# Index

Index 1

\*\*Fiscal Discipline DA\*\* 3

1NC Shell 4

\*UQ Spending/Cuts\* 8

UQ Cuts/Discipline Now 9

UQ Discretionary Spending Freeze 11

UQ Transportation Spending 12

UQ GOP Pushing Cuts 13

\*UQ Economy\* 14

UQ Econ-General 15

UQ Econ-Voters 17

UQ Econ-Housing 18

UQ Econ-Energy 19

UQ Econ Stocks 19

UQ Econ-Jobs 19

AT: Jobs N/U 19

UQ Consumer Spending 19

UQ Inflation 19

Links 19

Link-Infrastructure Generic 19

Link-Magnifier 19

Link-Nat Infrastructure Bank 19

Link-HSR 19

Link-Oil/Gas Pipelines 19

Link-Ports 19

Link-Dams and Waterways 19

Link-Airports 19

Internal Links 19

IL--US Key to Global Economy 19

IL--Investor Confidence 19

IL-Protectionism 19

IL--Dollar Sell-Off 19

IL--High Deficits Kill Economy 19

IL-Debt Ceiling 19

Impacts 19

Econ Decline-Turns Case 19

Econ Decline-Wars 19

Econ Decline--Terror 19

Econ Decline--Trade wars--China CCP Collapse 19

Econ Decline--China/Taiwan War 19

Econ Decline--Competitiveness 19

Econ Decline--Primacy 19

Econ Decline--Disease 19

Econ Decline--Democracy 19

Econ Decline--Racism 19

Econ Decline--Warming 19

Econ Decline--Environment 19

Growth Solves War 19

Growth Solves Poverty 19

Growth Solves Debt Crisis 19

Econ-Unemployment Kills-VTL 19

Econ Decline--Social Services Cut 19

Nuke war=Ext 19

\*\*AT:\*\* 19

AT: Plan Creates Jobs and Stimulus 19

AT: Health Care Spending NU 19

AT: credit rating kills econ 19

\*\*Keynesian v Austerity\*\* 19

Austerity Solves 19

Austerity Fails 19

Keynesian-Stimulus Solves 19

\*\*Economic Sectors\*\* 19

Jobs 19

Green Economic Measures=Jobs 19

Construction UQ 19

Manufacturing UQ 19

Manufacturing NU 19

Tech Spurs Growth 19

Tech Innovation Spurs Growth 19

Inflation low 19

\*Aff Answers\* 19

Aff Solves the Impact/Link turns 19

Aff-Deficit Spending-Not Cause Econ Decline 19

NU—Economy Decline Now 19

Fisc/Dicip-No Brink 19

Spending Link N/U 19

Consumer spending NU 19

\*Aff Impact Debate\* 19

AT: Prolif 19

AT: Primacy 19

At: Competitiveness 19

AT: Environment 19

AT: Climate 19

Impact t/o Interdependence Solves War 19

Impact t/o Stabilizers 19

Impact t/o-Econ Resilient 19

# \*\*Fiscal Discipline DA\*\*

# 1NC Shell

### **A. An economic slowdown is coming but the US will narrowly avoid another recession**

Bloomberg News June 5, 2012

[“US economy’s repeat pattern has a silver lining,” <http://www.tampabay.com/news/business/markets/us-economys-repeat-pattern-has-silver-lining/1233638>]bg

WASHINGTON — The U.S. economy looks set to deliver a repeat performance in 2012: For the third straight year, it may suffer a swoon yet not slip into a recession.

"I don't think the slowdown will be any more consequential than the past two years," said John Ryding, a former Federal Reserve researcher who is chief economist at RDQ Economics in New York. "There are positives out there in the economy. We'll avoid a recession."

Household balance sheets are in better shape, with indebtedness down about $100 billion in the first quarter, according to the New York Fed. Banks are more profitable: Earnings have risen for 11 straight quarters, based on data compiled by the Federal Deposit Insurance Corp. Even the housing market is reviving, with starts through the first four months of this year 24 percent higher than the same 2011 period.

