# Affirmative

### Deficit Spending Good — General

Fiscal spending stabilize the economy - empirically proven

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There is an empirically grounded body of literature documenting the effectiveness of fiscal expansion during recessions and the importance of economic multipliers in creating jobs above and beyond those directly created by one firm or one government project. The New Deal programs of the Great Depression are, of course, the granddaddy of these measures. The New Deal programs stabilized our economy, though it was the massive government job creation fueled by World War II that finally put an end to the economic devastation.

Since then, presidents and congresses of all political stripes—including the Bush administration have embraced short-term, temporary fiscal expansion to create jobs in times of labor market weakness. Each time, they worked as intended. And this isn’t just the experience of the United States. Economies around the world reflecting a wide range of economic ideologies understand the importance of government action in the face of economic crises.

### Infrastructure Creates Jobs

Infrastructure spending creates jobs

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Government spending is also an important part of the economy. Millions of people work for the government and millions more are employed in government-funded work and all those dollars flowing into the economy create even more jobs. For example, 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.

Infrastructure solves employment — now key

Boushey & Ettlinger 11 1. Heather Boushey, is a senior economist at American Progress. Ph.D. in economics & B.A. from Hampshire College. 2. Michael Ettlinger, is the Vice President for Economic Policy at American Progress. (Boushey, Heather & Ettlinger, Michael: “Government Spending Can Create Jobs—and It Has ‘The Lessons Are Clear When Our Economy Is in Trouble’ ”, in Center for American Progress, September 8, 2011, http://www.americanprogress.org/issues/2011/09/yes\_we\_can.html)

Today, though, is a special time when it comes to the role of government. The lingering consequences of the Great Recession—the housing crisis, the jobs crisis, the fear among businesses to invest their earnings despite record profits—continue to push against faster economic growth and job creation. In short, the economy continues to suffer from a lack of demand. Monetary authorities have already pushed interest rates down to zero. Congress needs to step up and focus on expansionary fiscal policy.

Unless Congress acts, the private sector will continue to generate insufficient demand. Because customers have less money to spend due to the collapse of the housing bubble and the ensuing high unemployment, businesses have little incentive to hire and invest. The federal government can help with this. It can take measures to create private-sector jobs by moving up investments that the public needs anyway—investments in roads and bridges, investment in changes that the country needs to make, such as the movement to a more energy efficient cleaner economy, investments in education and research and development. We know this most recently from fighting the Great Recession.

Government has a critical role to play in paving the way for job creation

The analysis of economic multipliers is well known and economists have found that the multipliers are largest when overall demand is weak, like current economic conditions in the United States. The American Recovery and Reinvestment Act of 2009 and other steps taken to address the Great Recession targeted funds toward a variety of specific job-creation efforts that have been shown to have created jobs and been cost-effective.

A few concrete examples of how public investments have created jobs include:

Increased investments in infrastructure saved or created 1.1 million jobs in construction industry and 400,000 jobs in manufacturing by March 2011. Almost all of these jobs were in the private sector. The reason for this success is simple: Upgrading roads, bridges, and other basic infrastructure not only creates jobs but also paves the way for businesses small, medium, and large to benefit. Infrastructure investments lower the cost of doing business, making U.S. companies more competitive. And they put people to work earning good, middle-class incomes, which expands the consumer base for businesses.

### Infrastructure Key to Growth

#### Infrastructure investment is key to economic growth.

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Among the numerous benefits of infrastructure investment, its positive effect on economic growth is probably of most concerned to individuals and businesses in the U.S. hoping to get out of the slump of this severe recession. The idea that more spending on infrastructure fosters the economy is intuitively understandable, but by what means these effects are achieved and the ultimate reasons behind it are rarely studied. As examined in previous sections of this paper, although the needs for additional infrastructure investments become urgent, the government spending available to infrastructure projects has been quite limited. To the opposite, in face of the severe debt crisis, the U.S. government will need to cut back government spending on various terms when the Automatic Budget Enforcement Procedures come into effect, infrastructure included. In order to avoid worse infrastructure deficiencies resulting from insufficient infrastructure spending, it becomes very necessary to raise awareness about the profound benefits infrastructure investment can bring by thoroughly examining how the effects are achieved and the theoretical reasons behind them.

#### Infrastructure key to the economy -- job creation, multiplier effect

New America Foundation 10 — New America Foundation—“a nonprofit, nonpartisan public policy institute that invests in new thinkers and new ideas to address the next generation of challenges facing the United States,” 2010 (“The Case for an Infrastructure-Led Jobs and Growth Strategy,” February 23rd, Available Online at http://www.newamerica.net/publications/policy/the\_case\_for\_an\_infrastructure\_led\_jobs\_and\_growth\_strategy, Accessed 06-09-2012)

Public infrastructure investment would directly create jobs, particularly high-quality jobs, and thus would help counter the 8.4 million jobs lost since the Great Recession began. One study estimates that each billion dollars of spending on infrastructure can generate up to 17,000 jobs directly and up to 23,000 jobs by means of induced indirect investment. If all public infrastructure investment created jobs at this rate, then $300 billion in new infrastructure spending would create more than five million jobs directly and millions more indirectly, helping to return the economy to something approaching full employment.Public infrastructure investment not only creates jobs but generates a healthy multiplier effect throughout the economy by creating demand for materials and services. The U.S. Department of Transportation estimates that, for every $1 billion invested in federal highways, more than $6.2 billion in economic activity is generated. Mark Zandi, chief economist at Moody’s Economy.com, offers a more conservative but still impressive estimate of the multiplier effect of infrastructure spending, calculating that every dollar of increased infrastructure spending would generate a $1.59 increase in GDP. Thus, by Zandi’s conservative estimates, $300 billion in infrastructure spending would raise GDP by nearly $480 billion (close to 4 percent). Public infrastructure investment would not only help stimulate the economy in the short term but help make it more productive over the long term, allowing us to grow our way out of the increased debt burdens resulting from the bursting of the credit bubble.   As numerous studies show, public infrastructure increases productivity growth, makes private investment more efficient and competitive, and lays the foundation for future growth industries. In fact, many of the new growth sectors of the economy in agriculture, energy, and clean technology require major infrastructure improvements or new public infrastructure.**.**New infrastructure investment can easily be financed at historically low interest rates through a number of mechanisms, including the expansion of Build America Bonds and Recovery Zone bonds (tax-credit bonds that are subsidized by favorable federal tax treatment) and the establishment of a National Infrastructure Bank. Public infrastructure investment will pay for itself over time as a result of increased productivity and stronger economic growth. Several decades of underinvestment in public infrastructure has created a backlog of public infrastructure needs that is undermining our economy’s efficiency and costing us billions in lost income and economic growth. By making these investments now, we would eliminate costly bottlenecks and make the economy more efficient, thereby allowing us to recoup the cost of the investment through stronger growth and higher tax revenues.

### Multiplier Effect

#### **Large multiplier effect increases GDP.**

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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.

### Double Dip

Fiscal restraint risks double dip recession

AUERBACK 09 1. Auerback, Marshall, market analyst and commentator. He is a Brains Truster for the Franklin and Eleanor Roosevelt Institute. (Auerback, Marshall: “Government Spending is the Solution--Not the Problem”, September 15th, 2009, http://www.counterpunch.org/2009/09/15/government-spending-is-the-solution-not-the-problem/ )

Economic growth has never been strong enough to fully employ the willing workforce and inequalities are rising throughout the Western world not falling. Further, the disparities between wealthy and poor countries have widened.  By curbing the role of government and fiscal policy, we risk reverting to an approach which not only established the pre-conditions for the current crisis including the massive build-up of non-government debt and persistently high labor underutilization, but will almost certainly ensure a return to intense recessionary pressures (at a time when we are still experiencing double digit unemployment).  To be clear: I am not advocating unlimited government deficits or spending. Rather, the size of the deficit (surplus) should be market determined by the desired net saving of the non-government sector. This may not coincide with full employment and so it is the responsibility of the government to ensure that its taxation/spending are at the right level to ensure that this equality occurs at full employment.

