the arm for the private sector, building up purchasing power that would stimulate production, employment, and sales. The United States is not broke--and we should laugh at the delusion that we are. The potential for abundance is everywhere around us, but it stagnates for sheer lack of funding. We have contracted our nation's power to produce and consume just to prove that we can live within our means. And that's a formula for economic ruin. There are some (the economic historian Niall Ferguson, for instance) who think we ought to sell our public assets, like our interstate highways, to increase our nation's stock of hard currency. That's preposterous. There's a better course of action once our citizens and leaders understand what money is, once they understand that hard currency--the Federal Reserve Note, for instance--is just a representation of a force that has been summoned by bankers out of nothing. We can summon it ourselves, and use the great power of the Federal Reserve--in partnership with Congress--to preempt the threat of inflation. Why shouldn't the American people have additional funds to be used for such impeccable purposes as national security, infrastructure maintenance, public safety, environmental protection, and research to counteract global climate change--funds created by the government without more taxes or debt? Does the principle seem too good to be true--a mere mirage, something for nothing? Think it over, for the system that we have right now is an exercise of mind over matter. The system I propose would give the people and their leaders an equal share in money creation with the bankers who are seeking private profit. It's a profitable game, the creation of money, and we need more players at the table.

### **Keynes Good – Competitiveness 2AC**

#### Infrastructure investment solves competitiveness – raises productivity and reduces production costs

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

As we have already discussed, the decline in public investment has been linked to slower growth in economic productivity, particularly during the 1970s and 1980s (Aschauer, 1989a; Munnell 1990a). Other researchers have shown that public investments have helped to reduce the cost of production in U.S. manufacturing (Nadiri and Mamuneas, 1994; Morrison and Schwartz, 1996). The results of our study—summarized above—also show that public investment improves private sector productivity, and the impact is proportionately larger for the manufacturing sector than for the private sector as a whole. All of this suggests that public investment in infrastructure will have a positive impact on the U.S. economy‘s competitive position in the world—by raising productivity and reducing production costs. It follows that a lack of decent infrastructure will hurt U.S. competitiveness and further undermine the performance of the manufacturing sector. Manufacturing businesses rely on public goods, such as transportation systems, to operate. Reliable, affordable, and sustainable sources of energy are also essential. Inefficient infrastructure raises costs and increases risks—all of which will compromise the competitive position of the economy. Therefore, the research results presented here affirm the importance of world-class infrastructure to maintain U.S. economic performance in this era of global integration.

#### Economic recovery and boosting competitiveness are key to prevent the collapse of U.S. power---that causes global great-power wars

Khalilzad 11 Zalmay Khalilzad was the United States ambassador to Afghanistan, Iraq, and the United Nations during the presidency of George W. Bush and the director of policy planning at the Defense Department from 1990 to 1992. "The Econom and National Security" Feb 8 www.nationalreview.com/blogs/print/259024

Today, economic and fiscal trends pose the most severe long-term threat to the United States’ position as global leader. While the United States suffers from fiscal imbalances and low economic growth, the economies of rival powers are developing rapidly. The continuation of these two trends could lead to a shift from American primacy toward a multi-polar global system, leading in turn to increased geopolitical rivalry and even war among the great powers. The current recession is the result of a deep financial crisis, not a mere fluctuation in the business cycle. Recovery is likely to be protracted. The crisis was preceded by the buildup over two decades of enormous amounts of debt throughout the U.S. economy — ultimately totaling almost 350 percent of GDP — and the development of credit-fueled asset bubbles, particularly in the housing sector. When the bubbles burst, huge amounts of wealth were destroyed, and unemployment rose to over 10 percent. The decline of tax revenues and massive countercyclical spending put the U.S. government on an unsustainable fiscal path. Publicly held national debt rose from 38 to over 60 percent of GDP in three years. Without faster economic growth and actions to reduce deficits, publicly held national debt is projected to reach dangerous proportions. If interest rates were to rise significantly, annual interest payments — which already are larger than the defense budget — would crowd out other spending or require substantial tax increases that would undercut economic growth. Even worse, if unanticipated events trigger what economists call a “sudden stop” in credit markets for U.S. debt, the United States would be unable to roll over its outstanding obligations, precipitating a sovereign-debt crisis that would almost certainly compel a radical retrenchment of the United States internationally. Such scenarios would reshape the international order. It was the economic devastation of Britain and France during World War II, as well as the rise of other powers, that led both countries to relinquish their empires. In the late 1960s, British leaders concluded that they lacked the economic capacity to maintain a presence “east of Suez.” Soviet economic weakness, which crystallized under Gorbachev, contributed to their decisions to withdraw from Afghanistan, abandon Communist regimes in Eastern Europe, and allow the Soviet Union to fragment. If the U.S. debt problem goes critical, the United States would be compelled to retrench, reducing its military spending and shedding international commitments. We face this domestic challenge while other major powers are experiencing rapid economic growth. Even though countries such as China, India, and Brazil have profound political, social, demographic, and economic problems, their economies are growing faster than ours, and this could alter the global distribution of power. These trends could in the long term produce a multi-polar world. If U.S. policymakers fail to act and other powers continue to grow, it is not a question of whether but when a new international order will emerge. The closing of the gap between the United States and its rivals could intensify geopolitical competition among major powers, increase incentives for local powers to play major powers against one another, and undercut our will to preclude or respond to international crises because of the higher risk of escalation. The stakes are high. In modern history, the longest period of peace among the great powers has been the era of U.S. leadership. By contrast, multi-polar systems have been unstable, with their competitive dynamics resulting in frequent crises and major wars among the great powers. Failures of multi-polar international systems produced both world wars. American retrenchment could have devastating consequences. Without an American security blanket, regional powers could rearm in an attempt to balance against emerging threats. Under this scenario, there would be a heightened possibility of arms races, miscalculation, or other crises spiraling into all-out conflict. Alternatively, in seeking to accommodate the stronger powers, weaker powers may shift their geopolitical posture away from the United States. Either way, hostile states would be emboldened to make aggressive moves in their regions.

### Keynes Good – Competitiveness 1AR

**Infrastructure investment solves competitiveness:**

**1) Reduces costs and increases productivity – our economy will collapse without lower cost in manufacturing and private sector involvement – that’s Han.**

**2) Solves heg and war – a competitive economy is key leadership – we need it to deter great power wars – that’s Khalilzad.**

### **Keynes Good – Competitiveness ext.**

#### Transportation infrastructure investment raises worker productivity, solving the economy

Heather Boushey ’11 (Senior Economist at American Progress. Her research focuses on employment, social policy, and family economic well-being, American Progress, 9/22/11, “Now Is the Time to Fix Our Broken Infrastructure,” http://www.americanprogress.org/issues/2011/09/aja\_infrastructure.html)

Investing in infrastructure not only creates jobs; it increases the productivity of businesses small, medium, and large. At the most basic level, infrastructure investments make it possible for firms to rely on well-maintained roads to move their goods, on an electricity grid that is always on to run their factories, and water mains that provide a steady stream of clean water to supply their restaurants. There is a large body of empirical work that documents this. Although the specific effect differs across studies, European Investment Bank economists Ward Romp and Jakob de Haan conclude that “there is now more consensus than in the past that public capital furthers economic growth.”[10]

#### Transportation investment is key to competitiveness – now is the time to take advantage of low costs

DOT CEA ’12 (A REPORT PREPARED BY THE DEPARTMENT OF THE TREASURY with the council of economic advisors, “A NEW ECONOMIC ANALYSIS OF INFRASTRUCTURE INVESTMENT,” 3/23/12, http://www.treasury.gov/resource-center/economic-policy/Documents/20120323InfrastructureReport.pdf)

An analysis of the economic impact of transportation investment indicates that now is an optimal time to increase the nation’s investment in transportation infrastructure. Investing in transportation infrastructure would generate jobs to employ workers who were displaced because of the housing bubble. We estimate that the average unemployment rate among those who would gain employment in the jobs created by additional infrastructure investment has averaged approximately 13 percent over the past twelve months. There is also accumulating evidence that construction costs are currently low because of underutilized resources, so it would be especially cost-effective to seize this opportunity to build the quality infrastructure projects that are ready to be built. Historically, we also know that state and local governments are more prone to cut back on infrastructure spending during tough economic times, despite the growing need and demand for these projects. Americans overwhelmingly support increasing our infrastructure investment, as evidenced by consistent support for local investments on ballot initiatives. This is hardly surprising given that our report documents that the American public is less satisfied with our transportation infrastructure than residents of most other OECD nations. Merely increasing the amount that we invest, however, must not be our only goal. Selecting projects that have the highest payoff is critically important, as is providing opportunities for the private sector to invest in public infrastructure. Given the significant need for greater investment, the federal government cannot, and should not, be expected to be the sole source of additional investment funds. More effectively leveraging federal investment by pairing it with state, local, and private investment is necessary to meet the challenges we face in expanding our transportation network. Thus, establishing a National Infrastructure Bank, along with other significant reforms in our infrastructure financing system, should remain a top priority. Evidence also shows that well-functioning infrastructure systems generate large rates of return not only for the people who travel on the systems every day – the direct beneficiaries – but also for those in the surrounding regions and our nation more generally. Investment in infrastructure today will employ underutilized resources and raise the nation’s productivity and economic potential in the future. By contrast, poorly planned, non-strategic investment is not only a waste of resources, but can also lead to lower economic growth and production in the future. That is why any increase in investment should be coupled with broad-based reform to select infrastructure projects more wisely. The President’s proposal to increase our nation’s investment in transportation infrastructure, coupled with broad-based reform of our transportation funding system, would have a significant and positive economic impact in both the short and long term, raising our nation’s economic output, creating quality middle-class jobs, and enhancing America’s global economic competitiveness.

### **Keynes Good – Environment 2AC**

#### Infrastructure investment solves warming by spurring a green agenda and increasing productivity

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

At the same time, strong connections do exist between the infrastructure program and an investment program targeted at building a clean energy economy. Of course, not all categories of public investments are aimed at producing direct environmental benefits. Road construction projects are an obvious case in point. By the same token, not all green investments will promote either private productivity or employment. Moreover, some categories of green investments will be focused on public purposes other than energy conservation and clean energy sources. The major infrastructure projects that do aim both to raise productivity and promote a clean energy economy include: Public transportation; Freight rail; Smart grid electrical transmission systems; and Dams for hydroelectric power. Thus, to the extent that these initiatives are priorities within a broader public infrastructure framework, we are thereby also strengthening the links between an infrastructure program and a clean energy agenda. Beyond this, an effective infrastructure investment program can promote a clean energy economy simply through its beneficial effects on productivity. Simply put, to raise the economy‘s level of productivity means to produce more goods and services while consuming fewer supplies in the process of production. Energy is a major supply that is needed across industrial sectors. Thus, raising productivity, in many cases, can entail reducing overall energy consumption.