### **B. Link--New infrastructure spending will be deficit-financed and fail to stimulate the economy—multiple factors**

De Rugy and Mitchell, senior research fellows at the Mercatus Center at George Mason University , 2011

[Veroniqu de Rugy and Matthew Mitchell, “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?,” Working Paper, Mercatus Center, George Mason University, September, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>]bg

Four years into the deepest recession since World War II, the U.S. economy expanded at a rate of only 0.7 percent in the first half of 2011. This means that the economy is growing at a slower pace than the population and that capita output continues to fall. 2 In response, the president has announced a plan for yet more deficit-financed stimulus spending. 3 Like the two previous stimulus bills, this one focuses on infrastructure spending. The president‘s plan is rooted in the belief that stimulus spending and deeper deficits will give the economy the lift it needs to create more jobs. The hope is that, eventually, the economy will grow fast enough to allow the government to begin to pay down the national debt. There are three problems with this approach. First, despite the claims of stimulus proponents, the evidence is not at all clear that more stimulus would be helpful right now. Second, even if one adheres to the idea that more government spending can jolt the economy, spending—particularly infrastructure spending—cannot be implemented in the way Keynesians say it ought to be. This greatly undermines its stimulative effect. Third, while no one disputes the value of good infrastructure, this type of spending typically suffers from massive cost overruns, waste, fraud, and abuse. This makes it a particularly bad vehicle for stimulus. In sum, further stimulus would be a risky short-term gamble with near-certain negative consequences in the long term.

### C. Plan kills any chance of economic recovery and pushes the economy to the tipping point

Hunt, PhD in Economics from Temple University and Vice President of Hoisington Investment Management Company, 12

[Lacy, interviewed by The Gold Report, “Economic Recovery Via Shared Sacrifice, Cutting Government Spending, Deficit and Debts,” May, 17, 2012, [http://www.marketoracle.co.uk/Article34706.html]bg](http://www.marketoracle.co.uk/Article34706.html%5dbg)

TGR: How long will it take for the U.S. to get to the bang point? LH: We really don't know. A lot of economic analysis historically has downplayed the role of debt. I've done an exhaustive search of the literature, and never found a model that indicates when you reach the bang point. A host of parameters can play into the situation, but one of the triggering elements concerns the percentage of the revenue base of the governmental entity that must go to interest expense. As the interest expense rises, it absorbs a bigger and bigger portion of the revenue. TGR: Is there a typical tipping point? LH: We haven't been able to identify one. There are some indications. Interest expense right now is about 10% of revenues. If you make the heroic assumption that market interest rates hold through 2030—which they won't—the interest expense would be 20% of federal revenues by the end of the decade and 35% by 2030. Right now, the largest components of the federal budget are Social Security, Medicare, defense and interest. By the end of the decade, interest jumps above defense. And that's under the heroic assumption that these market rates hold. TGR: It also gets to your point of the makeup of the debt. LH: Totally counterproductive. It doesn't build one bridge or create one innovative idea. It doesn't move you forward. So we're on a path here that historically has not worked. The sum of the problematic areas that occurred historically seemed to be when the interest expense gets above 50%. TGR: But that means we have a long way to go. LH: It may occur sooner than we think. If interest rates in the marketplace were to go up 200 basis points, it would add approximately $350B a year to the federal budget deficit. Of course, you'd have to borrow that, and then borrow more and more in succeeding years. So the interest expense is really a potential time bomb. I don't think a rise in long-term rates is at hand, but it's very problematic as we go forward. TGR: You also write about a negative risk premium—when the total return of the S&P 500 is less than the return on long-term Treasuries and thus equity investors aren't being rewarded for the risks they take. It seems to contradict the concept that we're marching toward this bang point. Will the negative risk premium continue until we reach the bang point? LH: First of all, let me explain a bit more about the negative risk premium. We know that over very long periods of time investors in stocks have received a premium over investors in long-term Treasuries. If that didn't hold true over the long run, people wouldn't take the risk. But there have been significant exceptions. Following the build-up of debt in the 1860s and 1870s, we had a 20-year span during which the S&P 500 return was lower than long-term Treasury returns. Then, even though World War II interrupted, another period of negative risk premiums lasted from 1928 to 1948. In both instances, 20 years was a long time to wait for risk to be rewarded. Certainly there were quarters, even years, during those spans when the S&P 500 returns were better than the Treasuries, but when you stand back and you look at the entire period, risk was not rewarded. We've had another massive build-up of debt over the last 20 years, and since 1991 we've been in another negative risk premium cycle. We've past the 20-year point already, and if we continue along the path toward increased indebtedness, we'll extend the negative risk premium interval this time around. I think it will be very difficult for the normal economic conditions to prevail.A lot of the pioneering work on the role of debt was done by Irving Fisher. He thought the economy operated on a normal business cycle model, one to two bad years, four to five good years. The one to two got a little testy, but it was over and you went on. That's why he was fooled by the Great Depression. He freely admitted he was fooled. He made some outrageous statements about the health of the economy in 1929, but he did his mea culpa, reexamined what he thought and concluded that the normal business cycle doesn't work in highly over-indebted situations. In those situations, the indebtedness controls nearly all other economic variables—including the risk premium. The normal bounds don't work, just as they did not work after the panics of 1873, 1929, and 1989, when risk was not rewarded.So by trying to solve this over-indebtedness problem by getting further in debt, the standard of living will not rise and, in the final analysis, the stock market will reflect how well our people are doing. And our people are not doing well. Of course, the bang point is a point of calamitous development, but it would mark the climax of a prolonged period of underperformance and financial risk management. It's not at hand. We have the ability to control it, but we have to have the political will to do so. At present, it doesn't appear to be forthcoming.TGR: You've indicated that the only way for developed nations to get out from under this debt burden is austerity, not inflation or more Quantitative Easing (QE). With the income of average American citizens stagnant, at best, for a decade already, what would spark the political will to force austerity measures on a beleaguered populace?LH: No one wants austerity. Neither the politicians nor the public want it. The McKinsey Global Institute did an outstanding study of what happens to highly overleveraged countries that get into crisis situations. It found 32 cases that have fully played out, starting with the 1930s. In 16 cases of the 32—or half—austerity was required. Only eight cases were resolved by higher inflation, but they were all very small, emerging economies. A small country with no major role in world markets can get away with debasing its currency, but a major player cannot do that.