Accordingly, if the goals are full employment AND price stability then the task is to make sure that government spending is exactly at the level that is neither inflationary, nor deflationary but sufficient to create full employment.  This is the true “Goldilocks” scenario, much beloved by Wall Street.  It can be better achieved through fiscal policy, rather than the preferred approach of the majority, which suggests that the same outcome is engineered via a monetary manipulation of short term rates by the central bank.  Fiscal policy is relatively direct – that is, the dollars go into aggregate demand – immediately they are spent. The standard view that government budget deficits lead to future tax burdens is problematic it assumes a financial constraint which in reality is non-existent.  The idea that unless policies are adjusted now (that is, governments start running surpluses or that we experience a "deflationary recession") is a recipe for social turmoil and revolution.  The sooner our policy makers understand that, the more likely we avoid repeating the mistakes that got us into this mess in the first place.

### Aviation Investment Key

#### Airline investment is a necessity – usage is increasing drastically

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According to forecasts compiled by the Federal Aviation Administration, the number of

passengers flying on commercial airlines is expected to increases at an annual rate of 3.0 percent

a year from 2008 to 2025 (FAA, 2008). By the end of this period, annual passenger travel is

expected to reach 1.3 billion. This increase in volume will require capital investments in airport

capacity and air traffic control systems if congestion and delays are to be minimized and

passenger safety maintained. Updating the traffic control system has been ongoing since the mid-

1980s, but the process has taken longer and required more investment than initially thought

(ASCE, 2005).According to the results of a survey administered to the nation‘s 100 largest airports by the

Airports Council International (North American branch), annual capital investment needs over the

period 2007-2011 total $17.5 billion (ACI, 2007). This represents a $3.2 billion increase over the

assessment of annual investment needs from 2005 to 2009. The FAA estimates the shortfall in

investment funds available to be somewhat lower: $1 billion per year from 2006-2011, based on

airport master plans and ACI estimates (GAO, 2007). However, neither set of estimates include

capital investment for security improvements and air traffic control systems, as documented by

the ASCE (2005). Therefore, we use $3.2 billion a year in additional infrastructure as a

reasonable estimate of investment needs in the absence of more comprehensive data.

### AT: Crowds Out Private Investment

#### Crowding out argument is not true in this economy

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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 6

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.

#### **Crowding out wrong—public infrastructure investment helps private sectors, expands productivity, job growth, and the environment.**

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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.

#### **Crowding in rather is real. Infrastructure Key to growth in the private economy.**

Han 12, (xue, Luxembourg Garden Visiting Scholar at Global Infrastructure Asset Management, LLC, holds a B.A. in Mathematics and Economics from Beloit Colleghttp://www.globalinfrastructurellc.com/pdfs/Why\_Invest\_in\_Infrastructure-Necessities\_and\_Benefits\_of\_Infrastructure\_Investments.pdf)

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 17public 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.

### AT: Increases Debt

Deficit spending reduces overall debt

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The claim made by Moody’s that growth will not reduce debt ratios does not square with the facts of historical experience and must rely on the twin assumptions that growth in the future will be sluggish and that government spending will grow relative to GDP. However, such an outcome is inconsistent: if government spending grows fast it raises GDP growth and hence tax revenues, reducing the budget deficit. This is precisely what has happened in the US over the entire postwar period. It is only when government spending lags behind GDP growth by a considerable amount that it slows growth of GDP and tax revenues, causing the budget deficit to grow. What Rogoff and Reinhart do not sufficiently account for is the “reverse causation”: slow growth generates budget deficits. This goes a long way toward explaining the correlation they find between slow growth and deficits: as economists teach, correlation does not prove causation!

Deficit spending increases net saving

AUERBACK 09 1. Auerback, Marshall, market analyst and commentator. He is a Brains Truster for the Franklin and Eleanor Roosevelt Institute. (Auerback, Marshall: “Government Spending is the Solution--Not the Problem”, September 15th, 2009, http://www.counterpunch.org/2009/09/15/government-spending-is-the-solution-not-the-problem/ )

In the words of economist Bill Mitchell of the University of Newcastle, Australia:

“Within a modern monetary economy, as a matter of national accounting, the sovereign government deficit (surplus) equals the non-government surplus (deficit)…In aggregate, there can be no net savings of financial assets of the non-government sector without cumulative government deficit spending.  The sovereign government via net spending (deficits) is the only entity that can provide the non-government sector with financial assets (net savings) and thereby simultaneously accommodate any net desire to save and hence eliminate unemployment.”

Deficit spending only way to solve for debt

AUERBACK 09 1. Auerback, Marshall, market analyst and commentator. He is a Brains Truster for the Franklin and Eleanor Roosevelt Institute. (Auerback, Marshall: “Government Spending is the Solution--Not the Problem”, September 15th, 2009, http://www.counterpunch.org/2009/09/15/government-spending-is-the-solution-not-the-problem/ )

Although the global debt problem is very serious, the focus on growing government deficits and the need to rein in fiscal expenditures is profoundly misplaced, particularly in the U.S., where (relative to Europe and Japan), the government debt is low, relative to the size of the economy.  Additionally, as a matter of national accounting, deleveraging in the private sector cannot happen without an increase in the government’s deficit (the government’s deficit equals by identity the non-government’s surplus.  Consequently, if the US private sector is to rebuild its balance sheet by spending less than its income, the government will have to spend more than its tax revenue; the only other possibility is that the rest of the world begins to dis-save massively—letting the US run a current account surplus—but that is highly implausible). In addition, if the government deficit does not grow fast enough to meet the saving needs of the private domestic sector, national income will decline, and, given the size of the private sector’s debt problem, a full-blown debt-deflation process will emerge.

### AT: Infrastructure Too Expensive

#### Delays in infrastructure improvements cost billions

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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 reports 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.

### Obama’s Stimulus Worked

#### Stimulus created millions of jobs

Bernstein 11 (Jared Bernstein, 8-31-2011, special to CNN, http://articles.cnn.com/2011-08-31/opinion/bernstein.obama.recovery\_1\_job-growth-unemployment-rate-gdp-growth/3?\_s=PM:OPINION)

As others have, and more will as the presidential election heats up, David Frum went after the Recovery Act on these pages. I'll address his critiques in a moment, but first let's just get this right out there: Though we can never know alternative histories -- in this case, how the economy would have performed absent the stimulus -- the weight of the evidence is that the Recovery Act did what we expected it to do. It created a few million jobs and shaved a few percentage points off the unemployment rate. But most important, it kept a bad situation from getting a lot worse.http://articles.cnn.com/images/pixel.gifLots of academic, nonpartisan evidence reveals the Recovery Act created or saved millions of jobs. The Congressional Budget Office, for example, just released a report finding that at its height about a year ago, the act created (taking the midrange of their estimates) around 2.5 million jobs, and shaved around 1.5 points off of the unemployment rate. Again, that's what we expected in terms of unemployment reduction, though we clearly were too optimistic about the level of the jobless rate, in large part because we had not yet seen data on just how deep the unfolding downturn was. One scholarly study by economists Alan Blinder and Mark Zandi that looked at the full spate of anti-recession initiatives -- not just the Recovery Act -- found that "the effects of the fiscal stimulus alone appear very substantial, raising 2010 real GDP by about 3.4%, holding the unemployment rate about 1.5 percentage points lower, and adding almost 2.7 million jobs to U.S. payrolls."This type of evidence, which is very common among researchers who have examined the Recovery Act's impact, is clearly inconsistent with Frum's view that the act was a failure. But in this case, two pictures are worth 2,000 words. The Zandi/Blinder analysis of the stimulus and accompanying measures -- and note that Frum claims there were no accompanying measures -- is called "How the Great Recession Was Brought to an End." The graphs embedded in this article show why.The first graph shows the growth in real gross domestic product, the broadest measure of economic growth, from 2007 up until the last quarter. The next picture shows job growth in both the total market and excluding government jobs over the same period. While these are very simple pictures of fundamental economic variables, and while many moving parts influence such trends, they present remarkably compelling evidence against Frum's claims.

