## \*\*\* Stimulus Good

### Stimulus Key To Growth

#### Stimulus is key to growth in the short-term—no recovery without more government spending.

Stone 12 — Chad Stone, Chief Economist at the Center on Budget and Policy Priorities, holds a Ph.D. in Economics from Yale University, 2012 (“Misguided Deficit and Inflation Fears Impede Economic Recovery,” *Economic Intelligence*—a *U.S. News & World Report* blog, July 12th, Available Online at http://www.usnews.com/opinion/blogs/economic-intelligence/2012/07/12/misguided-deficit-and-inflation-fears-impede-economic-recovery, Accessed 07-20-2012)

Last week's disappointing jobs report for June showed that a strong labor market recovery remains elusive. Policymakers have the tools to boost economic growth and reduce the unemployment rate faster through more stimulative monetary and fiscal policies, but they are not using them. That makes no sense.

When the economy is performing well, deficit-financed government spending or tax cuts do little or nothing to boost economic activity in the short run, and the additional debt weighs on future growth. On the monetary side, an increase in the supply of money and credit that reduces interest rates would do little to increase real economic activity and would mainly generate inflationary pressures. In other words, the trade-off between current gains and future costs from fiscal or monetary stimulus would tilt heavily toward the cost side.

The situation, however, is very different when the economy is in a slump, as it is now, with substantial excess unemployment and idle productive capacity. There is tremendous economic waste and human hardship in an economy that's operating well below full capacity. The goods and services that are not produced, the wages and business income that are not earned, and the revenues not generated are lost forever. In the first quarter of 2012, the demand for goods and services (actual gross domestic product—GDP—in the chart below) was about $893 billion (5.5 percent) less than what the economy was capable of supplying (potential GDP). The Congressional Budget Office estimates that the cumulative shortfall from the start of the recession in 2007 will be $5.7 trillion by the time the economy returns to full employment.

Under these circumstances, deficit-financed government spending or well-targeted tax cuts can increase economic activity and reduce the substantial waste associated with underutilized labor and other productive resources. The additional debt would likely still weigh on future growth, but the benefits from increasing current economic activity would be substantial. Policymakers can eliminate the future costs if they pair short-term stimulus with policies that reduce the deficit in the future when the economy is stronger.

### A2: Alternate Causalities For Economic Slowdown

#### Infrastructure stimulus solves the reasons for economic slowdown—plan is key.

Weller 12 — Christian E. Weller, Senior Fellow at the Center for American Progress, Associate Professor of Public Policy at the University of Massachusetts-Boston, holds a Ph.D. in Economics from the University of Massachusetts-Amherst, 2012 (“Economic Snapshot for July 2012,” Center for American Progress, July 16th, Available Online at http://www.americanprogress.org/issues/2012/07/econsnap0712.html, Accessed 07-20-2012)

The U.S. economy is dealing with a number of problems including large household debt; lingering wealth losses; fiscal challenges for state, local, and federal governments; and overseas economic crises. Job and economic growth are sluggish as a result.

Policymakers have tools that can accelerate both job creation and economic expansion—they just need to use them. They acted decisively in the past with extended unemployment insurance benefits, payroll tax cuts, and infrastructure investments when they had a sense of urgency about helping America’s struggling middle class and strengthening the recovery. There’s no reason they shouldn’t have that urgency now.

### A2: Investor Confidence

#### No risk: treasury yields are negative—investors are paying us to borrow from them.

Klein 12 — Ezra Klein, blogger for *The Washington Post*, former associate editor for *The American Prospect*, holds a B.A. in Political Science from UCLA, 2012 (“The world desperately wants to loan us money,” *Wonkblog*—a *Washington Post* blog, July 12th, Available Online at http://www.washingtonpost.com/blogs/ezra-klein/wp/2012/07/12/the-world-desperately-wants-to-loan-us-money/, Accessed 07-20-2012)

The Financial Times reports that there was record demand for 10-year Treasurys this week. “The $21 [billion] sale of 10-year paper sold at a yield of 1.459 per cent, the lowest ever in an auction.” William O’Donnell, a strategist at RBS Securities, told the FT that “we were expecting good auction results but this one has left me speechless.”

Remember: Low yields means we’re getting the money for a cheap. It means the market thinks we’re a safe bet. And it means we have the opportunity to get capital for almost nothing and invest it productively.

Actually, I got something wrong there. I said “almost nothing.” But that 1.459 percent doesn’t account for inflation. And so when you do account for inflation, it’s not “almost nothing.” It’s “less than nothing.” Here are the latest “real yield curves” for Treasurys, which is to say, the yields after adjusting for inflation:

[Graph Omitted]

They’re negative. Negative! The market will literally pay us a small premium to take their money and keep it safe for them for five, seven or 10 years. We could use that money to rebuild our roads and water filtration systems. We could use that money to cut taxes for any business that adds to its payrolls. We could use that to hire back the 600,000 state and local workers we’ve laid off in the last few years.