#### It’s anthropogenic and risks extinction

DEIBEL ‘7 (Terry L. Deibel, professor of IR at National War College, Foreign Affairs Strategy, “Conclusion: American Foreign Affairs Strategy Today Anthropogenic – caused by CO2”)

Finally, there is one major existential threat to American security (as well as prosperity) of a nonviolent nature, which, though far in the future, demands urgent action. It is the threat of global warming to the stability of the climate upon which all earthly life depends. Scientists worldwide have been observing the gathering of this threat for three decades now, **and what was once a mere possibility has passed** through probability **to near certainty.** Indeed **not one of more than 900 articles** **on climate change published in refereed scientific journals** from 1993 to 2003 doubted that anthropogenic warming is occurring. “In legitimate scientific circles,” writes Elizabeth Kolbert, “it is virtually **impossible to find evidence of disagreement** over the fundamentals of global warming.” Evidence from a vast international scientific monitoring effort accumulates almost weekly, as this sample of newspaper reports shows: an international panel predicts “brutal droughts, floods and violent storms across the planet over the next century”; climate change could “literally alter ocean currents, wipe away huge portions of Alpine Snowcaps and aid the spread of cholera and malaria”; “glaciers in the Antarctic and in Greenland are melting much faster than expected, and…worldwide, plants are blooming several days earlier than a decade ago”; “rising sea temperatures have been accompanied by a significant global increase in the most destructive hurricanes”; “NASA scientists have concluded from direct temperature measurements that 2005 was the hottest year on record, with 1998 a close second”; “Earth’s warming climate is estimated to contribute to more than 150,000 deaths and 5 million illnesses each year” as disease spreads; “widespread bleaching from Texas to Trinidad…killed broad swaths of corals” due to a 2-degree rise in sea temperatures. “The world is slowly disintegrating,” concluded Inuit hunter Noah Metuq, who lives 30 miles from the Arctic Circle. “They call it climate change…but we just call it breaking up.” From the founding of the first cities some 6,000 years ago until the beginning of the industrial revolution, carbon dioxide levels in the atmosphere remained relatively constant at about 280 parts per million (ppm). At present they are accelerating toward 400 ppm, and by 2050 they will reach 500 ppm, about double pre-industrial levels. Unfortunately, atmospheric CO2 lasts about a century, so there is no way immediately to reduce levels, only to slow their increase, we are thus in for significant global warming; the only debate is how much and how serous the effects will be. As the newspaper stories quoted above show, we are already experiencing the effects of 1-2 degree warming in more violent storms, spread of disease, mass die offs of plants and animals, species extinction, and threatened inundation of low-lying countries like the Pacific nation of Kiribati and the Netherlands at a warming of 5 degrees or less the Greenland and West Antarctic ice sheets could disintegrate, leading to a sea level of rise of 20 feet that would cover North Carolina’s outer banks, swamp the southern third of Florida, and inundate Manhattan up to the middle of Greenwich Village. Another catastrophic effect would be the collapse of the Atlantic thermohaline circulation that keeps the winter weather in Europe far warmer than its latitude would otherwise allow. Economist William Cline once estimated the damage to the United States alone from moderate levels of warming at 1-6 percent of GDP annually; severe warming could cost 13-26 percent of GDP. But the most frightening scenario is runaway greenhouse warming, based on positive feedback from the buildup of water vapor in the atmosphere that is both caused by and causes hotter surface temperatures. Past ice age transitions, associated with only 5-10 degree changes in average global temperatures, took place in just decades, even though no one was then pouring ever-increasing amounts of carbon into the atmosphere. Faced with this specter, the best one can conclude is that “humankind’s continuing enhancement of the natural greenhouse effect is akin to playing Russian roulette with the earth’s climate and humanity’s life support system. At worst, says physics professor Marty Hoffert of New York University, “we’re just going to burn everything up; we’re going to het the atmosphere to the temperature it was in the Cretaceous when there were crocodiles at the poles, and then everything will collapse.” During the Cold War, astronomer Carl Sagan popularized a theory of nuclear winter to describe how a thermonuclear war between the Untied States and the Soviet Union would not only destroy both countries but possible end life on this planet. **Global warming is the post-Cold War era’s equivalent of nuclear winter at least as serious and considerably better supported scientifically**. Over the long run it puts dangers form terrorism and traditional military challenges to **shame**. It is a threat not only to the security and prosperity to the United States, but potentially to the continued existence of life on this planet.

### **Keynes Good – Environment 1AR**

**Infrastructure investment solves the environment:**

**1) Creates a new energy friendly agenda – this solves warming by reducing fossil fuels and energy use – that’s Han.**

**2) The impact is extinction – unchecked warming is the equivalent of a nuclear winter – that’s Diebel.**

### **Keynes Good – Free Trade – Democracy 2AC**

#### **Infrastructure investment facilitates free trade**

Fan Zhai ’10 (Managing director of the China Investment Corporation, June 2010, ADBI Working Paper Series no. 223, “The Benefits of Regional Infrastructure Investment in Asia: A Quantitative Exploration,” http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=1638786&http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=1638786)

In contrast with much private investment, investment in infrastructure can generate positive externalities throughout an economy, leading to social returns that exceed private returns. For regional infrastructure in transport and communication, one of their most important external effects is to increase market access by lowering trade costs. Broadly defined, trade costs include policy barriers (tariffs and nontariff barriers), transportation costs, local distribution costs, information costs, contract enforcement costs, and other costs associated with border-related barriers, such as language and currency conversion. The tariff equivalent of trade costs can range from 30% to 105%, depending on the sector, according to estimates for imports by the United States (World Bank 2005). Based on 1990 bilateral trade data for 19 member countries of the Organisation for Economic Co-operation and Development, Eaton and Kortum (2002) found that the tariff equivalent of trade costs ranged from 58% to 78%. Trade costs in developing countries are typically much higher due to weaker infrastructure and institutions. Assessing the importance of infrastructure in facilitating trade, Nordas and Piermartini (2004) defined four dimensions of the relationship between infrastructure and trade costs. The first dimension of infrastructure’s effect on trade costs is measured by direct monetary outlays for trade. These are determined not only by the distance (both physical and cultural) between trading partners, but also by the quality of infrastructure and the cost and quality of related services. Second, delivery time—whether on time or not—is likely to be influenced by the quality of infrastructure. Third, poor quality infrastructure increases the uncertainty of delivery, which is associated with a higher risk of damage, and therefore with higher losses and insurance costs. The fourth dimension of trade costs is high opportunity cost due to lack of access to good transport and telecommunications services. The quality of infrastructure thus largely determines the time required to get product to market and the reliability of delivery.

#### Free Trade spreads democracy.

Griswold ‘4 – Director of the Center for Trade Policy Studies @ CATO Institute (Daniel, Associated, “Free Trade Sows Seeds for Democracy”, February 18, http://www.cato.org/research/articles/griswold-040218.html)

One of the most powerful forces for spreading democracy and human rights in East Asia and the rest of the world today may be the freedom to trade. Political scientists have long noted the connection between economic development, political reform and democracy. Increased trade and economic integration promote civil and political freedoms directly by opening a society to new technology, communications and democratic ideas. Economic liberalization provides a counterweight to governmental power and creates space for civil society. And by promoting faster growth, trade promotes political freedom indirectly by creating an economically independent and politically aware middle class. In an April 2002 speech urging Congress to grant him trade promotion authority, President Bush argued, "Societies that are open to commerce across their borders are more open to democracy within their borders." In a new study for the Cato Institute, "Trading Tyranny for Freedom: How Open Markets Till the Soil for Democracy," I conclude that that those assumptions rest on solid ground. Around the globe, the recent trend towards globalization has been accompanied by a trend toward greater political and civil liberty. In the past 30 years, cross-border flows of trade, investment and currency have increased dramatically, and far faster than output itself. During that same period, political and civil liberties have been spreading around the world.

#### Democracy solves multiple scenarios for extinction

Diamond ’95(Larry, Senior Fellow – Hoover Institution, “Promoting Democracy in the 1990s”, December, <http://www.carnegie.org//sub/pubs/deadly/dia95_01.html>)

OTHER THREATS This hardly exhausts the lists of threats to our security and well-being in the coming years and decades. In the former Yugoslavia nationalist aggression tears at the stability of Europe and could easily spread. The flow of illegal drugs intensifies through increasingly powerful international crime syndicates that have made common cause with authoritarian regimes and have utterly corrupted the institutions of tenuous, democratic ones. Nuclear, chemical, and biological weapons continue to proliferate. The very source of life on Earth, the global ecosystem, appears increasingly endangered. Most of these new and unconventional threats to security are associated with or aggravated by the weakness or absence of democracy, with its provisions for legality, accountability, popular sovereignty, and openness. LESSONS OF THE TWENTIETH CENTURY The experience of this century offers important lessons. Countries that govern themselves in a truly democratic fashion do not go to war with one another. They do not aggress against their neighbors to aggrandize themselves or glorify their leaders. Democratic governments do not ethnically "cleanse" their own populations, and they are much less likely to face ethnic insurgency. Democracies do not sponsor terrorism against one another. They do not build weapons of mass destruction to use on or to threaten one another. Democratic countries form more reliable, open, and enduring trading partnerships. In the long run they offer better and more stable climates for investment. They are more environmentally responsible because they must answer to their own citizens, who organize to protest the destruction of their environments. They are better bets to honor international treaties since they value legal obligations and because their openness makes it much more difficult to breach agreements in secret. Precisely because, within their own borders, they respect competition, civil liberties, property rights, and the rule of law, democracies are the only reliable foundation on which a new world order of international security and prosperity can be built.