#### Obama’s plan worked

Bernstein 11 (Jared Bernstein, 8-31-2011, special to CNN, http://articles.cnn.com/2011-08-31/opinion/bernstein.obama.recovery\_1\_job-growth-unemployment-rate-gdp-growth/3?\_s=PM:OPINION)

We see GDP growth, which was almost unprecedentedly negative -- down almost 9% in the quarter before the stimulus was passed -- immediately falling less quickly, and turning positive by mid-2009. Similarly, we see the same pattern in job growth, which also reversed course soon after passage, and broke zero -- net job growth -- in March 2010. The addition and subtraction of census workers that year distort the picture somewhat, but they're not included in the private sector data, which presents a clearer view of what happened. The unemployment rate always lags growth by at least six months, but a few months after ARRA kicked in, it stopped growing. The unemployment rate always lags growth by at least six months, and it continued to rise until peaking at 10.1% in October of 2009. Since then, it has come down a point, remaining far too high, but not growing. But that's only half of what these simple graphs show. The other piece of information they yield is perhaps even more convincing. As the stimulus fades, the positive trends begin to falter: Both GDP and job growth slow significantly. Again, there are lots of moving parts out there. But the fact that GDP and jobs almost immediately improve when the stimulus is coming on and then begin to slow when its measures are fading should lead objective readers to soundly reject the Republican talking point of "discredited stimulus measures."Based on these data, Frum must be wrong, and here's why. His first point, that the Obama administration just turned the crafting of the measure over to Congress, is simply inaccurate. I was there and we worked closely with Congress on the composition of the act. Yes, there was a lot of compromise, but there had to be in order to get the bill passed and get the medicine quickly into the system. And, in fact, the bill became law less than four weeks after President Obama took office. That achievement, for which Vice President Biden gets a lot of credit, is all the more remarkable when you consider that even by then, the administration needed a supermajority to get anything passed. Frum's comments that every president should expect some obstruction don't begin to capture how high that bar has been for this president.

#### The stimulus worked

**COE 11** (Rick Coe, August 23, 2011, Managing Director of investments for the USFG, http://www.heraldtribune.com/article/20110823/COLUMNIST/110829890/-1/news?template=printart

It seems fashionable these days to label the American Economic Recovery and Reinvestment Act of 2009, more popularly known as the "stimulus program," a failure. The program has come and gone, economic growth continues to disappoint, and unemployment remains at unacceptably high levels, standing today at 9.3 percent — the same level as when the program was initiated. An obvious failure. However, the only obvious thing about this argument is that it is obviously wrong. Given the size and nature of the stimulus program, it did what it could — it ended the Great Recession and kept unemployment from rising to double-digit levels. Too small in size and too heavily tilted toward tax cuts rather than direct job-creating spending, it was simply not capable of returning the economy to full employment. But given the limitations placed on it, it was as successful as could reasonably be expected.

Let's start with economic growth. Prior to the implementation of the stimulus program, the economy was in a sharp downward spiral, culminating in a shocking 8.9 percent decline in real gross domestic product in the fourth quarter of 2008 and an equally disastrous decline of 6.7 percent in the first quarter of 2009.Once the stimulus program kicked in, the turnabout was immediate. Real GDP increased by 1.7 percent in the third quarter of 2009, followed by impressive increases of 3.8 percent in each of the next three quarters. The Great Recession was officially over, as determined by the National Bureau of Economic Research. (The "official" end of the recession should not, however, be confused with a return to full-employment.) The flip side of the coin is equally telling. As the stimulus program faded, the once-promising recovery stalled — real GDP growth fell to a pathetic 0.4 percent in the first quarter of this year, and second quarter growth appears to be only slightly higher.Economy would have been worse. The fact that economic growth increased as the stimulus program was implemented and decreased as it ended is clear evidence of the positive effect the program had on the economy.

Stimulus worked, empirics show

**COE 11** (Rick Coe, August 23, 2011, professor at New Florida College, http://www.heraldtribune.com/article/20110823/COLUMNIST/110829890/-1/news?template=printart

But what about unemployment? Can one really characterize the stimulus program as successful when the unemployment rate never fell below 8.8 percent? One can when one asks the right question: What would have happened to unemployment if the stimulus program were not enacted?

In a recent study, the Congressional Budget Office estimated that, without the stimulus, the unemployment rate in 2010 would have averaged between 0.7 and 1.8 percentage points higher, which would have pushed the annual unemployment rate into double-digits for the first time since 1940! Between 1.3 and 3.3 million additional people were employed as a result of the stimulus program, and GDP growth was between 1.5 and 4.1 percent higher. The bottom line is that the stimulus program provided a much-needed boost to the economy, but it could not return us to full employment. It was like asking a compact car to win the Indy 500. It was too small by half, and not optimally designed, containing too little government spending and too much in tax cuts, which are not as effective in stimulating the economy in the short run. Debt isn't hurting. Can one seriously argue that the stimulus program should have been much larger, thereby increasing the government deficit and debt in the short run? Absolutely. One of the greatest fallacies advanced by the anti-stimulus crowd is that the current level of national debt is "hurting" the national economy. Economists fear large government deficits and the resulting debt because they might raise interest rates, thus crowding out private investment, or they might ignite inflation. But interest rates remain at historically low levels, and core inflation, the best measure of general inflationary pressures, remains below 2 percent. If one is concerned that the current level of the government deficit and debt is too large, then the best cure is a rapidly growing economy, which won't be achieved if we cut government spending. But what about the kids? How can we in good faith pass along to future generations the "burden" of the national debt? This is perhaps the most insidious, feckless argument advanced by the stimulus opponents. As the stimulus spending comes to an end, educational budgets are being disemboweled across the country, resulting in shortened school years, larger class sizes, the elimination of support teachers to address specific needs, the discontinuation of "non-critical" programs (e.g., foreign languages), and on and on — all done in the name of protecting future generations! Add in reductions to nutritional and health-care programs for children and the full extent of the damage inflicted on the next generation by the anti-stimulus camp begins to emerge. When eliminating spending that benefits future generations is justified on the grounds of protecting future generations, the policy discourse enters Alice in Wonderland territory. Unfortunately, that is where we are today. The stimulus did what it could. It stopped the downward spiral of the economy and kept the unemployment rate from entering double-digit territory. More stimulus is needed now to move a sputtering economy toward full employment and to provide our children with the education and health care that they deserve. Rick Coe is a professor of economics at New College of Florida.

#### Stimulus created millions of jobs

Lynch 10 (8-30-10, reporter, http://www.usatoday.com/money/economy/2010-08-30-stimulus30\_CV\_N.htm)