Or, as Larry Summers has written, we could simply accelerate payments we know we’ll need to make anyway. We could move up maintenance projects, replace our military equipment or buy space we’re currently leasing. All of that would leave the government in a better fiscal position going forward, not to mention help the economy.

The fact that we’re not doing any of this isn’t just a lost opportunity. It’s financial mismanagement on an epic scale.

#### No risk stimulus causes debt crisis—investors are hoarding U.S. treasuries.

Stone 12 — Chad Stone, Chief Economist at the Center on Budget and Policy Priorities, holds a Ph.D. in Economics from Yale University, 2012 (“Misguided Deficit and Inflation Fears Impede Economic Recovery,” *Economic Intelligence*—a *U.S. News & World Report* blog, July 12th, Available Online at http://www.usnews.com/opinion/blogs/economic-intelligence/2012/07/12/misguided-deficit-and-inflation-fears-impede-economic-recovery, Accessed 07-20-2012)

Fears that further temporary deficit-financed fiscal stimulus would precipitate a debt crisis seem misguided at a time when investors around the world want the safety of U.S. Treasury securities. Comparisons between the U.S. situation and that of Greece or other southern European economies are off base.

### A2: Obama Stimulus Failed

#### The stimulus worked—CBO study and consensus of economists.

Stone 12 — Chad Stone, Chief Economist at the Center on Budget and Policy Priorities, holds a Ph.D. in Economics from Yale University, 2012 (“Why Obama's Economic Stimulus Worked,” *Economic Intelligence*—a *U.S. News & World Report* blog, June 20th, Available Online at http://www.usnews.com/opinion/blogs/economic-intelligence/2012/06/20/why-the-economic-stimulus-worked, Accessed 07-20-2012)

Everyone knows that the stimulus law didn't work, right? Except that it did.

Congressional Budget Office Director Doug Elmendorf told Congress recently, "Our position is that the [2009] Recovery Act was not a failed program. Our position is that it created higher output and employment than would have occurred without it."

Of course, not all economists agree. But in a survey by the University of Chicago's Booth School of Business, 80 percent of the 40 or so economists surveyed agreed with the Congressional Budget Office, known as the CBO, that the unemployment rate was lower at the end of 2010 than it would have been without the stimulus law. The survey asked a second question about whether—accounting for future costs arising from financing the stimulus with debt—its benefits would end up exceeding its costs. Here, 46 percent thought that they would and another 27 percent were uncertain, leaving only a small percentage that did not.

The economists were also asked how confident they were in their answer. When the answers were weighted by each expert's confidence, only 4 percent of respondents believed the stimulus did not lower unemployment and only 14 percent believed that the benefits would not end up exceeding the costs.

The two charts below from the Center on Budget and Policy Priorities' chart book, "The Legacy of the Great Recession," illustrate the CBO's estimates of the success of the Recovery Act—officially, the American Recovery and Reinvestment Act—in keeping real (inflation-adjusted) gross domestic product (GDP) from falling more and the unemployment rate from rising more than they did.

The blue lines show the actual path of real GDP and unemployment, the red lines show the high estimate of how much worse things would have been without the stimulus, and the yellow lines show the low estimate. Clearly, the high and low estimates differ greatly, but that doesn't necessarily mean the truth lies somewhere in the middle.

The CBO says it chose those ranges "judgmentally to try to encompass most economists' views." The Budget Office's technical discussion says the upper portions are based mainly on one approach to combining economic theory and data to make an informed estimate and the lower portions are based mainly on another. Economists like me who judge the stimulus a success—including a large majority of the experts in the above survey—most likely would estimate the effects in the upper regions of CBO's ranges. As Paul Krugman points out, that's where the evidence leads you.

To be sure, the Recovery Act did not prevent a huge jobs deficit and output gap (the difference between what the economy produced and what it could have produced if there were not so much unemployment and idle productive capacity). But it prevented substantial economic waste by keeping output from falling more and unemployment from rising more than they did. It also reduced the economic hardship that comes with an economic slump. As the CBO observes:

Not only are the costs associated with the output gap immense, but they are also borne unevenly. Those costs fall disproportionately on people who lose their jobs, who are displaced from their homes, or who own businesses that fail.

Stimulus works to increase economic growth and employment when the economy is weak, as it is now. The CBO and almost all economists recognize that once the economy returns to full employment, deficit-financed spending does not work the same as in a weak economy and that continuing to run deficits will likely harm economic growth.