### **Keynes Good – Free Trade – Democracy 1AR**

**Infrastructure investment solves free trade:**

**1) Integrates economies – infrastructure lowers costs and promotes globalization between countries – that’s Zhai.**

**2) Solves democracy – trade and economic integration promotes civil and democratic developments – that’s Griswold.**

**3) Stops extinction – democratic governments don’t go to war or ethnically cleanse – they don’t have WMD or sponsor terrorism – that’s Diamond.**

### **Keynes Good – Free Trade – War 2AC**

#### **Infrastructure investment facilitates free trade**

Fan Zhai ’10 (Managing director of the China Investment Corporation, June 2010, ADBI Working Paper Series no. 223, “The Benefits of Regional Infrastructure Investment in Asia: A Quantitative Exploration,” http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=1638786&http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=1638786)

In contrast with much private investment, investment in infrastructure can generate positive externalities throughout an economy, leading to social returns that exceed private returns. For regional infrastructure in transport and communication, one of their most important external effects is to increase market access by lowering trade costs. Broadly defined, trade costs include policy barriers (tariffs and nontariff barriers), transportation costs, local distribution costs, information costs, contract enforcement costs, and other costs associated with border-related barriers, such as language and currency conversion. The tariff equivalent of trade costs can range from 30% to 105%, depending on the sector, according to estimates for imports by the United States (World Bank 2005). Based on 1990 bilateral trade data for 19 member countries of the Organisation for Economic Co-operation and Development, Eaton and Kortum (2002) found that the tariff equivalent of trade costs ranged from 58% to 78%. Trade costs in developing countries are typically much higher due to weaker infrastructure and institutions. Assessing the importance of infrastructure in facilitating trade, Nordas and Piermartini (2004) defined four dimensions of the relationship between infrastructure and trade costs. The first dimension of infrastructure’s effect on trade costs is measured by direct monetary outlays for trade. These are determined not only by the distance (both physical and cultural) between trading partners, but also by the quality of infrastructure and the cost and quality of related services. Second, delivery time—whether on time or not—is likely to be influenced by the quality of infrastructure. Third, poor quality infrastructure increases the uncertainty of delivery, which is associated with a higher risk of damage, and therefore with higher losses and insurance costs. The fourth dimension of trade costs is high opportunity cost due to lack of access to good transport and telecommunications services. The quality of infrastructure thus largely determines the time required to get product to market and the reliability of delivery.

#### Free trade solves war

Griswold ‘2 – associated Director of the Center for Trade Policy Studies @ CATO Institute (Daniel, , The Insider, “Seven Moral Arguments for Free Trade”, May 1, <http://www.insideronline.org/feature.cfm?id=106>)

In an 1845 speech in the British House of Commons, Richard Cobden called free trade “that advance which is calculated to knit nations more together in the bonds of peace by means of commercial intercourse.” Free trade does not guarantee peace, but it does strengthen peace by raising the cost of war to governments and their citizens. As nations become more integrated through expanding markets, they have more to lose should trade be disrupted. In recent years, the twin trends of globalization and democratization have produced their own “peace dividend”: since 1987, real spending on armaments throughout the world has dropped by more than one-third. Since the end of the Cold War, the threat of major international wars has receded. Those nations most closely associated with international terrorism – Libya, Sudan, Syria, Iraq, Iran, Afghanistan, and North Korea – are among the least globalized countries in the world in terms of non-oil trade and foreign investment. Not one of them belongs to the World Trade Organization. During the 1930s, the industrialized nations waged trade wars against each other. They raised tariffs and imposed quotas in order to protect domestic industry. The result, however, was that other nations only raised their barriers even further, choking off global trade and deepening and prolonging the global economic depression. Those dark economic times contributed to the conflict that became World War II. America’s post-war policy of encouraging free trade through multilateral trade agreements was aimed at promoting peace as much as it was prosperity.

#### Investments in infrastructure are necessary for free trade – reduced trade costs

Timo Henckel ’10 (Centre for Applied Macroeconomic Analysis, Australian National University, Brookings, 6/4/10, “The Economics of Infrastructure in a Globalized World: Issues, Lessons and Future Challenges,” http://relooney.info/0\_NS4053\_761.pdf)

A key benefit of infrastructure, in particular transport infrastructure, is the reduction of transport costs, which helps to create new markets and realize the returns to agglomeration. This in turn fosters competition, spurs innovation, lowers prices and raises productivity, leading to an increase in living standards. Powerful evidence in favor of this benefit is supplied by Li (2010) for the case of China where the current level of transport costs is still the most significant trade friction (approximately half of total sales costs) and by Brooks (2010) for Asia more generally. China’s investment intensity has increased dramatically since 1990, with highway investment constituting the largest share. By looking at the price wedge of the same products in different cities, from which trade costs can be inferred, Li studies the impact of the Lanzhou-Xinjiang railroad. Within three years of the railroad’s completion, eastbound trade volume increased by over 40 percent and eastbound trade costs decreased by about 30 percent, implying a social return to the investment of approximately 30 percent per year. Brooks and Ferrarini (2010) also find that in China and India declining trade costs account for a large and increasing portion of trade growth, explaining approximately 75 percent of trade expansion since the early 1990s. Hummels (2001) argues that for the period 1950-1998 faster transport — air shipping and faster ocean vessels — was equivalent to reducing tariffs on manufactured goods from 32 percent to 9 percent. The use of containers in ocean transport has led to massive efficiency gains in long-distance transport of goods and commodities. According to Limão and Venables (2001), lowering trade costs by 10 percent through infrastructure investment, can increase exports by more than 20 percent. Thus, infrastructure is a key ingredient in a country’s ability to capture the gains from trade possible through the process of globalization.

### Keynes Good – Free Trade – War 1AR

**Infrastructure investment solves free trade:**

**1) Integrates economies – infrastructure lowers costs and promotes globalization between countries – that’s Zhai.**

**2) Solves war – countries won’t destroy the system that supports their economy – raises the costs of war – globalized countries are more aggressive and militaristic – that’s Griswold.**

### **Keynes Good – Green Infrastructure**

#### Green infrastructure projects solve – they stimulate new sectors and avoid climate change

Claudia Copeland et al ’11 (Copeland is a Specialist in Resources and Environmental Policy, Linda Levine is a Specialist in Labor Economics William J. Mallett is a Specialist in Transportation Policy, “The Role of Public Works Infrastructure in Economic Recovery,” 9/21/2011, CRS Report for Congress, http://www.fas.org/sgp/crs/misc/R42018.pdf)

A relatively recent addition to debate over the issues discussed in this report is the concept of growing the economy and creating jobs with investments that will promote clean energy and environmental protection. In the current context of economic recovery, consideration of “green” projects is less prominent than it was preceding enactment of ARRA in 2009, 51 but the concept continues to have advocates who contend that investments in technologies with improved energy efficiency, energy security, or environmental protection will benefit the economy. Several interest groups have advocated these types of proposals. Among these, the Center for American Progress (CAP), a public policy and research think tank, recommended green investment projects totaling $100 billion as part of “A Strategy for Green Recovery” and also has advocated on behalf of the economic benefits of investing in clean energy. 52 Also, a February 2011 report by the BlueGreen Alliance and the Economic Policy Institute argues that investments in the green economy can address near-term economic challenges of creating jobs and the long-run challenge of helping global economies transition to less carbon-intensive forms of economic activity. 53 Several questions arise concerning such proposals. First, what, exactly, is “green infrastructure?” The term is less precisely defined than is traditional infrastructure (see page 4), which some “green” advocates now refer to as “gray infrastructure.” In the context of benefitting economic activity, green infrastructure has been broadly defined to include support for constructing the manufacturing infrastructure to develop and commercialize various technologies that are more energy efficient (e.g., advanced vehicle batteries) or more environmentally friendly (e.g., investments in renewable energy sources and the electricity grid to transmit and distribute clean energy). Renewable energy technologies generate electricity from resources such as the sun or wind, or produce transportation fuels from biomass, with essentially no net greenhouse gas emissions. Most of the future growth in green jobs is generally envisioned as coming from the growth in deployment of renewable energy technologies. Attention also has been given to mass transit projects that can decrease energy consumption and reduce global warming pollution. Similarly, many advocates favor such other technologies or techniques to retrofit schools and public buildings for greater energy efficiency. A second question is, can investment in “green” projects create jobs that benefit the economy’s recovery? One aspect of this is, are there “ready to go” “green” projects that could create jobs quickly? As previously discussed, the key to stimulus spending is to get funds moving quickly into the economy. However, many of the proposals by green economy proponents were not conceived for the purpose of quickly stabilizing or increasing the number of jobs in the nation, or in industries particularly hard hit by recession. Studies like CAP’s 2008 report recommend categories of projects to create green jobs, such as full funding of federal energy-efficiency programs, which “can start stimulating the economy relatively rapidly” and others, such as new authorization for grants to states to support manufacturing plant retooling to produce clean and energy-efficient technologies, that are “less fast-acting.” Eighty percent of CAP’s recommended funding would have been for “less fast-acting” programs. 55 Critics say that many types of “green” projects are pricey, are subsidized through tax expenditures, and would do little to benefit the economy rapidly, but proponents contend that “green” investments represent a down payment on long-term economic growth and should be done even over a somewhat longer time period. One environmental advocacy group, the Alliance for Water Efficiency, estimated that investments in water efficiency programs could increase GDP by $1.3-1.5 million per million dollars of direct investment. The types of projects include installing green roofs, raingardens, and permeable pavement that can reduce the need for new wastewater treatment plants and stormwater and sewer pipes; restoring wetlands and natural floodplains; and residential and commercial water efficiency projects. 56

### Keynes Good – Jobs

#### Transportation infrastructure investments create the most jobs and enough to generate continuous economic growth – studies prove

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

The primary tool for generating estimates of the employment impacts of infrastructure spending is a model based on the national input-output tables. The input-output model captures in great detail the relationships that exist between different industries in the production of goods and services. It is also observed the interconnections between consumers of goods and services, including households and governments, and the various producing industries. The input-output modeling approach enables us to estimate the effects on employment resulting from an increase in final demand for the products of a given industry. Overall, the input-output model allows us to estimate the economy-wide employment impacts from a given level of spending in a particular area. The estimates from the input-output model also take into account leakages, the most important source of which for the kinds of investment considered in this report is the use of imported goods and services in the production of infrastructure. It is more difficult to estimate the size of the induced employment effects—or what, within standard macroeconomic models, is commonly termed the consumption multiplier—than to estimate direct and indirect effects. The induced effects represent a somewhat different category of multiplier in that they capture the increase in employment that occurs when the income generated by the direct and indirect job creation is spent. If there is slack in the economy‘s physical resources, the capacity to expand employment will be greater—and the induced effects larger. If the economy is operating at a high level of activity there is not likely to be a large employment gain beyond what resulted from the initial direct and indirect effects. Given the rapid deterioration of economic conditions over the past several months—including rapidly rising rates of unemployment— the U.S. economy is not likely to bump up against this kind of capacity constraint in the near future and we would expect the induced effects to be significant in the current climate. In their research, Heintz, Pollin and Peltier developed a formal model to estimate more systematically the broad magnitude of the induced employment effects. Starting with estimation on how much of the additional employment income earned as a result of the increased infrastructure investments is spent on household consumption, they used the basic input-out model to further estimate the number of jobs that this additional consumption spending would generate, assuming that there is ample excess capacity in the economy due to the prevailing high levels of unemployment. Employment Estimates for Infrastructure Investments All forms of spending will produce jobs, but infrastructure investment is a highly effective engine of job creation. Table 3 presents the estimated number of jobs that would be created by $1 billion in increased infrastructure investment for the four broad categories we consider here—energy, transportation, public schools, and water systems. The table shows direct and indirect effects (combined) and total job creation when we factor in an allowance for induced effects. In addition, Table 3 breaks down the job creation estimates into specific areas of investment—e.g. roads and bridges or wastewater treatment systems. In general, we estimate that each $1 billion in infrastructure investment will generate between 9,819 and 17,784 jobs if we consider only direct and indirect effects and between 14,515 and 23,784 jobs if we account for induced effects. The number of jobs created varies depending on the category of infrastructure in question. The highest direct and indirect employment impacts are associated with investments in mass transit systems; the lowest with investment in electricity production, transmission, and distribution infrastructure. However, the point of this exercise is not simply to rank the various categories of infrastructure in terms of their relative employment effects.