Amid mounting signs that the economic recovery is faltering, one potential remedy seems out of the question: a booster shot of government spending. The White House says the multiyear $814 billion stimulus program passed by Congress in 2009 boosted employment by 2.5 million to 3.6 million jobs and raised the nation's annual economic output by almost $400 billion. A recent study by two prominent economists generally agrees, crediting the pump-priming with averting "what could have been called Great Depression 2.0." If President Obama expected anyone to say, "Thank you," however, he's been disappointed. In a recent USA TODAY/Gallup Poll, 59% of respondents disapproved of the president's handling of the economy. In the partisan war over the economy's performance, the word "stimulus" has became synonymous with "boondoggle," making the notion of a repeat any time soon highly unlikely — especially if Republicans seize control of one or both houses of Congress in November. "We have played our policy hand. Now we've got to hope it's good enough," said Mark Zandi, chief economist for Moody's Analytics and co-author of the recent study. Controversy has dogged the stimulus program since its debut. Formally known as the American Recovery and Reinvestment Plan, the spending effort was designed to fill the hole in the economy left after the housing and credit bubbles imploded. The program was proposed by the president and enacted by Congress at the depths of the post-Lehman-Bros. financial collapse, when the economy was shrinking at an annual rate of 6% and losing 750,000 jobs a month. Politically, the "Recovery Act" — which is divided among tax cuts, financial aid for cash-strapped state governments, emergency unemployment assistance and spending on roads, bridges and other infrastructure — has taken fire from the left and the right. Liberal economists such as New York Times columnist Paul Krugman complained that the massive program should have been larger and was marred by the inclusion of excessive tax cuts that would have a less-immediate impact on job creation. Republicans derided the legislation as wasteful spending that would add to ballooning government debt. Eighteen months later, the consensus among economists is that the stimulus worked in staving off a rerun of the 1930s. But the spending's impact was dwarfed by other crisis-fighting tools deployed by the Bush and Obama administrations, including costly efforts to stabilize crippled banks and the Fed's unconventional monetary policy. "I think it was important for confidence. ... But fiscal stimulus was the least important of the three planks of the government's strategy," said Harvard University's Kenneth Rogoff, former chief economist of the International Monetary Fund. Christina Romer, the outgoing head of the president's Council of Economic Advisers, never really recovered politically from her January 2009 forecast that the stimulus would keep the unemployment rate below 8%. In fact, by the time Obama signed the Recovery Act into law on Feb. 17, 2009, it already had breached that level. (The original administration forecast was prepared using data from late 2008 before the already-wounded economy deteriorated even more dramatically.) The unemployment rate hit 10.1% in October 2009 and stands at 9.5% today. Republican leaders such as Rep. Eric Cantor of Virginia say that proves the stimulus a failure. But Romer last month told the Joint Economic Committee that the stimulus "helped to turn the economy from free fall to recovery." It's no surprise that the administration would proclaim its own policies a success. But its verdict is backed by economists at Goldman Sachs, IHS Global Insight, JPMorgan Chase and Macroeconomic Advisers, who say the stimulus boosted gross domestic product by 2.1% to 2.7%. It's impossible to determine precisely how many jobs or how much growth the stimulus program caused. In a nearly $14 trillion economy, economists can't go employer to employer counting new hires. And there are too many moving parts to confidently link any single factor with individual hiring decisions. Roughly one-third of the stimulus, for example, came in the form of tax cuts, which are designed to boost demand for a wide array of products and eventually result in related hiring. But to estimate the answers to such questions, economists rely on models based on historical relationships between various policies and real-world results. Earlier this month, Zandi and co-author Alan Blinder, former vice chairman of the Federal Reserve, released the most detailed assessment of the government's efforts to combat the so-called Great Recession. Neither economist is regarded as a partisan firebrand. Zandi, for example, backed John McCain in the 2008 presidential campaign and has advised members of both parties. Their conclusion: The fiscal stimulus created 2.7 million jobs and added $460 billion to gross domestic product. Unemployment would be 11% today if the stimulus hadn't been passed and 16.5% if neither the fiscal stimulus nor the banks' rescue had been enacted, according to Zandi and Blinder. "It's pretty hard to deny that it had a measurable impact," Zandi said. As of Aug. 13, almost 64% of the program's original $787 billion had been spent. (The Congressional Budget Office, which is among those concluding that the program had a broadly positive economic result, currently projects the Recovery Act's total cost to be $814 billion. Including an earlier Bush administration tax rebate and some unrelated programs, total stimulus spending will reach about $1 trillion over several years.) Stimulus outlays first topped $100 billion in the third quarter of 2009, which is when the economy resumed growing after the recession that started in 2007. Likewise, personal consumption spending began to increase in the third quarter after four consecutive quarterly declines. To Zandi, those facts buttress his model's conclusion that the program resuscitated a moribund economy. Not everyone is convinced. "I can't find in my analysis that the 2009 stimulus package had much effect at all," says economist John Taylor of Stanford University. Taylor, who served as undersecretary of the Treasury under former president George W. Bush, says the recovery that began last year stemmed from a pickup in business investment unrelated to government spending. He dismissed the Zandi-Blinder conclusions as divorced from what is actually occurring in the economy and reflecting built-in assumptions about the impact of government spending. At issue is the so-called multiplier effect of government spending. Economists such as Taylor who are skeptical of government's pump-priming role argue that for every additional $1 of government spending, GDP increases by less than $1. Those whose models back the stimulus generally assume that $1 in government spending adds more than $1 to total output via the multiplier effect. "If you crank up government spending, it will create jobs," says Sung Won Sohn, an economist at California State University. The actual multiplier changes depending upon the condition of the economy. Over the course of the business cycle, the average multiplier is less than 1, Zandi acknowledged. If unemployment is low and the government borrows money for stimulus projects — thus crowding out some private companies seeking to borrow money — the net result can be muted. But with unemployment high and the government able to borrow money for 10 years at historically low 2.5% rates, Uncle Sam's borrowing doesn't come at the expense of the private sector and the stimulus is a bigger net positive, he says. "Ultimately, people have to use their judgment here," says Taylor. "There's a difficulty of knowing what would have happened otherwise." Facing congressional elections in less than 90 days, administration officials say they know what would have happened: The ailing economy would be in worse shape if not for the stimulus. But even some of those directly benefiting from the stimulus remain dissatisfied amid the economy's myriad woes. When the president conducted an Aug. 18 town hall meeting in Columbus, Ohio, one questioner said he worked for a company that the stimulus funds were helping. "It's keeping me and my crews afloat for a while. But what we really need is a stronger housing market here in Columbus. We need to be building new roads and making houses affordable for people. They need to get out there buying. They need to be able to get the loans. And what's up with that?" the unidentified man asked, according to a White House transcript.

### Inflation Good

#### Inflation Good — economy flooding helps

Irwin 10, reporter covering economics and the Federal Reserve for The Washington Post, regularly appears on MSNBC, CNBC, and the PBS NewsHour to discusseconomic issues, holds an MBA from Columbia University where he was aKnight-Bagehot Fellow in Economics and Business Journalism, Neil Irwin, “How a touch of inflation could boost the economy”, Washington post, Saturday, September 18, 2010, http://www.washingtonpost.com/wp-dyn/content/article/2010/09/17/AR2010091706825\_pf.html

**Americans generally view rising prices as something to fear. But right now, a little inflation may be just what the economy needs.** Consumer prices rose 1.2 percent over the 12 months that ended in August, the Labor Department said Friday, and only 0.9 percent when volatile prices for food and energy are excluded. That is well below the range of 1.5 to 2 percent sought by the Federal Reserve. The low inflation numbers reflect the reluctance of businesses to raise prices amid weak demand for their products and the inability of most workers to get raises at a time of high unemployment. Somewhat higher inflation could strengthen the ailing economy. **Inflation would make the heavy debt that Americans carry a bit more manageable as wages rise but the amount owed stays the same.** And it would create more incentive for businesses to invest their cash rather than sit on it, because **inflation would reduce the value of hoarded money**. Some economists fear outright deflation, a destructive, self-reinforcing cycle of falling prices that can cause a long period of economic misery. But economic data released in recent months reveal a different reality: Prices are rising very, very slowly, and appear set to keep doing so for a long time to come. **Investors expect inflation to average 1.2 percent over the next five years, according to data from the bond market.** Even if the United States can avoid the kind of deflation that crippled the Japanese economy in the 1990s, the current economic recovery could suffer if extremely low levels of inflation become the norm. **The current rate of inflation may be just high enough to keep Fed policy makers from taking bold action to try to invigorate the recovery, but just low enough to represent a continued drain on economic activity.** "If that kind of equilibrium forms, you can get stuck in a really suboptimal situation," said Tim Duy, a University of Oregon economist. **With deflation, consumers and businesses respond to falling prices by sitting on cash, because it will become more valuable in the future as its buying power increases.** Hoarding, in turn, weakens the economy further, putting more downward pressure on prices. But that **vicious cycle doesn't suddenly kick in only when inflation moves from slightly positive to slightly negative.** For example, businesses that forecast a very low rate of inflation would be more inclined to hold onto cash than they would if inflation were higher. Yet without new investment, the jobless rate could remain high, keeping wages - and ultimately prices - from rising. Fed policymakers could try to break this cycle with large-scale purchases of bonds, **essentially flooding the economy with hundreds of billions of dollars in new money.** The Fed will discuss such an approach at a policy meeting Tuesday but is unlikely to take the steps then. Some Fed officials argue that prices will begin to rise more rapidly, even without dramatic action by the Fed, once the economic recovery gains momentum. Fed leaders, meantime, have played down the risk of outright deflation, even as they seem increasingly concerned about inflation below the level they informally target. "While no member saw an appreciable risk of deflation, some judged that the risk of further near-term disinflation had increased somewhat," according to minutes of the Fed's Aug. 10 policy meeting. The Labor Department said Friday that consumer prices rose 0.3 percent in August, but that spike was mostly because of a jump in the price of gasoline, which can change dramatically from month to month. Excluding food and energy, the consumer price index rose 0.1 percent. Among the prices that fell in August: Rents fell 0.7 percent, hotels and other lodging rates fell 1.3 percent, and apparel prices fell 0.1 percent. Education costs, which have been on a long upward trend, were unchanged. "With companies focused on cost cutting and productivity and the consumer still dealing with excess leverage, price pressures are absent from the economy," said Steven Ricchiuto, chief economist at Mizuho Securities. The dip in annual inflation excluding energy below 1 percent "shows that the economy is just one modest contraction away from dipping into a Japan-like deflation," he said. Several sources of information give Fed officials solace that the U.S. economy hasn't reached that stage. For one, **inflation expectations,** which have a tendency to be self-fulfilling, **have been** little **changed since early August, as measured by surveys of economic forecasters, of ordinary Americans, and bond market data. And commodity prices have been drifting upward slightly this summer, despite signs that the global economic recovery is faltering. The price of oil had edged up from $68 a barrel on May 20 to $73.66 Friday.**

### AT: Credit Downgrade

Impossible for U.S. credit rating to fall bellow triple A.