That's why most policy experts recommend that, once something happens to shake policymakers into cutting a meaningful budget deal, that deal should combine policies that support the flagging recovery in the short term with policies that promote longer-term fiscal stability—but that don't kick in until the economy is stronger.

## \*\*\* Stimulus Bad

### Stimulus Fails

#### Stimulus empirically fails—our evidence cites a 110-year study.

Cox and Alm 12 — W. Michael Cox, Director of the William J. O’Neil Center for Global Markets and Freedom at Southern Methodist University, former Chief Economist and Senior Vice President of the Federal Reserve Bank of Dallas, and Richard Alm, Writer in Residence at the O’Neil Center for Global Markets and Freedom at Southern Methodist University, formerly covered the national economy for *U.S. News & World Report*, 2012 (“Sorry, Keynesians, More Spending Doesn't Boost Jobs,” *Investors.com*—the website of *Investor’s Business Daily*, July 6th, Available Online at http://news.investors.com/article/617318/201207061734/government-stimulus-doesnt-creat-more-jobs.htm?p=full, Accessed 07-20-2012)

Political leaders continue to peddle the snake oil that we can spend our way back to prosperity.

The Obama administration has pushed government's share of GDP past 40%, the highest ever without a major war. Europeans are grousing about austerity, seeing crippling debt not as a comeuppance but as an obstacle to the spending needed to revive a moribund economy.

In the 1930s, with the world in the Great Depression's death grip, British economist John Maynard Keynes argued that massive government spending would boost demand and put the unemployed back to work. Over the next eight decades, Keynesian stimulus became the standard remedy for weak economies — even though it has never worked.

To test the efficacy of Keynesian policies, we looked at the annual changes in U.S. government spending as a share of gross domestic product from 1901 to 2011, measured relative to the growth trend of 1.76%. Then we determined whether the higher spending had lowered unemployment rates (see chart above).

Many Americans believe President Franklin D. Roosevelt's Keynesian conversion beat back the Great Depression. It's pure myth. In the 1930s, the United States doubled government outlays relative to GDP. The unemployment rate didn't fall; instead, it jumped from 3.2% in 1929 to 25.2% in 1933 — an outcome contrary to Keynes' doctrine.

Yet the policy's failure hasn't fazed Keynes' acolytes. They argue that U.S. policy was too timid and even more government spending was needed to cure the Depression. They point to World War II, where government spending rose to 50% from 20% of GDP and unemployment fell to 1.2%.

Only two periods of rising government spending have been associated with falling unemployment — 1917-19 and 1941-45. They're both times of major world wars, where millions of adults were plucked from the civilian labor force to serve in the military.

The share of the adult population on active duty rose from 0.3% in 1916 to 4.5% in 1918 and from 0.5% in 1940 to 12.3% in 1945.

In short, unemployment fell not because of government spending but because of government conscription — hardly a good way to cure joblessness or evidence of a Keynesian miracle.

At all other times during this 110-year sweep of U.S. history, government spending and unemployment rates have moved in the same direction. In the 1920s, both trended downward. The Depression decade saw them rise in tandem.

From the 1950s through the 1970s, spending and unemployment moved up and down together. In the 1980s-90s, they had another nicely choreographed decline.

Keynesian proponents could claim the positive correlation stems from increases in government spending to create jobs as unemployment rises. However, the pattern persists even with a lag, meaning that government spending programs have made unemployment worse.

So now we come to our current Keynesian episode. An $825 billion stimulus package, passed in February 2009, authorized spending for infrastructure, health care, education, energy efficiency, scientific research and dozens of other projects. Rebates and tax cuts sought to rouse skittish consumers.

At the time, proponents projected that the stimulus would keep the jobless rate below 8%. While government went on its pending spree, unemployment kept rising, peaking at 10% in October 2009. After three years of the stimulus, funded with borrowed money, unemployment hadn't yet gone down to 8%.

Yet another Keynesian policy failure hasn't led to a reappraisal of the belief that spending can solve the economy's problems.

To some, the slow recovery means that the stimulus wasn't strong enough, or the economy was in worse shape than anyone thought. Neither argument faces the glaring truth — Keynesian stimulus doesn't work the way its adherents say it does.

#### Stimulus doesn’t create jobs—four reasons.

Cox and Alm 12 — W. Michael Cox, Director of the William J. O’Neil Center for Global Markets and Freedom at Southern Methodist University, former Chief Economist and Senior Vice President of the Federal Reserve Bank of Dallas, and Richard Alm, Writer in Residence at the O’Neil Center for Global Markets and Freedom at Southern Methodist University, formerly covered the national economy for *U.S. News & World Report*, 2012 (“Sorry, Keynesians, More Spending Doesn't Boost Jobs,” *Investors.com*—the website of *Investor’s Business Daily*, July 6th, Available Online at http://news.investors.com/article/617318/201207061734/government-stimulus-doesnt-creat-more-jobs.htm?p=full, Accessed 07-20-2012)

Keynesian-style demand stimulus assumes businesses receiving new orders will quickly go out and add workers.