#### Investments in transportation infrastructure result in employment gains

Heather Boushey ’11 (Senior Economist at American Progress. Her research focuses on employment, social policy, and family economic well-being, American Progress, 9/22/11, “Now Is the Time to Fix Our Broken Infrastructure,” http://www.americanprogress.org/issues/2011/09/aja\_infrastructure.html)

In a separate study conducted before the Great Recession, economists James Heintz and Robert Pollin of the University of Massachusetts, Amherst, found that infrastructure investment spending in general creates about 18,000 total jobs for every $1 billion in new investment spending. This number include jobs directly created by hiring for the specific project, jobs indirectly created by supplier firms, and jobs induced when workers go out and spend their paychecks and boost their local economy.[8] Investing in transportation infrastructure in particular boosts employment. The Federal Highway Administration periodically estimates the impact of highway spending on direct employment, defined as jobs created by the firms working on a given project; on supporting jobs, including those in firms supplying materials and equipment for projects; and on indirect employment generated when those in the first two groups make consumer purchases with their paychecks. In 2007, $1 billion in federal highway expenditures supported about 30,000 jobs—10,300 in construction, 4,675 in supporting industries, and 15,094 in induced employment.[9]

### Keynes Good – Migration

#### Transportation infrastructure investment causes migration and businesses to the area – this generates massive economic growth

Joshua Behr ’11 ( Research associate professor, brings to VMASC social sciences research a background and expertise in healthcare delivery and emergency departments, complex social phenomena, election systems and political behavior, community vulnerability and emergency preparedness, and environmental health and built environments - EAIA '11 Proceedings of the 2011 Emerging M&S Applications in Industry and Academia Symposium

Pages 46-53, http://delivery.acm.org/10.1145/2050000/2048523/p46-behr.pdf?ip=199.76.149.33&acc=ACTIVE%20SERVICE&CFID=92096148&CFTOKEN=66331611&\_\_acm\_\_=1340858271\_1b81ec9032c2f29dec304152d427f9b1)

A sound transportation infrastructure also improves the commercial attractiveness of a region. Since good transportation infrastructure facilitates the rapid movement of goods and personnel, enterprises within the region can increase their efficiency and productivity. Such an environment is attractive to entrepreneurs looking to start businesses as well as ex-regional industries and businesses looking to expand into the region. Growth in the industries and businesses in the region leads to job creation opportunities and further increases in economic output. Job opportunities are attractive for immigrants, resulting in net population growth. The increasing population furthers the demand for housing and other goods and services. It also increases the level of utilization of the transportation infrastructure. Thus, urban road infrastructure is used by commuters, citizens seeking recreation and services, and business engaged in commerce, among others. The number of commuters in particular is indicative of regional economic activity;. in 2000, 76.7 percent of US commuters drove alone and a 25.5 minutes average commute time. (Reschovsky, 2004).

### Keynes Good – Multiplier Effect

#### Infrastructure spending can generate a multiplier effect of 2.8 – significantly larger than any other type of fiscal spending

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

Besides its improving effects on productive capacity as the major reason for the infrastructure investment‘s contribution to the economic growth, a second reason is its relatively larger multiplier effects on the overall economy compared to other types of investment of the same amount. The multiplier effect refers to the dollar amount impact on the economy, measured as GDP, that each dollar of spending could generate; since the effect of each dollar of spending is usually beyond itself – i.e. larger than 1 – due to its stimulating effects on other components of the GDP, such as consumption, investment and net exports, it is often referred to as the multiplier effects. There is more than one kind of multiplier effect based on different investments, but in most studies and ours as well, we are specifically interested in and refer to the fiscal multiplier, that is the dollar amount impact on the economy for each dollar of government spending. As discussed in details in a previous research of mine on the subject of the Automatic Budget Enforcement Procedures, the size of the multiplier under current circumstances is estimated to be 1.88, with the interest rate at the zero lower bound taken into account in illustrations of a series of Keynesian models. With regards to the fact that multiplier specifically for infrastructure investments is larger than other types of investments and thus the general average fiscal multiplier, the theoretical reasons behind are quite easy to understand. The two major reasons infrastructure spending are: (1) less leakage to imports and (2) stronger stimulus in consumption compared to other types of spending such as tax cuts, where a higher proportion of the additional money is saved or spent on imported goods and services. In order to estimate the size of multiplier specifically for infrastructure investments, we utilize the employment effects estimated using the Input-Output Model in the research How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth (Heintz, Pollin and Peltier, 2009). According to their research, for each $1 billion infrastructure investment made, an average of 18,681 jobs will be created in core economic infrastructure through direct, indirect and induced effects. As of December 2010, the total employment in the U.S. was 130.26 million, which translates an increase of 18,681 jobs into a percentage increase of 0.0143%. From there, based on the solid basic assumption on the relationship between employment and GDP increases that was used by Romer and Bernstein in their paper The Job Impact of the American Recovery and Reinvestment Act (Romer and Bernstein, 2009), we can trace back to a reliable estimate of GDP increase in dollar amount for each $1 billion investments in infrastructure, and thus an infrastructure multiplier. The assumption made by Romer and Bernstein and also agreed by Heintz, Pollin and Peltier is that employment will rise by 0.75% for every 1% increase in GDP. Therefore, the 0.0143% increase in employment generated per $1 billion infrastructure investment can be translated as a 0.0191% increase in GDP. With a GDP of $14,660.2 billion in 2010, such percentage increase is equivalent to a dollar amount increase of 19 $2.8 billion in GDP. That said, the conclusion is that, for each $1 billion spending on infrastructure, an increase of approximately $2.8 billion in GDP can be observed, meaning that the multiplier for infrastructure investments specifically is about 2.8, much larger than the average size of 1.88 for all types of investments as estimated in previous study. This well established larger multiplier effects of infrastructure investments become particularly important due to the slow economic recovery we have faced since the crisis. Even without the more influential and fundamental effects of infrastructure investments on productivity improvement, the larger multiplier such investments have is a strong enough reason to call for more spending, or at least less cuts, on infrastructure projects.

#### Infrastructure Investment has the highest multiplier effect

Heather Boushey ’11 (Senior Economist at American Progress. Her research focuses on employment, social policy, and family economic well-being, American Progress, 9/22/11, “Now Is the Time to Fix Our Broken Infrastructure,” http://www.americanprogress.org/issues/2011/09/aja\_infrastructure.html)

Analysis of all fiscal stimulus policies shows a higher “multiplier” from infrastructure spending than other kinds of government spending, such as tax cuts, meaning that infrastructure dollars flow through the economy and create more jobs than other kinds of spending. Economist Mark Zandi found, for example, that every dollar of government spending boosts the economy by $1.44, whereas every dollar spent on a refundable lump-sum tax rebate adds $1.22 to the economy.[7]

### Keynes Good – Spillover

#### Transportation infrastructure investment spills over to neighboring countries and regions within countries and significantly improves their economies – empirics prove

Timo Henckel ’10 (Centre for Applied Macroeconomic Analysis, Australian National University, Brookings, 6/4/10, “The Economics of Infrastructure in a Globalized World: Issues, Lessons and Future Challenges,” http://relooney.info/0\_NS4053\_761.pdf)

In many regions such as Asia, infrastructure remains fragile and cross-border facilities are limited.

Because of trade-related externalities, there remains considerable scope for regional cooperation in infrastructure planning and provision. However, the market places continuously changing demands on existing infrastructure, which may be extremely difficult for governments to anticipate and respond to. New trade patterns alter the weight/value composition of merchandise, change the demand for timeliness, increase production fragmentation and generate further demand for transport services. Such changes require a more efficient mix of transport modes (which may be either substitutive or complementary), new connections and nodes in the transport network and more sophisticated transport technology. The challenge for governments is to listen to the demands of the market while acknowledging the spillovers inherent in much of infrastructure investment and acknowledging the potential inefficiencies caused by interest groups that seek to realize rents from public expenditures. In many cases, economic growth occurs within regional clusters; countries do well when their neighbors do well and vice versa. Cross-country growth spillovers might be localized because spillovers of knowledge between countries are also localized; for example, if knowledge is embodied in those goods which are heavily traded among geographically proximate countries. There are also agglomeration economies. Growth theory suggests these trading partners form convergence clubs with economic growth correlated across neighboring countries, explaining why economic development tends to be confined within relatively well-defined geographic regions. Since growth is typically associated with an expansion in infrastructure, a key question is whether infrastructure itself is co-responsible for promoting regional neighborhood effects. If so, then positive spillovers are likely to lead to underinvestment as total regional returns exceed local returns. Easterly and Levine (1998) and Collier and O’Connell (2007) find that a 1 percent increase in neighbors’ growth increases a country’s own growth rate by 0.4 to 0.7 percent. Similar findings exist in the United States where research suggests city-level spillovers from infrastructure investments. These growth spillovers are even stronger for resource-poor, landlocked countries, with the exception of subSaharan Africa. Recent econometric evidence by Roberts and Deichmann (2009) confirms the heterogeneity in the strength of growth spillovers across regions. The authors find that transport and telecommunications infrastructure play a significant role in promoting spillovers when it interacts with regional trade integration. Their results show that the importance of infrastructure lies not in its direct contribution to economic growth, but in the benefits it brings to landlocked countries to absorb beneficial growth spillovers from neighboring countries. Hence, it is investment in infrastructure which, along with more formalized trading agreements, has helped countries such as Switzerland and Austria to thrive. The results are consistent with Collier and O'Connell's (2007) hypothesis that, globally, landlocked countries depend more on the growth of their neighbors than coastal countries, with the exception of sub-Saharan Africa where regional integration is low.