Wray & Nersisyan ’10 1. L. Randall Wray, Ph.D. in Economics, is a Professor of Economics at University of Missouri-Kansas City. 2. Yeva Nersisyan, IPh.D. Student in Economics and Math and Statistics, University of Missouri-Kansas city (L. Randall Wray & Nersisyan, Yeva: “Neoliberal Deficit Hysteria Strikes Again”, March 22, 2010, http://neweconomicperspectives.org/2010/03/neoliberal-deficit-hysteria-strikes.html)

President Obama and PM Brown should “just say no” to the attempted intervention by these fundamentally misguided deficit hawks into their economic and political affairs. Not only would fiscal tightening now or even within the next several years be a monumental mistake, the notion that continued deficits threaten our economies is unsound. In the remainder of this piece we will briefly explain why. What these Neoliberals do not understand is that the UK and US operate with sovereign currencies—that is both of these nations issue their own non-convertible (floating exchange rate) currencies. For this reason the comparison with any nation that uses the Euro (such as Greece), or with a nation that pegs to precious metals or foreign currencies is invalid. In other words, there is no question of solvency or sustainability of deficits for the US and UK. Sovereign debt of these nations never carries default risk and hence cannot be rated below triple A.

# Negative

### Deficit Spending Bad

#### Stimulus spending hurts, not helps the economy

De Rugy and Mitchell 11 -Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy, federal budget, homeland security, taxation, tax competition, and financial privacy issues. and Matthew Mitchell, Senior Research Fellow at the Mercatus Center at George Mason University, holds an M.A. and Ph.D. in Economics from George Mason University, 2011, (“WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?”, <http://mercatus.org/sites/default/files/publication/infrastructure\_deRugy\_WP\_9-12-11.pdf>)

Diminishing marginal returns to stimulus: New research also suggests that there are diminishing marginal returns to stimulus.15 This makes new stimulus even less helpful than what has already been undertaken. The Federal Government has already spent over $1 trillion in legislated stimulus. Beyond this, unlegislated ―automatic stabilizers‖ in the budget have helped to push the primary deficit well over $1 trillion.16 The problems with infrastructure stimulus: There are unique problems with infrastructure stimulus that tend to diminish its chances of success. Chief among these are long implementation delays. The Congressional Budget Office reports that: [F]or major infrastructure projects supported by the federal government, such as highway construction and activities of the Army Corps of Engineers, initial outlays usually total less than 25 percent of the funding provided in a given year. For large projects, the initial rate of spending can be significantly lower than 25 percent.17 Economists from the IMF studied the impact of implementation delays on the multiplier and found that, ―Implementation delays can postpone the intended economic stimulus and may even worsen the downturn in the short run.‖

#### Stimulus counterproductive — debt is a bigger risk to the economy

De Rugy and Mitchel 11 -Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy, federal budget, homeland security, taxation, tax competition, and financial privacy issues. and Matthew Mitchell, Senior Research Fellow at the Mercatus Center at George Mason University, holds an M.A. and Ph.D. in Economics from George Mason University, 2011, (“WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?”,

Economists have long recognized the value of infrastructure. Roads, bridges, airports, canals, and other projects are the conduits through which goods are exchanged. In many circumstances, private firms can and should be allowed to provide this infrastructure. But in other cases, there may be a role for public provision at the local level.42 But whatever its merits, infrastructure spending is not likely to provide much of a stimulus. As a short-term measure, more deficit-financed infrastructure spending is a risky bet. At best, it is likely to be ineffective; at worst it will be counterproductive. One long-term impact of further stimulus is certain: it would leave the United States deeper in debt at time when we can ill afford it.

#### Deficit Spending is zero-sum

Rahn 08-[Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth. http://www.cato.org/publications/commentary/what-is-economic-stimulus]

The argument is made that many Americans are suffering from a decline in income, and thus the government should give them money so they can buy more and put others back to work. Sounds good - but where does the government get the money? It must either tax someone else now or borrow more money, which diverts productive saving to current consumption. Either way, it is less than a zero-sum game.

Every time direct government payments have been tried, they have failed. During the Great Depression, government spending soared as a percentage of gross domestic product, but full employment did not return until World War II. During the last eight years, U.S. government spending has greatly increased in both absolute terms and as a percentage of GDP, yet the economy now performs worse than it did a decade ago.

When one person is taxed more to pay another person, the incentive to work diminishes and so the total income enjoyed by both people declines. The recipient might be slightly better off for a few months, but the economy (that is, everyone else), and eventually even the original beneficiary will be worse off. The government can only divert savings (through additional government bond sales) for a limited period before everyone will be worse off. The evidence is that the first Bush tax cut back in 2001, which was actually a tax rebate, did little good. In fact, it is now known that people saved much of the money, so the government borrowed some people's savings to provide money for others (or even the same people - who didn't spend it, but saved it). The lesson was learned, and in 2003 the tax rates were cut, which increased incentives for work, saving and investment and hence did a lot of good.

The history of various economic experiments and sound theory (unlike much of the Keynesian claptrap) teaches us government handouts, or tax rebates, are unlikely to do any good and can often be counterproductive.

#### Deficit spending has repeatedly failed

Riedl 10- [Brian M; Mr. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html?mod=WSJ\_latestheadlines]

The economic theory behind the stimulus builds on the work of John Maynard Keynes eight decades ago. It begins with the idea that an economic shock has left demand persistently and significantly below potential supply. As people stop spending money, businesses pull back production and the ensuing vicious circle of falling demand and production shrinks the economy.

Keynesians believe that government spending can make up this shortfall in private demand. Their models assume that--in an underperforming economy--government spending adds money to the economy, taxes remove money from the economy, and so the increase in the budget deficit represents net new dollars injected. Therefore, it scarcely matters how the dollars are spent. Keynes is said to have famously asserted that a government program that pays people to dig and refill ditches would provide new income for those workers to spend and circulate through the economy, creating even more jobs and income.

The Keynesian argument also assumes that consumption spending adds to immediate economic growth while savings do not. By this reasoning, unemployment benefits, food stamps, and low-income tax rebates are among the most effective stimulus policies because of their likelihood to be consumed rather than saved. Taking this analysis to its logical extreme, Mark Zandi of Economy.com has boiled down the government's influence on America's broad and diverse $14 trillion economy into a simple menu of stimulus policy options, whereby Congress can decide how much economic growth it wants and then pull the appropriate levers. Zandi asserts that for each dollar of new government spending: temporary food stamps adds $1.73 to the economy, extended unemployment benefits adds $1.63, increased infrastructure spending adds $1.59, and aid to state and local governments adds $1.38.[4] Jointly, these figures imply that, in a recession, a typical dollar in new deficit spending expands the economy by roughly $1.50. Over the past 40 years, this idea of government spending as stimulus has fallen out of favor among many economists. As this paper shows, it is contradicted both by empirical data and economic logic.

Economic data contradict Keynesian stimulus theory. If deficits represented "new dollars" in the economy, the record $1.2 trillion in FY 2009 deficit spending that began in October 2008--well before the stimulus added $200 billion more[5]--would have already overheated the economy. Yet despite the historic 7 percent increase in GDP deficit spending over the previous year, the economy shrank by 2.3 percent in FY 2009.[6] To argue that deficits represent new money injected into the economy is to argue that the economy would have contracted by 9.3 percent without this "infusion" of added deficit spending (or even more, given the Keynesian multiplier effect that was supposed to further boost the impact). That is simply not plausible, and few if any economists have claimed otherwise.

And if the original $1.2 trillion in deficit spending failed to slow the economy's slide, there was no reason to believe that adding $200 billion more in 2009 deficit spending from the stimulus bill would suddenly do the trick. Proponents of yet another stimulus should answer the following questions: (1) If nearly $1.4 trillion budget deficits are not enough stimulus, how much is enough? (2) If Keynesian stimulus repeatedly fails, why still rely on the theory?

This is no longer a theoretical exercise. The idea that increased deficit spending can cure recessions has been tested repeatedly, and it has failed repeatedly. The economic models that assert that every $1 of deficit spending grows the economy by $1.50 cannot explain why $1.4 trillion in deficit spending did not create a $2.1 trillion explosion of new economic activity.