Why might firms not do that?

First, they may regard the new demand as temporary and choose to squeeze more productivity out of the existing workforce rather than incur the cost of hiring and training new employees. Output per employed worker rises during recessions, providing strong support for this notion.

Second, unemployed workers may lack the skills and training to perform the tasks newly demanded in business. This is particularly true when massive technological change makes the job skills of yesterday obsolete.

Government programs that subsidize the unemployed only make the problem worse by enabling people to stay outside the workforce longer, where their skills atrophy or fall further behind the needs of the new workplace.

Third, more government spending ultimately means higher taxes. Many households will prepare to meet their future obligations by saving more and consuming less. So government spending crowds out private spending, negating policymakers' attempts to increase overall demand.

Fourth, and perhaps most important, demand stimulus doesn't create jobs. Firms are in business to make a profit, not to increase employment. They'll add workers only if it's the profitable thing to do. If salary plus benefits are too costly, the company will not hire.

Too often, taxes and government-mandated benefits saddle firms with substantial hiring costs, blocking the incentive to hire people to meet any demand, permanent or transitory.

In short, demand doesn't create jobs; incentives do. Nothing in massive government spending addresses incentives to hire.

Stimulus is doomed to fail.

#### Academic studies prove.

Rickards 12 — James Rickards, hedge fund manager in New York City, author of *Currency Wars: The Making of the Next Global Crisis*, 2012 (“Why Obama's Deficit Spending Is Making Things Worse,” *Economic Intelligence*—a *U.S. News & World Report* blog, June 25th, Available Online at http://www.usnews.com/opinion/blogs/economic-intelligence/2012/06/25/why-obamas-deficit-spending-is-making-things-worse, Accessed 07-20-2012)

The first part of the formula is easy to shoot down. Empirical evidence has been accumulating for years that the Keynesian multiplier is mythical, an abstraction only an academic could embrace bearing no resemblance to real world economic dynamics. One need look no further than President Barack Obama's 2009 stimulus program of $787 billion in extra deficit spending. This was projected to create 7 million net new jobs and increase GDP by 3.7 percent by the end of 2010. In fact, no net jobs were created and the economy did not grow at all. Many academic studies have shown the Keynesian multiplier to be less than one, which means that new deficit spending actually reduces private sector output.

### Infrastructure Stimulus Fails

#### Our general critique of stimulus applies to infrastructure—no net job creation.

Weinberger 12 — David Weinberger, Communications Coordinator at the Heritage Foundation, 2012 (“Yes, Alan Blinder, “Stimulus” is a Dirty Word,” *The Foundry*—The Heritage Foundation’s blog, June 27th, Available Online at http://blog.heritage.org/2012/06/27/yes-alan-blinder-stimulus-is-a-dirty-word/, Accessed 07-20-2012)

Whenever misguided economic policy advice crops up, it’s imperative to correct it. The latest comes from Princeton economist Alan Blinder. He advocates for more stimulus, especially more education spending, and pleads for higher tax rates on the “rich.” These policies are mistaken.

He begins by contending that, because interest rates for government borrowing are so low, construction workers are out of work, and there’s such desperate need for infrastructure repair, government should deficit spend in the short term. His argument is that this is both effective and cost effective:

In the near term, we need modest stimulus, focused tightly on creating jobs. But that stimulus should be paired with a vastly larger dose of long-run deficit reduction—perhaps 10 to 20 times as large as the stimulus—over the 10-year budget window.

Creating jobs would be a sensible plan if government could do so that simply. But as we’ve explained over and over, it can’t. Government spending financed by borrowing merely transfers resources from one place in the economy to another, with no net increase in total jobs. To put an idle factory in Michigan to use, government must first take resources from somewhere else, say Minnesota, requiring an equal idling of a factory there. This is why the economy has performed so poorly despite government claims that the stimulus “created” millions of jobs. Recall that with the stimulus, the Administration promised unemployment would not go above 8 percent (it went as high as 10.1 percent).

As for infrastructure, where there’s genuine need, it makes sense to spend on it. But that does not mean it’s the federal government’s responsibility to do the spending, and it certainly doesn’t mean this kind of spending stimulates the economy. Infrastructure spending is (1) capital intensive; (2) slow to respond; and (3) still runs into the net jobs problem noted above.

For example, if a bridge is needed to facilitate people’s commutes so that they can spend more time working and being productive, that benefits the economy. The result of the bridge facilitates productivity growth, which means economic growth and jobs. But let’s not pretend the process of constructing a bridge stimulates or creates jobs in the short term. This kind of spending takes time to mobilize. Remember President Obama’s assertion regarding “shovel-ready projects,” which he admitted weren’t so shovel-ready after all?