### Keynes Good – WWII

#### They conflate cause and effect – World War II proves Keynesian economics works

Business Insider ’11 (8/3/11, “No, It Won't "Fix The Economy" -- But It Will Help,” http://articles.businessinsider.com/2011-10-03/news/30237732\_1\_richard-koo-government-stimulus-economy)

In addition to Japan, one of the most often-repeated examples cited by those who say stimulus doesn't work is the US experience in the Great Depression. To see that stimulus doesn't work, they say, all you need to do is look at the huge public-works programs of the 1930s, which failed to pull the US permanently out of the Depression. What finally got the US out of the Depression, these folks continue, was World War 2. World War 2: The biggest Keynesian stimulus ever. But what was World War 2 if not a gigantic government stimulus on an unimaginable scale? Nothing—that's exactly what World War 2 was. It put the US government deeply in debt, vastly deeper in debt than we are today. But it got our production engine humming again, and it set the stage for decades of impressive growth, during which we eventually worked off the World War 2 debt. So there's a lot of evidence to suggest that the current consensus that stimulus "doesn't work" is flat-out wrong. In fact, the evidence suggests, stimulus can keep the economy from collapsing while the private sector heals itself. And this, in turn, suggests that ruling out future stimulus in the form of infrastructure investment as a way to help the economy is a major mistake, especially with US infrastructure in such lousy shape and so many US workers idled by the construction industry slowdown. To begin to believe this, it helps to walk through some of Richard Koo's excellent slides, which focus on the Japan, Depression, and recent US and Europe experiences

## AT: Keynes Bad

### **Keynes Bad Claims = Scare Tactics**

#### **Claims of deficit disaster are all hype – they are used as political scare tactics. Stimulus spending actually does solve**

Paul Krugman ’10 (Joined The New York Times in 1999 as a columnist on the Op-Ed Page and continues as professor of Economics and International Affairs at Princeton University. Mr. Krugman received his B.A. from Yale University in 1974 and his Ph.D. from MIT in 1977. He has taught at Yale, MIT and Stanford. At MIT he became the Ford International Professor of Economics, “Fiscal Scare Tactics,” 2/4/10, http://scholar.googleusercontent.com/scholar?q=cache:ybNkF6NaMggJ:scholar.google.com/+paul+krugman+fiscal+scare+tactics&hl=en&as\_sdt=0,18)  
These days it’s hard to pick up a newspaper or turn on a news program without encountering stern warnings about the federal budget deficit. The deficit threatens economic recovery, we’re told; it puts American economic stability at risk; it will undermine our influence in the world. These claims generally aren’t stated as opinions, as views held by some analysts but disputed by others. Instead, they’re reported as if they were facts, plain and simple. Yet they aren’t facts. Many economists take a much calmer view of budget deficits than anything you’ll see on TV. Nor do investors seem unduly concerned: U.S. government bonds continue to find ready buyers, even at historically low interest rates. The long-run budget outlook is problematic, but short-term deficits aren’t — and even the long-term outlook is much less frightening than the public is being led to believe. So why the sudden ubiquity of deficit scare stories? It isn’t being driven by any actual news. It has been obvious for at least a year that the U.S. government would face an extended period of large deficits, and projections of those deficits haven’t changed much since last summer. Yet the drumbeat of dire fiscal warnings has grown vastly louder. To me — and I’m not alone in this — the sudden outbreak of deficit hysteria brings back memories of the groupthink that took hold during the run-up to the Iraq war. Now, as then, dubious allegations, not backed by hard evidence, are being reported as if they have been established beyond a shadow of a doubt. Now, as then, much of the political and media establishments have bought into the notion that we must take drastic action quickly, even though there hasn’t been any new information to justify this sudden urgency. Now, as then, those who challenge the prevailing narrative, no matter how strong their case and no matter how solid their background, are being marginalized. And fear-mongering on the deficit may end up doing as much harm as the fear-mongering on weapons of mass destruction. Let’s talk for a moment about budget reality. Contrary to what you often hear, the large deficit the federal government is running right now isn’t the result of runaway spending growth. Instead, well more than half of the deficit was caused by the ongoing economic crisis, which has led to a plunge in tax receipts, required federal bailouts of financial institutions, and been met — appropriately — with temporary measures to stimulate growth and support employment. The point is that running big deficits in the face of the worst economic slump since the 1930s is actually the right thing to do. If anything, deficits should be bigger than they are because the government should be doing more than it is to create jobs. True, there is a longer-term budget problem. Even a full economic recovery wouldn’t balance the budget, and it probably wouldn’t even reduce the deficit to a permanently sustainable level. So once the economic crisis is past, the U.S. government will have to increase its revenue and control its costs. And in the long run there’s no way to make the budget math work unless something is done about health care costs. But there’s no reason to panic about budget prospects for the next few years, or even for the next decade. Consider, for example, what the latest budget proposal from the Obama administration says about interest payments on federal debt; according to the projections, a decade from now they’ll have risen to 3.5 percent of G.D.P. How scary is that? It’s about the same as interest costs under the first President Bush. Why, then, all the hysteria? The answer is politics. The main difference between last summer, when we were mostly (and appropriately) taking deficits in stride, and the current sense of panic is that deficit fear-mongering has become a key part of Republican political strategy, doing double duty: it damages President Obama’s image even as it cripples his policy agenda. And if the hypocrisy is breathtaking — politicians who voted for budget-busting tax cuts posing as apostles of fiscal rectitude, politicians demonizing attempts to rein in Medicare costs one day (death panels!), then denouncing excessive government spending the next — well, what else is new? The trouble, however, is that it’s apparently hard for many people to tell the difference between cynical posturing and serious economic argument. And that is having tragic consequences. For the fact is that thanks to deficit hysteria, Washington now has its priorities all wrong: all the talk is about how to shave a few billion dollars off government spending, while there’s hardly any willingness to tackle mass unemployment. Policy is headed in the wrong direction — and millions of Americans will pay the price.

### AT: Austerity

**Austerity fails –**

#### a. Public investment cuts are counterproductive – infrastructure spending is necessary to generate revenues later

William Easterly et al ’08 (Easterly is a professor of economics at New York University, where he is also a faculty afﬁliate of Africa House and co-director of the Development Research Institute; Timothy Irwin is a senior economist in the Finance, Economics, and Urban Department at the World Bank, Luis Serven is research manager for macroeconomics and growth in the Development Research Group at the World Bank, “Walking up the Down Escalator: Public Investment and Fiscal Stability,” World Bank, 1/28/2008, https://openknowledge.worldbank.org/bitstream/handle/10986/4414/wbro\_23\_1\_37.pdf?sequence=1)

In many industrial and developing economies, governments have cut back on public investment as they have brought their budgets closer to balance. Although budget cuts were probably necessary, the cuts in public investment may have been counterproductive, because much theory and evidence suggest that public investment has the potential to increase future output. In the worst case, investment cuts trigger a vicious circle, in which the subsequent deterioration of future revenue forces further investment cuts, leading to yet further deterioration, further investment cuts, and so on. What is supposed to be ﬁscal adjustment in this case actually has the same consequences as ﬁscal proﬂigacy. Cutting investment to promote solvency becomes the ﬁscal equivalent of walking up the down escalator—riders step up only to end up below where they started. The cuts in public investment should have come as no surprise when most countries measure their ﬁscal position not in terms of net worth but in terms of short-term cash ﬂows and gross debt, and cutting investment can reduce debt and short-term cash ﬂows, even as it reduces net worth. The problem afﬂicts both industrial and developing economies, but it is more pressing in developing economies, which have not yet built up their public capital stocks. The decline in public investment suggests the need to rethink ﬁscal strategies. In some cases, it may be best to increase public investment and accept a higher short-term cash deﬁcit in exchange for higher tax and user-fee revenues later. This strategy is unlikely to be right for all countries, however. Those with good infrastructure and bad ﬁscal positions may indeed do well to cut public investment. Countries with high taxes and debt may do best to increase public investment but ﬁnance it by cutting current expenditure. Still others, with high debt and little room for cuts in current expenditure, may have no choice but to raise taxes or forgo improvements in their infrastructure. Each case must be analyzed on its merits, with—given the tendency to be optimistic in forecasting growth and the performance of investments—a degree of skepticism. One general lesson is that appropriate spending composition has to be an essential part of ﬁscal adjustment and consolidation strategies, because it affects growth outcomes. In other words, spending targets and growth forecasts cannot be set without regard to the composition of expenditure, as they currently are.

#### b. Inaction costs us money and destroys growth – costs $129 billion a year

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

According to calculations done by the American Society of Civil Engineers (ASCE) in their 2010 report, infrastructure deficiencies – decaying roads, bridges, railroads and transit systems – are costing the United States $129 billion a year, including $97 billion from cost of operating vehicles and $32 billion from travel delays. The ASCE also indicated in their report that if investments in surface transportation infrastructure are not made soon, these costs are expected to grow exponentially. Within 10 years, U.S. businesses would pay an added $430 billion in transportation costs, household incomes would fall by more than $7,000 per household and U.S. exports will fall by $28 billion. Deterioration of the U.S. transportation system has been likened to an iceberg, with just the tip of an enormous obstacle to economic growth showing above the surface. The ASCE report contends that infrastructure failure already is dramatically affecting travel and commerce. Steven Landau of Boston‘s Economic Development Research Group, which did the research for the ASCE, suggested that the cost of a depreciating transportation system will divert increasing portions of earned income to pay for transportation delays and vehicle repairs from financial resources that would otherwise be invested in innovation and expansion. Besides its negative influences on productivity improvement, such deficiency in infrastructure will also deeply affect economic growth, which becomes even more critical in the slump of the current crisis. Figure 2 provides further perspective on the relationship between U.S. public investment and economic growth by comparing long-run changes in GDP as well as public investment. As the figure shows, from 1950-79, GDP and public investment grew at basically the same relatively high rate, 4.1 and 4.0 percent respectively. From 1980-2010, the growth of both GDP and public investment ratcheted downward, with GDP at 2.8 percent average annual growth, while public investment fell to a 2.7 average growth rate.