### Keynes Wrong

#### Keynesian theory hurts the economy- empirically proven.

Mitchell 09 – [J. Mitchell; Senior Fellow, Cato Institute; He is a top expert on tax reform and supply-side tax policy. http://www.cato.org/pubs/tbb/tbb\_0209-53.pdf]

During the Bush years, so-called stimulus legislation based on “Keynesian” theory was enacted in both 2001 and 2008.1 It was hoped that putting money in people’s pockets would lead to more consumer spending and thus give the economy a positive jolt. Those episodes of Keynesian policy were ineffective, but that has not dimmed enthusiasm for the approach. The Obama economic team is pushing a similar approach, but on a much bigger scale—more than $800 billion of new spending and temporary tax cuts, a figure that climbs above $1 trillion when interest costs are included. And that may be just the starting point since the promise of additional spending has set off a feeding frenzy on Capitol Hill.

Doing more of a bad thing is not a recipe for growth. Government spending generally is a burden on the economy. Whether financed by debt or taxes, government spending requires a transfer of money from the productive sector of the economy. Moreover, most forms of government spending result in the misallocation of labor and capital, causing even further damage.

Although many factors influence economic performance, the negative impact of government spending is one reason small-government jurisdictions such as Hong Kong has higher growth rates than nations that have medium-sized government, such as the United States. The same principle explains in part why the United States enjoys faster average growth than a big-government country such as France. Figure 1 shows average economic growth rates in France and Hong Kong since 1980.

#### Keynesian theory isn’t real-world

Mitchell 09 – [J. Mitchell; Senior Fellow, Cato Institute; He is a top expert on tax reform and supply-side tax policy. http://www.cato.org/pubs/tbb/tbb\_0209-53.pdf]

During the 1930s, Keynes and his disciples argued that the economy could be boosted if the government borrowed money and spent it. According to the theory, this new spending would put money in people’s pockets, and the recipients of the funds would then spend the money and “prime the pump” as the money began circulating through the economy. The Keynesians also said that some tax cuts—particularly lump-sum rebates—could have the same impact since the purpose is to have the government borrow and somehow put the money in the hands of people who will spend it.

Keynesian theory suffers from a rather glaring logical fallacy. It overlooks the fact that, in the real world, government can’t inject money into the economy without first taking money out of the economy. Any money that the government puts in the economy’s right pocket is money that is first removed from the economy’s left pocket. There is no increase in what Keynesians refer to as aggregate demand since every dollar that is spent on a stimulus package is a dollar that the government first must borrow from private credit markets. Keynesianism doesn’t boost national income, it merely redistributes it.

Real-world evidence does not support the Keynesianism perspective. In his four years, Herbert Hoover increased taxes dramatically, including a boost in the top tax rate from 25 percent to 63 percent. He imposed harsh protectionist policies. He significantly increased intervention in private markets. Most importantly, at least from a Keynesian perspective, he boosted government spending by 47 percent in just four years. And he certainly had no problem financing that spending with debt. He entered office in 1929, when there was a surplus, and he left office in 1933 with a deficit of 4.5 percent of GDP.

#### Injecting money into the economy does not create new spending power

**Riedl 10-** [Brian M; Mr. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html?mod=WSJ\_latestheadlines]

Moving forward, the important question is why government spending fails to end recessions. Spending-stimulus advocates claim that Congress can "inject" new money into the economy, increasing demand and therefore production. This raises the obvious question: From where does the government acquire the money it pumps into the economy? Congress does not have a vault of money waiting to be distributed. Every dollar Congress injects into the economy must first be taxed or borrowed out of the economy. No new spending power is created. It is merely redistributed from one group of people to another.[7]

Congress cannot create new purchasing power out of thin air. If it funds new spending with taxes, it is simply redistributing existing purchasing power (while decreasing incentives to produce income and output). If Congress instead borrows the money from domestic investors, those investors will have that much less to invest or to spend in the private economy. If they borrow the money from foreigners, the balance of payments will adjust by equally raising net imports, leaving total demand and output unchanged. Every dollar Congress spends must first come from somewhere else.

For example, many lawmakers claim that every $1 billion in highway stimulus can create 47,576 new construction jobs. But Congress must first borrow that $1 billion from the private economy, which will then lose at least as many jobs.[8] Highway spending simply transfers jobs and income from one part of the economy to another. As Heritage Foundation economist Ronald Utt has explained, "The only way that $1 billion of new highway spending can create 47,576 new jobs is if the $1 billion appears out of nowhere as if it were manna from heaven."[9] This statement has been confirmed by the Department of Transportation[10] and the General Accounting Office (since renamed the Government Accountability Office),[11] yet lawmakers continue to base policy on this economic fallacy.

Removing water from one end of a swimming pool and pouring it in the other end will not raise the overall water level. Similarly, taking dollars from one part of the economy and distributing it to another part of the economy will not expand the economy.

#### Keynesian-style stimulus fails - Japan proves.

Scissors and Foster 11- [Derek Scissors, Ph.D. is a Senior Research Fellow at The Heritage Foundation. He has a Ph.D. is economics. / J.D. Foster, Ph.D. is the Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at The Heritage Foundation. He has also has a Ph.D. in economics. http://www.heritage.org/research/reports/2011/10/avoiding-americas-lost-decades]

However, the most glaring of Japan’s mistakes has been its fiscal policy. Japan is arguably the world’s most indebted major economy, with public debt close to twice the level of GDP. This is a problem created during the lost decades, not before. Nominal debt soared 170 percent from June 1996 to June 2010 even while GDP declined slightly.[3] Japanese fiscal stimulus has been an utter failure.

The first few attempts at Keynesian stimulus may have been understandable. What extended Japan’s misery was the inability to accept that deficit spending does not stimulate the economy. Every few years, a new twist was added. Each time, the new economic elixir was advertised to remedy Japan’s ailments, and each time more debt built up and more money was wasted.

Even now, deficit spending is considered by some to be necessary if only it is done right this time. Meanwhile, the hard work of shrinking deficits and debt is being conveniently put off until later because economic growth is supposedly too weak now to survive the loss of fiscal stimulus.[4]

Japan cannot anticipate renewed economic growth from either a growing labor force or from more use of land (either agriculture or natural resources). The size of the labor force is declining, and there is little in the way of natural resources waiting to be drawn into production. Thus, Japan must rely on innovation and more efficient use of productive capital.

An oversized government inhibits broad, long-term innovation—for example, through regulatory barriers that kill the incentive to innovate. Japan’s debt is almost entirely domestically financed, which means gigantic sums are shifted from the private sector to the public sector, where the social return on investment is almost nil and the yields paid on the debt are only slightly better. The huge debt and oversized government has sapped Japan’s domestic sources of growth.

It is therefore not surprising that Japan has been desperate for foreign sources of growth. The periods of seeming mild recovery that have occurred in the past 20 years have all been driven by foreign demand. Japanese financial policy has been warped by the attempt to extract growth from others (for example, through exchange rate intervention).

But the more serious financial failing is the loss of the Bank of Japan’s credibility.[5] Rather than quietly holding to a consistent policy, the central bank has announced so many different strategies for stimulus that its initiatives are now immediately dismissed.

Lessons for the United States

The Congressional Budget Office estimates that the federal budget deficit in 2011 was $1.3 trillion, matching the 2010 deficit and down just slightly from the all-time record of $1.4 trillion in 2009.[6] Under President Obama, the federal government has run deficits in three years totaling twice what occurred under President George W. Bush in eight years. The pattern of U.S. government deficits has taken a decidedly Japanese appearance.

Part of the explanation for these deficits is the recession itself, which cut deeply into tax receipts and increased government spending through automatic programs such as food stamps and unemployment insurance benefits.[7] But repeated bouts of Keynesian-style stimulus have also contributed substantially, beginning with President Obama’s huge stimulus legislation in 2009. As is now abundantly clear, this approach to recession and recovery has failed as miserably in the U.S. as it did in Japan.

#### Keynesian Theory is flawed; money has to be taken out of the economy before it can o back in.

**Riedl 10-** [Brian M; Mr. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. http://www.heritage.org/research/commentary/2010/08/the-fatal-flaw-of-keynesian-stimulus]

But there is one problem with the government stimulus theory: No one asks where Congress got the money it spends.

Congress does not have a vault of money waiting to be distributed. Every dollar Congress injects into the economy must first be taxed or borrowed out of the economy. No new spending power is created. It is merely redistributed from one group of people to another.