Infrastructure spending still must be financed from somewhere, meaning that dollars are taken from another place in the economy where they otherwise would have been employed.

### A2: Stimulus Enables Future Debt Reduction

#### No follow-through on deficit reduction—government spending breeds more spending, not future cuts.

Rickards 12 — James Rickards, hedge fund manager in New York City, author of *Currency Wars: The Making of the Next Global Crisis*, 2012 (“Why Obama's Deficit Spending Is Making Things Worse,” *Economic Intelligence*—a *U.S. News & World Report* blog, June 25th, Available Online at http://www.usnews.com/opinion/blogs/economic-intelligence/2012/06/25/why-obamas-deficit-spending-is-making-things-worse, Accessed 07-20-2012)

The second part of the formula—fiscal discipline down the road—is also flawed. Here the issue is broken trust. The latest promises from economists and opinion leaders about fiscal discipline in the future come on top of 50 years of lies, frauds, broken promises, and disrespect for citizens exhibited by elected officials in the United States. The highlight reel would include Vietnam, Watergate, Whitewater-Lewinsky, and Iraqi weapons of mass destruction. Broken promises specifically related to fiscal discipline are plentiful.

In 1986, President Ronald Reagan's Tax Reform Act sought to cut tax rates and pay for the cuts by eliminating loopholes and deductions. This is sound economics and a step in the direction of a flat tax with low rates and no deductions. The problem was that between 1990 and 1993, Presidents George H. W. Bush and Bill Clinton gradually raised tax rates but did not restore the deductions. The result was an eight-year game of bait-and-switch in which taxpayers ended up with higher rates and fewer deductions.

More recent examples of fiscal deception include President Obama's pledge in 2009 to "cut the deficit we inherited in half by the end of my first term in office." In fact, Obama has increased deficits by over $6 trillion and has come nowhere close to his promised target.

When you hear mainstream economists offer detailed reasons why the Bush-Clinton tax increases were needed and why the Obama deficits are the right medicine for the economy, bear in mind these are the same economists who did not see the 2007 housing collapse coming, did not see the 2008 financial panic coming, and are willfully ignoring gathering threats to the stability of the dollar today.

Government has become a complex entity with an insatiable demand for new spending. Government is like a shark that must feed continually or die. When times are good government increases spending. When times are bad government increases debt so it can keep spending. At no point in the business cycle does total government spending ever go down. At no point in the credit cycle does total government debt ever go down. Citizens understand this. They have been lied to long and often enough to get how the game is played.

Citizens who insist that government stop talking about cuts and start the actual process of cutting spending now have got it right. Fewer resources for government means more resources for the private sector where ideas, invention, technology, innovation, and jobs actually originate.

Wimpy's financial dodges were amusing in the Popeye cartoons and entirely fictional. The real-life Wimpys in academia and Washington are not amusing at all. In fact, they are dangerous to the stability and national security of the United States. They have been partly discredited in the eyes of many citizens. Let's hope it doesn't take another financial collapse to finish the job.

## \*\*\* Deficits/Economy Impact

### Deficits Kill Hegemony

#### High deficits threaten U.S. global leadership—this magnifies the risk of every major impact and turns the case.

Lieberthal and O’Hanlon 12 — Kenneth G. Lieberthal, Director of the John L. Thornton China Center and Senior Fellow in Foreign Policy and Global Economy and Development at the Brookings Institution, former Professor at the University of Michigan, served as special assistant to the president for national security affairs and senior director for Asia on the National Security Council, holds a Ph.D. from Columbia University, and Michael E. O'Hanlon, Director of Research and Senior Fellow in Foreign Policy at the Brookings Institution, Visiting Lecturer at Princeton University, Adjunct Professor at Johns Hopkins University, holds a Ph.D. from Princeton University, 2012 (“The Real National Security Threat: America's Debt,” *Los Angeles Times*, July 10th, Available Online at http://www.brookings.edu/research/opinions/2012/07/10-economy-foreign-policy-lieberthal-ohanlon, Accessed 07-12-2012)

Drones, kill lists, computer viruses and administration leaks are all the rage in the current political debate. They indeed merit serious scrutiny at a time when the rules of war, and technologies available for war, are changing fast. That said, these issues are not the foreign policy centerpiece of the 2012 presidential race.

Economic renewal and fiscal reform have become the preeminent issues, not only for domestic and economic policy but for foreign policy as well. As the former chairman of the Joint Chiefs of Staff, Adm. Michael G. Mullen, was fond of saying, national debt has become perhaps our top national security threat. And neither major presidential candidate is doing enough about it. This issue needs to be framed as crucial not just for our future prosperity but for international stability as well.