#### c. It destroys employment rates

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

Besides economic growth, another big concern is the employment effects. The ASCE report predicted that without infrastructure investment, economic growth would be stifled to the tune of $3.1 trillion by 2020, equivalent to 14% of GDP forecasted for 2020 by the Congressional Budget Office, and 870,000 jobs would be lost. Ultimately, Americans would get paid less, the ASCE report says. The economy would lose jobs, and paychecks of those who are able to find work would be cut by nearly 30 percent. To avert such situations, the ASCE report stated that an investment of about $1.7 trillion will be required by 2020, with an estimated gap between what is being spent and what needs to be spent at $94 billion a year. With the needs of additional infrastructure investment assessed in detail in the next section, one can see clearly that investments in infrastructure have far more benefits beyond infrastructure itself. As Thomas J. Donohue, president of the U.S. Chamber of Commerce, said that without more robust economic growth, the U.S. will not create the 20 million jobs needed in the next decade to replace those lost during the recession and to keep up with growing workforce.

### AT: Crowd Out

#### Crowding out doesn’t happen and infrastructure investment actually generates much more private investment

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

The one most important reason for the tremendous benefits that infrastructure investment would bring along is its effects on expanding the economy‘s long-term productive capacity. In order to see this fact, let‘s start with probably the single most common and influential argument against increasing the level of public investment, that is it will ―crowd out‖ private investment – i.e. an increase in public infrastructure spending will be associated with an equivalent decline in private investment. To test the validity of this argument, let‘s first understand the two kinds of resources required by investments in infrastructure: real economic resources – materials, equipment and people‘s labor, and financial resources – money coming either from tax revenues or government borrowing. The ‘crowding out’ argument assumes that when the public sector consumes more of 16 these real and financial resources, it necessarily diminishes the amount available to the private sector. Therefore, an increase in public capital expenditures results in less private sector production. In other words, the ‗economic pie‘ is fixed. When the government takes a bigger slice, it leaves less for the private economy. However, even at the level of simple logic, the crowding out argument only holds under a specific set of narrow economic circumstances. These circumstances would be when: 1) all the economy‘s real resources are being fully utilized, i.e. workers are fully employed, and the existing productive apparatus is being run full-tilt; 2) the economy‘s financial resources are similarly already being fully used up in financing productive investment projects; and 3) new public investment spending makes no contribution toward expanding the economy‘s productive capacity—i.e. it is not succeeding in its purpose of increasing the overall size of the economic pie. In the current economic crisis, unemployment is rising toward its highest level in a generation and financial institutions are providing almost no loans for private investment, preferring instead to hoard huge cash reserves and to purchase U.S. Treasury bonds, the single safest asset available on financial markets. Under these circumstances, there is no possibility of public investment projects bidding resources away from the private sector. Rather, higher rates of public infrastructure will increase the total number of people who can find employment, and it will put to good use the financial resources flowing into the U.S. Treasury. But these are of course extraordinary circumstances. It is also important to recognize that crowding out need not occur even when the economy is booming and unemployment is low. This is because public infrastructure investments will expand the economy‘s long-term productive capacity, with benefits flowing primarily to the private sector. Because public infrastructure investment actually increases the overall size of the economic pie, both the public and the private sectors can expand together through a complimentary, mutually-supportive growth path. More specifically, public spending provides goods and services essential for private production, including roads, bridges, energy, water, aviation, and water transport. Infrastructure improvements can increase labor productivity—e.g. more efficient transportation systems to and from work reduce wasted time. Better infrastructure can also reduce fossil fuel consumption specifically, and overall energy consumption more generally. This reduces greenhouse gas emissions, and thus the environmental barriers to economic growth.

#### Stimulus creates a crowding in effect due to current economic conditions, and any crowding out doesn’t make a difference

Paul Krugman ’09 (Joined The New York Times in 1999 as a columnist on the Op-Ed Page and continues as professor of Economics and International Affairs at Princeton University. Mr. Krugman received his B.A. from Yale University in 1974 and his Ph.D. from MIT in 1977. He has taught at Yale, MIT and Stanford. At MIT he became the Ford International Professor of Economics, “Crowding In,” 9/28/09, http://economistsview.typepad.com/economistsview/2009/09/crowding-in.html)

Why, exactly, do we think that budget deficits are a bad thing? The textbook answer identifies two reasons — two ways in which budget deficits now make us worse off in the future. They are: (1) The fiscal burden: deficits now mean higher debt later, which will have to be serviced, and that means higher taxes and/or less spending on other, presumably desirable things. (2) Crowding out: when it runs deficits, the government competes with the private sector for funds, so deficits crowd out private investment, which reduces potential growth All this makes sense under normal conditions. But right now we’re not living under normal conditions. We’re in a situation in which the economy is deeply depressed, and monetary policy — the usual line of defense against recession — is hard up against the zero-interest-rate bound. This weakens argument (1) — and it actually reverses argument (2). On argument (1): it’s still true that an increase in government spending raises future debt. But not one for one: because higher spending raises GDP, it leads to higher revenue, which offsets a significant fraction of the initial outlay. A back-of-the-envelope calculation suggests something like a 40 percent offset is plausible, so fiscal stimulus only costs 60 percent of what it costs. But the really dramatic difference is for argument (2). Under the kind of conditions we’re now facing, the main determinant of business investment is the state of the economy, as evidenced by the plunge in investment shown in the figure. This, in turn, means that anything that improves the state of the economy, including fiscal stimulus, leads to more investment, and hence raises the economy’s future potential. That is, under current conditions deficit spending doesn’t lead to crowding out — it leads to crowding in. In fact, you could argue that the worst thing we can do for future generations is NOT to run sufficiently large deficits right now. Things won’t always work this way. Eventually we’ll emerge from the liquidity trap, and the normal rules of economic prudence will reassert themselves. But we are not there, or anywhere close to there, right now. Let me also suggest: Crowding-Out and Crowding-In. Here's the bottom line: ...Let us summarize what we have learned ... about the crowding-out controversy. • The basic argument of the crowding-out hypothesis is sound: Unless the economy produces enough additional saving, more government borrowing will force out some private borrowers, who are discouraged by the higher interest rates. This process will reduce investment spending and cancel out some of the expansionary effects of higher government spending. • But crowding out is rarely strong enough to cancel out the entire expansionary thrust of government spending. Some net stimulus to the economy remains. • If deficit spending induces substantial GOP growth, then the crowding-in effect will lead to more saving-perhaps so much more that private industry can borrow more than it did previously, despite the increase in government borrowing. • The crowding-out effect is likely to dominate in the long run or when the economy is operating near full employment. The crowding-in effect is likely to dominate in the short run, especially when the economy has a great deal of slack. • Surpluses have just the opposite effects. When slack exists, they are likely to slow growth by reducing aggregate demand. But in the long run, budget surpluses are likely to foster capital formation and speed up growth.

#### Infrastructure investment spurs private investment – statistics prove

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

Before introducing the recent findings by Heintz, Pollin and Peltier, we first look at the important research conducted at earlier stages that first came to such conclusions. In the 1980s and early 1990s, economists Alicia Munnell and David Aschauer, working separately, both suggested that 17 public investment in the United States economy contributes to better performance of the private economy in terms of higher productivity and employment expansion (Aschauer, 1989a, 1989b; Munnell 1990a, 1990b). That is, public investment actually raises the return on private investment – crowding in rather than crowding out private investment. Both Munnell and Aschauer suggested that the sharp decline in the growth of public investment, which we documented earlier, contributed to the declining trend in productivity growth in the 1970s and 1980s. A growing infrastructure deficit would drag down the productivity and competitiveness of the U.S. economy. Numerous critiques of this earlier work were advanced, focusing on technical statistical matters. They argued that earlier work of Auschauer and Munnell did not fully address important properties of the data they used to generate their results, raising the possibility that the relationship they found between public investment and private economic performance was spurious; once these problems are addressed, the statistical findings they had derived end up falling apart. For the study by Heintz, Pollin and Peltier, they re-estimated these relationships using data up to 2009 and addressed the statistical issues associated with earlier research. The impact of public infrastructure investment on the productivity of the private economy was evaluated in their study. For the purpose of particular exercise, Heintz, Pollin and Peltier narrowed the focus of the analysis, with the specific concern being the impact of public investment on the private sector. Heintz, Pollin and Peltier therefore excluded the impact of the private components of infrastructure investments on overall economic performance from their analysis. Sharpening their focus still further, only those categories of public infrastructure which would directly impact the production activities of the private sector are considered. That is, categories of social infrastructure – such as educational buildings, hospitals, and conservation areas were also excluded from their statistical exercise. In terms of the four categories of infrastructure investment presented in the previous section, this statistical analysis by Heintz, Pollin and Peltier excluded investment in public schools but included all other areas of public investment. And we refer to this narrower set of public investments – public investments in transportation, water and energy as ‗core public economic infrastructure‘. Heintz, Pollin and Peltier found in their study that sustained increases in core public economic infrastructure in the United States enhance the growth of private sector GDP by a substantial amount. The statistic results suggested that a sustained one-percentage point increase in the growth rate of core public economic infrastructure leads to an increase in the growth rate of private sector GDP of 0.6 percentage points.

#### Transportation infrastructure investments actually attract private investment

Kenneth Button ’11 (Professor of Public Policy at the George Mason School of Public Policy and a world-renowned expert on transportation policy, 2011, “Transportation and Economic Development Challenges,” http://books.google.com/books?hl=en&lr=&id=M0QF5btBPXcC&oi=fnd&pg=PA41&dq=infrastructure+investment+benefits&ots=T5mfyW2eaG&sig=-zrjfpQoRM3R9ICn5Qjv7qEq91E#v=onepage&q&f=false)

The macroeconomic modeling approach theorizes that improvements in transport infrastructure reduce costs of production inputs (e.g. labor, materials, land) and expand overall economic output. The production function approach is most often used to measure these effects. This approach attempts to measure the aggregate output of the economy as a function of private factors of production (e.g. labor, capital, energy, materials) and public capital (e.g. transport, water, sewer, electricity infrastructure). Once relevant data are obtained and analyzed, it is possible to estimate the effect that any form of public capital investment has on economic output. A typical measure is the output elasticity that represents the percentage change in output for a I percent change in public capital (e.g. transport infrastructure) investment (Mikclbank and Jackson, 2000). A positive output elasticity suggests that public capital is contributing to economic output. A related concept is the so-called "crowding-in effect'. When public capital investment leads to increases in private capital, the crowding-in effect occurs. This can happen, for example, when infrastructure investments create a competitive advantage for a city or a region, thus attracting additional firms and private capital to the area. Likewise, if public capital investment reduces private capital, a crowding-out effect can occur whereby public investment forestalls private investment. The raising of public capital through tax increases or through the sale of bonds may result in a negative impact on private investment or consumption, thereby depressing economic growth (Rielveld and Bruinsma, 1998).