It is intuitive that government spending financed by taxes merely redistributes existing dollars. Yet spending financed by borrowing also redistributes existing dollars today. The fact that borrowed dollars (unlike taxes) will be repaid some years later does not change that.

Some believe stimulus spending is the mechanism by which the Federal Reserve injects new dollars into the economy. Yet the Fed could run the printing press and then inject those dollars into the economy by buying existing bonds (with mostly inflationary results). It doesn't need an expensive stimulus bill to conduct monetary policy.

Before spending $814 billion on the stimulus, Congress had to borrow it from some combination of the following three sources:

#### Money for deficit spending does not come out of thin air.

**Riedl 10-** [Brian M; Mr. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. http://www.heritage.org/research/commentary/2010/08/the-fatal-flaw-of-keynesian-stimulus]

To recap: All government stimulus spending requires first borrowing dollars that would have otherwise been applied elsewhere in the economy. The only exception is money borrowed from "idle savings," which for reasons described above likely constitute a minuscule portion of the $814 billion stimulus.

Yet Washington relies on Keynesian economic models that essentially assume that (in a recession) every dollar of government purchases raises GDP dollar-for-dollar — which could be true only if 100 percent of government spending was borrowed from idle savings to create new demand. That is implausible.

Once it becomes clear that government spending only redistributes existing demand, the case for "stimulus" spending collapses.

Yes, government spending can recirculate through the economy via the multiplier effect. But the same dollars would have recirculated through the private economy had they not been lent to Washington.

Yes, in a recession, Washington can spend $814 billion putting idle factories and people to work. But that requires first borrowing $814 billion of spending power out of the private sector, which — by the same logic — will result in idle factories and workers in the locations that financed the stimulus.

In that sense, government spending is the equivalent of removing water from one end of a swimming pool, dumping it in the other end, and then claiming to have raised the water level.

Economic growth requires raising worker productivity to create more goods and services. Government stimulus spending represents a naive "magic wand" attempt to create purchasing power and wealth out of thin air.

### AT: Infrastructure Investment

#### Infastructure spending isn’t a stimulus

De Rugy 11 -Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy, federal budget, homeland security, taxation, tax competition, and financial privacy issues. (“Why Infrastructure Spending Is a Bad Bet”, <http://www.nationalreview.com/corner/276636/why-infrastructure-spending-bad-bet-veronique-de-rugy>)

Second, according to Keynesian economists, for spending to be stimulative, it has to be timely, targeted, and temporary. Infrastructure spending isn’t any of that. That’s because infrastructure projects involve planning, bidding, contracting, construction, and evaluation. Only $28 billion of the $45 billion in DOT money included in the stimulus has been spent so far.  We know that the stimulus money wasn’t targeted toward the areas that were hit the most by the recession, but even if the funding *were* targeted, it still might not be stimulative. First, the same level of job poaching from existing jobs would have happened; construction workers tend to be highly specialized, and skilled workers rarely suffer from high unemployment. Many of the areas that were hardest hit by the recession are in decline because they have been producing goods and services that are not, and will never be, in great demand. The overall value added by improving their roads is probably a lot less than that of new infrastructure in growing areas that might have relatively little unemployment but do have great demand for more roads, schools, and other types of long-term infrastructure. As for being temporary — which stimulus spending needs to be to work — what the president will propose tonight is likely to cost the American people money for a very long time. Infrastructure spending tends to suffer from massive cost overruns, waste, fraud, and abuse. A comprehensive study examining 20 nations on five continents (“Underestimating Costs in Public Works Projects: Error or Lie?” by Bent Flyvbjerg, Mette K. Skamris Holm, and Søren L. Buhl) found that nine out of ten public-works projects come in over budget. Cost overruns routinely range from 50 to 100 percent of the original estimate. For rail, the average cost is 44.7 percent greater than the estimated cost at the time the decision was made. For bridges and tunnels, the equivalent figure is 33.8 percent, for roads 20.4 percent.

#### **Infrastructure spending by the federal government fails**

Glaeser 2/13 Edward L. Glaeser is a Bloomberg View columnist appearing on alternate Tuesdays. A professor of economics at Harvard, he is the author of "Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier and Happier." (“Spending Won’t Fix What Ails U.S. Infrastructure: Edward Glaeser” <http://www.bloomberg.com/news/2012-02-14/spending-won-t-fix-what-ails-u-s-transport-commentary-by-edward-glaeser.html>)

Interstate Highway System Abraham Lincoln helped win the West by supporting the construction of the Transcontinental Railroad, with public land grants and lending. Of all of Theodore Roosevelt’s myriad presidential achievements, he may have been proudest of the Panama Canal, which sped transport by water between California and the East Coast. President Dwight D. Eisenhower may have been conservative in most things, but not when it came to building the Interstate Highway System that reshaped America around the automobile. American urbanites see the remnants of our engineering greatness all around them. New York City has three great bridges that were all, at some point, the longest suspension bridge in the world: the Brooklyn Bridge, the George Washington Bridge and the Verrazano Narrows Bridge. The Golden Gate Bridge in San Francisco was also the world’s longest suspension bridge for more than two decades. Today, six of the 10 longest bridges are in Asia. The spate of bridge and rail construction in China taps into American insecurities and leads many to wonder whether we are falling behind because we aren’t building more. Politicians understand the magical promise of bold new projects, like superfast trains across California or missions to space, but that promise can be false. Spain’s current fiscal woes owe much to its overly ambitious high-speed rail investments. Similar rail projects in China have produced more allegations of corruption and safety problems than economic transformation. Infrastructure investment only makes sense when there is a clear problem that needs solving and when benefits exceed costs. U.S. transportation does have problems -- traffic delays in airports and on city streets, decaying older structures, excessive dependence on imported oil -- but none of these challenges requires the heroics of a 21st century Erie Canal. Instead, they need smart, incremental changes that will demonstrate more wisdom than brute strength.

### AT: Multiplier Effect

#### The multiplier effect is over exaggerated

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A vital measure of the effectiveness of a stimulus is the government purchases multiplier (the ―multiplier‖). The multiplier measures the amount by which the economy expands when the government increases its purchases of goods and services by $1.00. It is important to remember that when it measures the size of the economy, the Bureau of Economic Analysis automatically counts a $1.00 increase in government purchases and gross investments as a $1.00 increase in measured GDP.4 Therefore, the key question is whether this increase in public sector GDP enhances (―multiplies‖) private sector GDP or displaces (―crowds out‖) private sector GDP.

If the multiplier is smaller than 0, stimulus displaces enough private sector activity to offset any increase in public sector activity, i.e., stimulus actually shrinks the entire economy. However, if the multiplier is between 0 and 1, then stimulus displaces private-sector economic activity, but not by enough to counteract the increase in public sector economic activity. If the multiplier is larger than 1, then stimulus spending not only increases public-sector economic activity, it also increases private-sector economic activity. Notwithstanding the confidence of stimulus advocates, there is no academic consensus regarding the size or even the sign of the multiplier. As a recent International Monetary Fund (IMF) working paper puts it, ―Economists have offered an embarrassingly wide range of estimated multipliers.‖5 The largest recent estimate is by Northwestern University economists Lawrence Christiano, Martin Eichenbaum, and Sergio Rebelo. They estimate that the multiplier may be as large as 3.7, implying that $1.00 in government purchases stimulates another $2.7 in private sector economic activity.6 On the other end of the spectrum is an estimate by University of Chicago economists Andrew Mountford and Harald Uhlig. They find that the multiplier may be as small as -2.88, implying that $1.00 in government purchases displaces $3.88 in private sector economic activity.7 A wide range of estimates exists, in part, because there is a wide range of circumstances in which stimulus might be applied. We now turn to the particular circumstances of the United States to see how infrastructure stimulus might impact the current economic situation

### AT: Shovel Ready Projects

#### Shovel ready projects aren’t real

De Rugy and Mitchell 11 -Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy, federal budget, homeland security, taxation, tax competition, and financial privacy issues. and Matthew Mitchell, Senior Research Fellow at the Mercatus Center at George Mason University, holds an M.A. and Ph.D. in Economics from George Mason University, 2011, (“WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?”, <http://mercatus.org/sites/default/files/publication/infrastructure\_deRugy\_WP\_9-12-11.pdf>)