The United States has been running trillion-dollar deficits, resulting in a huge explosion in the country's indebtedness. Publicly held debt now equals 70% of gross domestic product, a threshold many economists consider significant and highly worrisome. Making matters worse, half of our current deficit financing is being provided by foreigners. We are getting by with low interest rates and tolerable levels of domestic investment only because they find U.S. debt attractive, which may not last.

According to the nonpartisan Committee for a Responsible Federal Budget, President Obama's long-term budget plan would allow publicly held debt as a fraction of GDP to rise further, up to 75%, within a decade. Mitt Romney's proposal, featuring tax cuts and defense spending increases and as-yet-unspecified (and thus less than fully credible) entitlement reform, appears worse. It would probably drive publicly held debt to 95% of GDP over the same period. Put differently, though both are serious and pragmatic men, neither major party's presidential candidate is adequately stepping up to the plate, with Romney's plan the more troubling of the two.

Why is this situation so serious? First, we are headed for a level of debt that within a decade could require us to spend the first trillion dollars of every year's federal budget servicing that debt. Much less money will be left for other things. That is a prescription for a vicious cycle of underfinancing for our infrastructure, national education efforts, science research and all the other functions of government that are crucial to long-term economic growth. Robust defense spending will be unsustainable too. Once we get in this rut, getting out will be very hard.

Second, such a chronic economic decline would undercut what has been 70 years of strong national political consensus in favor of an activist and engaged American foreign policy. One reason the United States was so engaged through the Cold War and the first 20 years of the post-Cold War world was fear of threats. But the other reason was that the strategy was associated with improvements in our quality of life as well. America became even more prosperous, and all major segments of society benefited.

Alas, globalization and automation trends of the last generation have increasingly called the American dream into question for the working classes. Another decade of underinvestment in what is required to remedy this situation will make an isolationist or populist president far more likely because much of the country will question whether an internationalist role makes sense for America — especially if it costs us well over half a trillion dollars in defense spending annually yet seems correlated with more job losses.

Lastly, American economic weakness undercuts U.S. leadership abroad. Other countries sense our weakness and wonder about our purported decline. If this perception becomes more widespread, and the case that we are in decline becomes more persuasive, countries will begin to take actions that reflect their skepticism about America's future. Allies and friends will doubt our commitment and may pursue nuclear weapons for their own security, for example; adversaries will sense opportunity and be less restrained in throwing around their weight in their own neighborhoods. The crucial Persian Gulf and Western Pacific regions will likely become less stable. Major war will become more likely.

When running for president last time, Obama eloquently articulated big foreign policy visions: healing America's breach with the Muslim world, controlling global climate change, dramatically curbing global poverty through development aid, moving toward a world free of nuclear weapons. These were, and remain, worthy if elusive goals. However, for Obama or his successor, there is now a much more urgent big-picture issue: restoring U.S. economic strength. Nothing else is really possible if that fundamental prerequisite to effective foreign policy is not reestablished.

### Growth Key To Hegemony

#### Economic growth is key to hegemony—prevents global conflict.

Khalilzad 12 — Zalmay Khalilzad, Counselor at the Center for Strategic and International Studies, served as the United States ambassador to Afghanistan, Iraq, and the United Nations during the presidency of George W. Bush, served as the director of policy planning at the Defense Department during the Presidency of George H.W. Bush, holds a Ph.D. from the University of Chicago, 2012 (“It's Foreign Affairs, Stupid,” *The National Interest*, July 16th, Available Online at http://nationalinterest.org/print/commentary/its-foreign-affairs-stupid-7195, Accessed 07-20-2012)

The economy trumps national security as the country’s top political issue this election cycle. With the unemployment rate at 8.2 percent, this is not surprising. From a long-term strategic perspective, however, the two issues are closely connected. The current economic crisis threatens Americans’ standard of living and our capacity to address social problems. It also undercuts the U.S. ability to sustain international stability, a prerequisite for domestic prosperity. The campaign debate we must have is how the United States can deal with global problems while restoring its economic health.

In the near term, lackluster growth and ballooning deficits mean fewer resources for national security, including defense, diplomacy, foreign assistance and development. Economic challenges and dissatisfaction with the Iraq and Afghanistan wars are prompting Americans to turn inward. Pressure to reduce the international burden is growing even as U.S. influence is declining. What is worse, these domestic constraints arise at a time when problematic trends abroad are limiting our options or creating greater demands for U.S. action.