### AT: Higher Debt Later

#### We won’t have a huge fiscal burden – we save money by acting now

Paul Krugman ’09 (Joined The New York Times in 1999 as a columnist on the Op-Ed Page and continues as professor of Economics and International Affairs at Princeton University. Mr. Krugman received his B.A. from Yale University in 1974 and his Ph.D. from MIT in 1977. He has taught at Yale, MIT and Stanford. At MIT he became the Ford International Professor of Economics, “Crowding In,” 9/28/09, http://economistsview.typepad.com/economistsview/2009/09/crowding-in.html)

Why, exactly, do we think that budget deficits are a bad thing? The textbook answer identifies two reasons — two ways in which budget deficits now make us worse off in the future. They are: (1) The fiscal burden: deficits now mean higher debt later, which will have to be serviced, and that means higher taxes and/or less spending on other, presumably desirable things. (2) Crowding out: when it runs deficits, the government competes with the private sector for funds, so deficits crowd out private investment, which reduces potential growth All this makes sense under normal conditions. But right now we’re not living under normal conditions. We’re in a situation in which the economy is deeply depressed, and monetary policy — the usual line of defense against recession — is hard up against the zero-interest-rate bound. This weakens argument (1) — and it actually reverses argument (2). On argument (1): it’s still true that an increase in government spending raises future debt. But not one for one: because higher spending raises GDP, it leads to higher revenue, which offsets a significant fraction of the initial outlay. A back-of-the-envelope calculation suggests something like a 40 percent offset is plausible, so fiscal stimulus only costs 60 percent of what it costs.

#### No debt later – that’s not how it works

Bill Mitchell ’09 (Professor of economics at the University of Newcastle, New South Wales, Australia, and a notable proponent of Modern Monetary Theory, 9/28/09, “In the spirit of debate… my reply,” http://bilbo.economicoutlook.net/blog/?p=5199)

Third, issuing debt today has no intrinsic implications for future taxpayers. I guess the point being made is that the debt has to be paid back and that will require tax increases in the future. Not at all. The government has the capacity to spend at any time irrespective of what it spent yesterday. Paying back debt is just the same process that the government uses in all its spending activities – bank accounts are credited and bank reserves increase. The sovereign government is not revenue-constrained.

### AT: Japan Proves

#### Japan’s stimulus actually kept its economy alive for 20 years – without it Japan wouldn’t be here

Business Insider ’11 (8/3/11, “No, It Won't "Fix The Economy" -- But It Will Help,” http://articles.businessinsider.com/2011-10-03/news/30237732\_1\_richard-koo-government-stimulus-economy)

But there is a lot of evidence to suggest that the impact of government stimulus, specifically infrastructure stimulus, is being badly misunderstood. Think Japan's stimulus has failed? Look at what it would have done with government intervention (red line). Image: Richard Koo Observers of Japan, for example, conclude that obviously stimulus doesn't work —or Japan's economy would be robustly healthy again. But the work of economist Richard Koo suggests that Japan's stimulus has been vastly more successful than is commonly believed. Far from not working, Koo argues, Japan's government stimulus has kept Japan's economy alive for the past 20 years. Without the stimulus, Koo says, Japan's economy would not have crawled along for the last two decades—it would have collapsed. When the same logic is applied to the US stimulus of 2009-2010, the conclusion would be not that the stimulus "failed to fix" the US economy, but that it kept the recession from being much worse.

### AT: Long-Term Effects

#### Infrastructure investments create jobs and provide fast and long-lasting economic growth

Heather Boushey ’11 (Senior Economist at American Progress. Her research focuses on employment, social policy, and family economic well-being, American Progress, 9/22/11, “Now Is the Time to Fix Our Broken Infrastructure,” http://www.americanprogress.org/issues/2011/09/aja\_infrastructure.html)

Investing in infrastructure creates jobs and yields lasting benefits for the economy, including increasing growth in the long run. Upgrading roads, bridges, and other basic infrastructure creates jobs now by putting people to work earning good, middle-class incomes, which expands the consumer base for businesses. These kinds of investments also pave the way for long-term economic growth by lowering the cost of doing business and making U.S. companies more competitive. There is ample empirical evidence that investment in infrastructure creates jobs. In particular, investments made over the past couple of years have saved or created millions of U.S. jobs. Increased investments in infrastructure by the Department of Transportation and other agencies due to the American Recovery and Reinvestment Act saved or created 1.1 million jobs in the construction industry and 400,000 jobs in manufacturing by March 2011, according to San Francisco Federal Reserve Bank economist Daniel Wilson.[1] Although infrastructure spending began with government dollars, these investments created jobs throughout the economy, mostly in the private sector.[2] Infrastructure projects have created jobs in communities nationwide. Recovery funds improved drinking and wastewater systems, fixed bridges and roads, and rehabilitated airports and shipyards across the nation. Some examples of high-impact infrastructure projects that have proceeded as a result of Recovery Act funding include: An expansion of a kilometer-long tunnel in Oakland, California, that connects two busy communities through a mountain.[3] An expansion and rehabilitation of the I-76/Vare Avenue Bridge in Philadelphia and 141 other bridge upgrades that supported nearly 4,000 jobs in Pennsylvania in July 2011.[4] The construction of new railway lines to serve the city of Pharr, Texas, as well as other infrastructure projects in that state that have saved or created more than 149,000 jobs through the end of 2010.[5] Infrastructure investments are an especially cost-effective way to boost job creation with scare government funds. Economists James Feyrer and Bruce Sacerdote found for example that at the peak of the Recovery Act’s effect, 12.3 jobs were created for every $100,000 spent by the Department of Transportation and the Department of Energy—much of which was for infrastructure.[6] These two agencies spent $24.7 billion in Recovery dollars through September 2010, 82 percent of which was transportation spending. This implies a total of more than 3 million jobs created or saved.

#### Public spending provides fast, short-term stimulus as well as long-term payoffs

Lawrence B. Glickman ’11 (Regularly teaches surveys of US History since the Civil War; lecture courses on the United States in the Gilded Age and Progressive Era, and the United States in the Twentieth Century; undergraduate seminars in labor, cultural, and consumer history; as well as a variety of graduate seminars, including one on the comparative history of consumer societies, last modified 1/12/11, “Reviving a Public Spending Agenda,” http://www.history.ucsb.edu/projects/labor/documents/Glickman\_revivingpublicspending.pdf)

Advocates of public spending have not gone away entirely but their voice is largely missing from the political mainstream. Yet the argument for public spending makes great sense in our current economic climate, a time when inflation is low, unemployment is high, our infrastructure is crumbling. Public spending then could be doubly beneficial, providing short-term stimulus and long-term investments. There are at least four advantages of public spending over private spending in our current climate. 1) There is no uncertainty about whether the money will be spent. Tax cuts are a much less reliable form of stimulus. Many tax cuts for the rich are not spent; those for the middle class, as Paul Krugman has recently pointed out, would be far better put to paying down the high levels of debt that many American families face. Krugman wrote, “What the government should be doing in this situation is spending more while the private sector is spending less, supporting employment while those debts are paid down.” 40 2) Such spending will more directly create jobs. 3) Public spending is a form of investment in long-term public goods. 4) Infrastructure improvements of these sorts are often the impetus for entrepreneurial revolutions. This is a point Vice President Lyndon Johnson made in 1962, when he observed that “public spending is strengthening, not weakening, the nation’s free-enterprise economy.” Bill Clinton made a similar point in the 1992 presidential campaign when he said that we need government “not to manage or direct markets but mainly to help create markets.” 41

### AT: Long Time Frame

#### Their time frame arguments don’t matter in the case of increased funding

Claudia Copeland et al ’11 (Copeland is a Specialist in Resources and Environmental Policy, Linda Levine is a Specialist in Labor Economics William J. Mallett is a Specialist in Transportation Policy, “The Role of Public Works Infrastructure in Economic Recovery,” 9/21/2011, CRS Report for Congress, http://www.fas.org/sgp/crs/misc/R42018.pdf)

However, advocates of infrastructure spending have two responses to this concern. First, to the extent that recovery from a lengthy recession is slow—as it is now—projects with extended timeframes can still contribute to recovery. Thus, the general concern about timing is less relevant, they say. Second, because every major infrastructure category has significant backlogs of projects that could proceed except for funding, advocates are confident that large amounts of actual construction work can be undertaken with increased financial assistance. In 2009, policymakers concerned about these timing issues included requirements in ARRA that stimulus funds be awarded to “shovel ready” or “ready to go” infrastructure projects that could proceed to construction and contribute to economic output quickly. ARRA’s effectiveness in meeting that challenge is not fully known, but may be less than was hoped for, at least according to CBO: “As a practical matter, the experience with ARRA suggests that fewer projects are ‘shovel ready’ than one might expect: By the end of fiscal year 2009, outlays for infrastructure spending from ARRA made up less than 10 percent of the budget authority granted for infrastructure in that year.

### AT: Other Countries Don’t Apply

#### Infrastructure investments have the same results across the board, the principles apply no matter what

Timo Henckel ’10 (Centre for Applied Macroeconomic Analysis, Australian National University, Brookings, 6/4/10, “The Economics of Infrastructure in a Globalized World:

Issues, Lessons and Future Challenges,” http://relooney.info/0\_NS4053\_761.pdf)

There is little evidence that output elasticities with respect to the inputs of the aggregate production functions differ across countries. In particular, the output elasticity of infrastructure does not seem to vary with countries’ level of per capita income, their infrastructure endowment, or the size of their population. Hence, the marginal productivity of infrastructure is higher in countries with relatively lower infrastructure endowments.