Perhaps the most important reasons to be skeptical about further stimulus—particularly infrastructure stimulus—have to do with the way it is implemented. As a general rule, the studies that obtain large multipliers do so by assuming that stimulus funds will be distributed just as Keynesian theory says they ought to be. Keynesian economist and former presidential economic advisor Lawrence Summers has offered a widely accepted summary of how—ideally—fiscal stimulus ought to be applied.18 He argues that fiscal stimulus ―can be counterproductive if it is not timely, targeted, and temporary.‖ In reality, however, infrastructure spending cannot fulfill these criteria. There is no such thing as a “shovel ready” project: By nature, infrastructure spending fails to be timely. Even when the money is available, it can be months, if not years, before it is spent. This is because infrastructure projects involve planning, bidding, contracting, construction, and evaluation.19

### AT: Job Creation

#### Most proposals don’t lead to job creations

Utt 8 Ronald D. Utt, Ph.D., is Herbert and Joyce Morgan Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. (“More Transportation Spending: False Promises of Prosperity and JobCreation”, <http://www.heritage.org/research/reports/2008/04/more-transportation-spending-false-promises-of-prosperity-and-job-creation>)

The CRS, GAO, and CBO studies conclude that the impact on jobs would be much less than the 47,000 new jobs per $1 billion in new highway spending implied by the USDOT simulation. How­ever, none of these studies questioned the extent to which job creation should even be a high priority of any federal program. Most federal programs were created to meet a particular need that Congress believed government should address in the interest of the general welfare. Food stamps feed the poor, Medicare helps the elderly with medical costs, and the Department of Defense protects America from external threats. To the extent that elusive efforts to create jobs compromise these goals, scarce taxpay­ers dollars are wasted.

In a 1992 study about federal spending and job creation, CRS analysts pointedly-and sarcasti­cally-asked: Have you noticed that most proposals to change some element of Federal economic policy-ranging from a minor tax provision to building public infrastructure to changes in trade restrictions-are debated at least in part in terms of how many jobs they will cre­ate? Will these proposals really create jobs? If so, why not just keep adding new programs until full employment is achieved?[28] Lost in the job-creation debate is the fact that the federal transportation program is supposed to be about transportation, mobility, congestion mitiga­tion, and safety-not job creation. To the extent that these goals are sacrificed to some illusive job-cre­ation process, the program becomes less effective, if not irrelevant, and ought to be scrapped rather than be allowed to continue to waste the taxes paid by beleaguered motorists. Furthermore, arguments for a costly commit­ment to a highway-based stimulus package cobbled together by a handful of lobbyists for the benefit of their members and clients fail to recognize that cre­ating jobs is not the same thing as creating value. Spending any sum of money on nearly anything will contribute to a job, but whether or not that job leads to the creation of products and services of broad public value is another question. Hurricanes, torna­does, and forest fires create large numbers of jobs, but they also destroy value in the process-an out­come not materially different from much of today's federal spending on costly and underutilized light-rail systems and pork-barrel earmarks.[29]

#### The job creation of new infrastructure projects is over exaggerated

Utt 8 Ronald D. Utt, Ph.D., is Herbert and Joyce Morgan Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. (“More Transportation Spending: False Promises of Prosperity and JobCreation”, <http://www.heritage.org/research/reports/2008/04/more-transportation-spending-false-promises-of-prosperity-and-job-creation>)

Typical is a recent statement by AASHTO Executive Director John Horsley in which he proposed that gov­ernment provide $18 billion in new transportation spending to create 750,000 new jobs. Presumably, these figures are based on the exaggerated USDOT simulation that each $1 billion of new transporta­tion spending would create 47,000 new jobs. He also claimed that more than 3,000 transportation projects could be awarded and started within 30 to 90 days, suggesting that if they were this close to being started, they were probably also funded by current state transportation budgets.[1] An ARTBA vice president told the House Demo­cratic Caucus that "protecting the solvency of the highway trust fund…was one of the most effective ways to facilitate economic recovery" and later noted that a gas tax increase was one way to do this.[2] APTA complains that the proposed $1 billion for transit projects was dropped from the stimulus package (H.R. 5140) before passage and recommends that its $3.6 billion spending plan for its members be con­sidered as part of any subsequent package.[3] Several presidential candidates have included infrastructure and transportation spending in their proposed stimulus packages. Senator Barack Obama (D-IL) has proposed a new federal infra­structure bank that would spend $60 billion over 10 years (equal to $20 per year per person) on high­ways and other projects to create 2 million new jobs.[4] Senator Hillary Clinton (D-NY) proposed to increase annual spending on public transit by $1.5 billion and annual spending on passenger rail (Amtrak) by $1 billion,[5] while former Republican presidential candidate Mike Huckabee repeated- and misrepresented-the claim that $1 billion in "federal highways and transit infrastructure" creates 47,000 jobs in announcing "The Huckabee Plan: Four Guiding Principles for Strengthening Amer­ica's Infrastructure."[6] Congress is also getting involved in the spending spree. In his statement on the budget resolution for fiscal year 2009, Senate Budget Committee Chair­man Kent Conrad (D-ND) announced that he had allowed room for stimulus spending in his budget proposal, including an unspecified sum for high­ways. Following the lead of the highway lobbyists, the Senator claimed:

[M]ore than 3,000 "ready-to-go" infrastruc­ture projects were identified. An investment in these projects will not only repair roads and bridges, but it will create jobs and improve economic growth, and start the pro­cess of reversing the Bush administration's underfunding of infrastructure.*[7]* Yet these many claims that highway spending can quickly create jobs and spur the economy are highly questionable given the mixed findings of decades of independent academic studies on the relationship between federal spending programs and job creation. Only one substantive "study," which was commissioned by the U.S. Department of Transportation, asserts much of an impact on job creation, and the study's authors heavily qualified that claim, recognizing that the results were pro­duced using highly artificial assumptions in the computer simulation. Indeed, a careful review of the USDOT study reveals that many proponents of highway spending exaggerate its ability to predict the number of jobs created by additional spending.

#### Even if we create more jobs, they tradeoff with jobs in other areas

Foster 3/6/12 JD Foster is the Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at The Heritage Foundation. (“WaPo Admitting Keynesian Stimulus Failed?” <http://blog.heritage.org/2012/03/06/wapo-admitting-keynesian-stimulus-failed/>)

Exactly right—a dollar spent is a dollar spent. A job gained here, a job lost there.

This speaks to a longstanding flaw of highway spending arguments. Proponents argue that this spending creates tens of thousands of jobs, and they are half right. The other half is the tens of thousands of jobs not created (or saved) by shifting spending to highways from other areas in the economy. The valid argument about infrastructure spending is: If done right, it will lift future productivity growth, not current job growth. The central failing—the essential fiscal alchemy of Keynesian stimulus—is the belief that government can increase total spending in the economy by borrowing and spending. What Keynesians ignore is that we have financial markets whose job in good times and bad is first and foremost to shift funds from savers to investors, from those who have money they do not wish to spend today to those who have a need to borrow to spend as much as they’d like, whether on new business equipment, a home, or a car. There are no vast sums of “excess funds” just sitting around in bank tellers’ drawers waiting for government to borrow and spend them. Government borrowing means less money available to the private sector to spend. So government deficit spending goes up, and dollar-for-dollar private spending goes down. America’s resources are generally speaking spent less wisely, and the federal debt is unequivocally higher. If past is prologue, the current infatuation with Keynesian deficit spending as stimulus will fade, just as it always has in the past, in this country as elsewhere. Perhaps this simple WaPo article marks the beginning of the end for the latest incarnation of this fiscal folly.

### AT: Short Term Stimulus

#### Short-term stimulus is ineffective; businesses take years to increase their productivity

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Second, investment is "spending" every bit as much as is consumption. Keynesian fiscal stimulus advocates want money spent on consumption, not saved. They evaluate past stimulus programs by whether people who got stimulus money spent it on consumption goods rather than save it. But the economy overall does not care if you buy a car, or if you lend money to a company that buys a forklift.[12]

Government spending can affect long-term economic growth, both up and down. Economic growth is based on the growth of labor productivity and labor supply, which can be affected by how governments directly and indirectly influence the use of an economy's resources. However, increasing the economy's productivity rate--which often requires the application of new technology and resources-- can take many years or even decades to materialize. It is not short-term stimulus.[13]

In fact, large stimulus bills often reduce long-term productivity by transferring resources from the more productive private sector to the less productive government. The government rarely receives good value for the dollars it spends. However, stimulus bills provide politicians with the political justification to grant tax dollars to favored constituencies. By increasing the budget deficit, large stimulus bills eventually contribute to higher interest rates while dropping even more debt on future generations.