Consider some key challenges: first, traditional U.S. allies seem less and less willing to step up to mutual-defense needs. The United States has complained for decades about Europe’s underinvestment in its defense and its lagging contribution to joint efforts. As the Europeans renegotiate their political and economic priorities amid the current fiscal and monetary crisis, NATO countries are likely to spend even less on defense or new NATO missions. European defense spending fell by close to 2 percent in 2011, with countries hit hardest by the sovereign debt crisis seeing more drastic cuts: Greece, 26 percent since 2008; Spain, 18 percent; Italy, 16 percent; and Ireland, 18 percent. By 2015, Britain and Germany, two of the top three European defense spenders along with France, plan cuts of 7.5 percent and 10 percent, respectively. France, if its withdrawal from Afghanistan is any indication, also will retrench in the coming years under its new socialist leadership.

In Asia, meanwhile, our strongest ally, Japan, is suffering from political gridlock and a crisis of confidence following the tsunami, nuclear accident and rapid rise of its regional rivals, particularly China.

Second, the United States cannot rely instead on emerging powers as they do not share, for the most part, U.S. views across a range of international-security issues. Rising powers such as China, India, Brazil, Turkey and Indonesia leverage their economic growth to modernize their militaries, press regional claims and demand greater representation in international bodies. But they don’t see themselves as stakeholders in the American-led international order. Rather, they show little inclination to share in the burdens of providing the collective goods needed to maintain security, enable global commerce and make international institutions work. The United States should seek cooperation with emerging powers on issues of mutual interest, but the absence of strategic like-mindedness will inhibit the emergence of fully integrated alliances. The divergence of interest among great and rising powers thwarts agreement on matters of substance at bodies such as the G-20.

Third, key regions are experiencing destabilizing transitions, particularly in the greater Middle East. The transnational terrorist threat from the Afghanistan-Pakistan region endures. Iran’s nuclear program threatens a cascade of proliferation. Prospects are real for a sectarian war between Sunni and Shia forces in Iraq, Syria and the Gulf, fueled by regional powers such as Iran, Saudi Arabia and Turkey. The most significant great powers outside the region—America, Europe, Russia, China and India—can’t agree on how to address these challenges.

The United States cannot afford to be indifferent to these problems, yet it lacks the resources to address them. The country’s fiscal health must be its top priority. Continuing with low growth and large deficits while economically dynamic rising powers expand their military capabilities will undercut U.S. leadership over time. These trends would culminate in a multipolar world like that of the nineteenth and the first half of the twentieth centuries. A multipolar world would increase the likelihood of war among major powers. The lesson of the twentieth century is that nothing is more expensive than such conflicts. So addressing the economic underpinnings of U.S. power is vital.

### Lieberthal and O’Hanlon Econ Impact (Short)

#### Economic growth prevents war—perception of U.S. economic decline sparks conflict.

Lieberthal and O’Hanlon 12 — Kenneth G. Lieberthal, Director of the John L. Thornton China Center and Senior Fellow in Foreign Policy and Global Economy and Development at the Brookings Institution, former Professor at the University of Michigan, served as special assistant to the president for national security affairs and senior director for Asia on the National Security Council, holds a Ph.D. from Columbia University, and Michael E. O'Hanlon, Director of Research and Senior Fellow in Foreign Policy at the Brookings Institution, Visiting Lecturer at Princeton University, Adjunct Professor at Johns Hopkins University, holds a Ph.D. from Princeton University, 2012 (“The Real National Security Threat: America's Debt,” *Los Angeles Times*, July 10th, Available Online at http://www.brookings.edu/research/opinions/2012/07/10-economy-foreign-policy-lieberthal-ohanlon, Accessed 07-12-2012)

Lastly, American economic weakness undercuts U.S. leadership abroad. Other countries sense our weakness and wonder about our purported decline. If this perception becomes more widespread, and the case that we are in decline becomes more persuasive, countries will begin to take actions that reflect their skepticism about America's future. Allies and friends will doubt our commitment and may pursue nuclear weapons for their own security, for example; adversaries will sense opportunity and be less restrained in throwing around their weight in their own neighborhoods. The crucial Persian Gulf and Western Pacific regions will likely become less stable. Major war will become more likely.

### A2: Lieberthal and O’Hanlon Impact

#### Lieberthal and O’Hanlon are wrong—no impact.

Cohen 12 — Michael A. Cohen, former Senior Research Fellow at the New America Foundation, B.A. in International Relations from American University and M.A. in International Relations from Columbia University, served in the Department of State as chief speechwriter for U.S. Representative to the United Nations Bill Richardson and Undersecretary of State Stuart Eizenstat, currently serves on the board of the National Security Network and has taught at Columbia University’s School of International and Public Affairs, 2012 (“This Week In Threat Mongering - The Debt Version,” *Democracy Arsenal*—an international relations blog published by the Center for American Progress and the Century Foundation's Security and Peace Initiative, July 13th, Available Online at http://www.democracyarsenal.org/2012/07/this-week-in-threat-mongering-the-debt-version.html, Accessed 07-20-2012)

In the world of hysterical, threat-mongering about US national security there are few issues that produce more solemn and serious head-nods than the issue of America's growing national debt.