### AT: Private Companies

#### Private companies can’t solve – too many procedural issues and inefficiencies

Timo Henckel ’10 (Centre for Applied Macroeconomic Analysis, Australian National University, Brookings, 6/4/10, “The Economics of Infrastructure in a Globalized World: Issues, Lessons and Future Challenges,” http://relooney.info/0\_NS4053\_761.pdf)

In theory there remains a strong case for privatization as it puts in place the correct incentives for cost reduction and for innovation to reduce dynamic X-inefficiency. However, in practice privatization of infrastructure is proving very difficult in the instances that it has been tried in various countries. New private firms must overcome inefficiencies accumulated for decades by the public sector and large efficiency gains often result from old firms exiting and young, innovative firms entering. The benefits of privatization therefore are not immediately apparent; it takes years for old inefficiencies to be purged and for new technologies and managerial processes to transform the industry. Moreover, the political forces favoring government intervention are powerful, there exists a strong status quo bias and bungled privatization attempts in some countries (e.g. intercity passenger rail in the U.K.) has lessened the public’s willingness to experiment with alternative funding and provision arrangements

### AT: Schumpeter

#### Schumpeter’s theory doesn’t work – Keynesian economics uniquely solves its problems

Dossi ’11 (Giovanni Dossi, Professor at the Sant'Anna School of Advanced Studies in Pisa (Italy), where he also coordinates the International Doctoral Program in Economics and leads the Laboratory of Economics and Management (LEM), “Economic Policies with Endogenous Innovation and

Keynesian Demand Management,” April 29 2011, http://www.nccert.biz/badania/konferencje/2011/dsge/files/Economic.pdf)

A central question that we address in the work is whether the Schumpeterian engine" by itself is able to maintain the economy on a steady growth path characterized by full employment. We nd that this is not the case: the endogenous innovation engine is able to do that only in presence of a Keynesian" demand-generating engine, captured in the model by scale and monetary policies. Our results cast serious doubts on the traditional dichotomy between variables impacting long-run growth (typically, technology-related changes) and variables impacting on short-run business fluctuations (traditional demand-related variables). First, we find that technological innovations appear to exert their effects at all frequencies. Second, Keynesian demand-management policies do not only contribute to reduce output volatility and unemployment rates, but for a large set of parameterization, they affect also long-run growth rates insofar as they contribute to “delock" the economy from the stagnant growth trajectory which is indeed one of the possible emergent meta-stable states. Finally, our results indicate that bank credit and monetary policies can heavily affects business cycles dynamics by amplifying micro level technology and supply shocks. In this respect, our results point to the different effects of monetary policies in presence of different income distributions between profits and wages

### AT: States Solve

#### States can’t solve for stimulus – empirics prove

Claudia Copeland et al ’11 (Copeland is a Specialist in Resources and Environmental Policy, Linda Levine is a Specialist in Labor Economics William J. Mallett is a Specialist in Transportation Policy, “The Role of Public Works Infrastructure in Economic Recovery,” 9/21/2011, CRS Report for Congress, http://www.fas.org/sgp/crs/misc/R42018.pdf)

Other economists say that if federal assistance merely provides fiscal relief by paying for spending that would have occurred anyway—that is, if federal dollars merely substitute for or replace local dollars invested in the same activity—it provides no economic boost. In response, state and local public officials say that that is not the case in today’s economy. Because of the pressures that they continue to face, states and cities have been cancelling and delaying infrastructure projects. Another way of describing this situation could be to say that what is under discussion is in reality about holding state and local governments harmless in order to encourage them to carry out projects that they could not otherwise do, because of budget shortfalls.

### AT: Tax Cuts Solve / Money Won’t be Spent

#### Infrastructure spending generates 30% more growth than tax cuts – the money is spent only domestically

Xue Han ’12 ( Luxembourg Garden Visiting Scholar. She specializes in applying quantitative analysis to unique investment opportunities. Prior to joining Global Infrastructure, Ms. Han worked with Artio Global Investors providing industry and fundamental analyses on industries and companies for the High Yield Group. Prior to this, Ms. Han worked with KPMG China on audit projects for Sinopec's branches in Shanghai, Shandong and Heilongjiang. She has also worked as a project manager for Belmark Associates, a marketing research firm. Ms. Han holds a Bachelors degree in Mathematics and Economics from Beloit College, Global Infrastructure Asset Management, Feb 2012, <http://www.globalinfrastructurellc.com/Leadership.html>)

All forms of spending will produce jobs, but infrastructure investment is a highly effective engine of job creation. Table 3 presents the estimated number of jobs that would be created by $1 billion in increased infrastructure investment for the four broad categories we consider here—energy, transportation, public schools, and water systems. The table shows direct and indirect effects (combined) and total job creation when we factor in an allowance for induced effects. In addition, Table 3 breaks down the job creation estimates into specific areas of investment—e.g. roads and bridges or wastewater treatment systems. In general, we estimate that each $1 billion in infrastructure investment will generate between 9,819 and 17,784 jobs if we consider only direct and indirect effects and between 14,515 and 23,784 jobs if we account for induced effects. The number of jobs created varies depending on the category of infrastructure in question. The highest direct and indirect employment impacts are associated with investments in mass transit systems; the lowest with investment in electricity production, transmission, and distribution infrastructure. However, the point of this exercise is not simply to rank the various categories of infrastructure in terms of their relative employment effects. Now, it is illuminating to compare the employment effects of our four infrastructure spending categories with the impact that tax cuts would have on the number of jobs in the economy. For this illustration, we assume that households would spend the entire amount of the tax cut. This is an unrealistic assumption, since most households are likely to use some of their increased income for saving and paying off debt. By contrast, it is almost certain that government entities will spend all of the money they receive for public investment projects. Nevertheless, in assuming that households will indeed spend all of the additional income they receive from tax cuts, we obtain an upper-limit estimate of the jobs that would be created by reducing income taxes. The relevant figures are in Figure 3. As the figure shows, three of our four categories of infrastructure investment—water management, school buildings, and transportation investments— generate about 19,000 jobs or more per $1 billion in spending. The energy infrastructure investments are somewhat weaker in their job effects, creating about 16,700 jobs per $1 billion in spending. All of these categories are significantly more effective in generating employment than tax cuts. For each $1 billion in tax cuts, slightly more than 15,000 jobs would be created if households spend the entire amount of the tax break. Spending on infrastructure generates a minimum of 10 to 30 percent more jobs than an equivalent quantity of tax cuts. The reason for this is simple. Most of the spending on infrastructure investments goes towards purchasing domestically produced goods and services. Households spend a larger share of their income on imports, reducing the employment impact of tax cuts.

#### Fewer people spend money from tax cuts than from deficit spending

Lawrence B. Glickman ’11 (Regularly teaches surveys of US History since the Civil War; lecture courses on the United States in the Gilded Age and Progressive Era, and the United States in the Twentieth Century; undergraduate seminars in labor, cultural, and consumer history; as well as a variety of graduate seminars, including one on the comparative history of consumer societies, last modified 1/12/11, “Reviving a Public Spending Agenda,” http://www.history.ucsb.edu/projects/labor/documents/Glickman\_revivingpublicspending.pdf)

1) There is no uncertainty about whether the money will be spent. Tax cuts are a much less reliable form of stimulus. Many tax cuts for the rich are not spent; those for the middle class, as Paul Krugman has recently pointed out, would be far better put to paying down the high levels of debt that many American families face. Krugman wrote, “What the government should be doing in this situation is spending more while the private sector is spending less, supporting employment while those debts are paid down.”

## Miscellaneous

### Bipartisan

#### Infrastructure investments have bipartisan support because of the economic benefits

Heather Boushey ’11 (Senior Economist at American Progress. Her research focuses on employment, social policy, and family economic well-being, American Progress, 9/22/11, “Now Is the Time to Fix Our Broken Infrastructure,” http://www.americanprogress.org/issues/2011/09/aja\_infrastructure.html)

Because infrastructure investments create jobs and boost productivity, these investments have historically had bipartisan support. In early 2011, for example, AFL-CIO President Richard Trumka and U.S. Chamber of Commerce President Thomas Donohue issued a joint statement in favor of greater infrastructure investment in the near-term: “With the U.S. Chamber of Commerce and the AFL-CIO standing together to support job creation, we hope that Democrats and Republicans in Congress will also join together to build America’s infrastructure.”[11]

### PPPs Don’t Solve

#### PPPs can’t solve fiscal stimulus

Timo Henckel ’10 (Centre for Applied Macroeconomic Analysis, Australian National University, Brookings, 6/4/10, “The Economics of Infrastructure in a Globalized World: Issues, Lessons and Future Challenges,” http://relooney.info/0\_NS4053\_761.pdf)

Whether PPPs relieve public budgets is unclear. The government saves on upfront capital expenditures and ongoing maintenance costs but forgoes a stream of future revenues. Overall budgetary benefits must ultimately come from efficiency gains which would need to be appraised on a case-by-case basis. Social gains may come from innovations that are performed by the private sector but would not have been performed by the public sector. Fischer (2010) provides a comprehensive overview of the theory and experience associated with PPPs. While being largely sympathetic to PPPs he also lays out in detail the problems of this organizational form. First, PPPs allow off-budget spending which is naturally attractive to politicians. In the U.K., only 14 percent of 599 PPP projects up to April 2009 are on-balance sheet. This accounting trickery provides an incentive for governments to pursue excessive and inefficient infrastructure projects. Second, the complexity of infrastructure operations often requires renegotiation which itself is a source of significant inefficiencies. It opens doors to further pork barreling, and the lack of competition and informational asymmetries at such a stage of a project can lead to considerable increases in cost and reductions in service quality. The evidence suggests that the costliness of renegotiation depends critically on the quality of industry regulation, on the presence and specificity of service and quality clauses, and on the presence of minimum income guarantees. Renegotiation may enable a firm to earn monopoly rents that were denied to it in the bidding process.

### Public Support

#### The public supports large infrastructure investments

DOT CEA ’12 (A REPORT PREPARED BY THE DEPARTMENT OF THE TREASURY with the council of economic advisors, “A NEW ECONOMIC ANALYSIS OF INFRASTRUCTURE INVESTMENT,” 3/23/12, http://www.treasury.gov/resource-center/economic-policy/Documents/20120323InfrastructureReport.pdf)

One study found that four out of every five Americans agree with the statement that: “In order for the United States to remain the world’s top economic superpower, we need to modernize our transportation infrastructure and keep it up to date.” Another study found that almost 19 out of 20 Americans are concerned about America’s infrastructure and 84 percent support greater investment to address infrastructure problems.