Ever since then-Chairman of the Joint Chiefs of Staff Mike Mullen declared two years ago that the national debt "is the number one national security issue," agreement with this assertion has become some sort of entry route to "foreign policy seriousness" for pundits and policymakers alike.

This is strange because the idea of taking strategic advice from Mike Mullen is a bit of a head scratcher - taking economic advice from him is almost impossible to fathom.

And yet here, last week, was not one, but two Brookings Fellows, writing in the Los Angeles Times that Mullen was right - debt is the number one national security issue in the country. They are not alone, it's a view that receives broad political support. Here's Congressman Mo Brooks of Alabama; Congressman John Culberson of Texas, Senator Rand Paul of Kentucky; Cong. John Campbell of California, Cong. Adam Smith of Washington and even Richard Haass, head of the Council on Foreign Relations all making the same argument. It was a topic of discussion in last year's CNN national security debate where it was endorsed by Jon Huntsman.

The argument that debt is a national security threat is based on the notion that if the US becomes too deeply mired in red ink it will be unable to field a world class military; "there would be continued loss of confidence in America" says Mullen; our allies will begin to doubt American resolve; America's foreign alliances will crumble . . . and before you know it cats will be sleeping with dogs, there will be an Islamic caliphate in the Middle East and we'll all be eating lo mein for dinner.

Quite helpfully, O'Hanlon and Lieberthal have provided the most divorced from reality example of this argument:

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This is truly a chunky, threat-mongering stew of fact-free assertions, breathless fear-mongering and worst case scenarios that ends up where these types of arguments always do — in a more insecure world all because of a lack of American commitment to global hegemony.

The fact is, if last year's debt limit debacle hasn't already convinced other nations to be skeptical of America's future then I think we're probably in the clear. Of course, the debt limit debate is instructive in this regard. Even though both parties agreed to a mandated reduction of the defense budget, which would basically return the Pentagon budget to FY 2007 levels (or what some might call, non-crazy levels of spending), the ink was barely dry on the agreement before both parties began falling over themselves to restore the cuts. The House of Representatives even went so far as to take a sledgehammer, earlier this year, to key social safety net programs in order to prevent the Pentagon from taking a haircut. Secretary of Defense Panetta practically ran around Washington with his hair on fire decrying the impact of sequestration cuts.

O'Hanlon and Lieberthal's predictions of doom are fanciful at best and are based on the notion that the world is a dangerous place when in fact it's never been safer. But even if they are right that their calamitous series of events could occur there are about $690 billion reasons to believe that the sort of defense cuts that would lead to this series of events will never happen —especially when the country can rely on esteemed national security experts to convince Americans that if it were to occur the world would descend into a dystopian state.

#### The aff solves the impact: infrastructure stimulus is key to growth—more important than debt.

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But that isn't even the worst part of the debt is a national security threat argument — O'Hanlon and Lieberthal, as well as pretty everyone else who makes this assertion, don't appear to understand the difference between debt and economic growth. Yes, America's economy is weak; but it has very little to do with the fact that we have a lot of debt.

Indeed, the problem is that the federal government hasn't taken on enough debt in order to grow our economy, create jobs and pull ourselves out of the worst economic downturn since the Great Depression. Quite simply, the government has failed at one of its most basic responsibilities in the face of economic calamity — spending money (even that which is borrowed) in order to fill the gap in aggregate demand. As Ezra Klein rightly points out, the world is desperate to loan us money so that we can spend it on important national priorities, rebuild out infrastructure and create jobs. Instead we have folks telling us that we should reducing out debt . . . and that it's a national security priority.

So while debt-mongers are right to be concerned about America's economic future, their diagnosis is way off-base.

Indeed a greater focus on reducing the national debt will mean less resources to grow the economy, less money for infrastructure, less money for improving our education system and less money to support clean energy initiatives . . . unless O'Hanlon, Lieberthal, Haass and Mullen believe that cutting government spending to reduce the deficit will somehow grow the economy. It won't. Instead it will make things worse.

In fact, the misguided focus on debt is a good part of the reason that our economy remains so weak; we've devoted so much energy to worrying about the debt that we are supposedly leaving for our grandchildren that we forgot to think about the terrible economy and high unemployment that we are bequeathing to Americans today — and utilize the tools at our disposal to make this situation better.

In the end, "restoring U.S. economic strength" should be a top priority of US policymakers. But focusing on the debt as a means to achieve that goal is the best example I can think of as to why defense wonks and Naval officers should stay away from economic analysis in general.