### D. Economic collapse kills millions and sparks great power wars

Duncan, chief economist Blackhorse Asset Management former IMF consultant and financial sector specialist for the World Bank, 12

[Richard, The New Depression: The Breakdown of the Paper Money Economy, 2012, ebook]bg

**The political battle over America’s future would be bitter, and quite possibly bloody.** It cannot be guaranteed that the U.S. Constitution would survive. Foreign affairs would also confront the United States with enormous challenges. During the Great Depression, the United States did not have a global empire. Now it does. The United States maintains hundreds of military bases across dozens of countries around the world. Added to this is a fleet of 11 aircraft carriers and 18 nuclear-armed submarines. The country **spends more than $650 billion a year on its military. If the U.S. economy collapses into a New Great Depression, the United States could not afford to maintain its worldwide military presence or to continue in its role as global peacekeeper.** Or, at least, it could not finance its military in the same way it does at present. Therefore, either the United States would have to find an alternative funding method for its global military presence or else it would have to radically scale it back. Historically, empires were financed with plunder and territorial expropriation. The estates of the vanquished ruling classes were given to the conquering generals, while the rest of the population was forced to pay imperial taxes. The U.S. model of empire has been unique. It has financed its global military presence by issuing government debt, thereby taxing future generations of Americans to pay for this generation’s global supremacy. That would no longer be possible if the economy collapsed. Cost–benefit analysis would quickly reveal that much of America’s global presence was simply no longer affordable. Many—or even most—of the outposts that did not pay for themselves would have to be abandoned. Priority would be given to those places that were of vital economic interests to the United States. The Middle East oil fields would be at the top of that list. The United States would have to maintain control over them whatever the price**. In this global depression scenario, the price of oil could collapse to $3 per barrel.** Oil consumption would fall by half and there would be no speculators left to manipulate prices higher. **Oil at that level would impoverish the oil-producing nations, with extremely destabilizing political consequences.** Maintaining control over the Middle East oil fields would become much more difficult for the United States. It would require a much larger military presence than it does now. On the one hand, it might become necessary for the United States to reinstate the draft (which would possibly meet with violent resistance from draftees, as it did during the Vietnam War). On the other hand, America’s all-volunteer army might find it had more than enough volunteers with the national unemployment rate in excess of 20 percent. The army might have to be employed to keep order at home, given that mass unemployment would inevitably lead to a sharp spike in crime. Only after the Middle East oil was secured would the country know how much more of its global military presence it could afford to maintain. If international trade had broken down, would there be any reason for the United States to keep a military presence in Asia when there was no obvious way to finance that presence? **In a global depression, the United States’ allies in Asia would most likely be unwilling or unable to finance America’s military bases there or to pay for the upkeep of the U.S. Pacific fleet. Nor** would the United States have the strength to force them to pay for U.S. protection**. Retreat from Asia might become unavoidable. And Europe?** What would a cost–benefit analysis conclude about the wisdom of the United States maintaining military bases there? What valued added does Europe provide to the United States? Necessity may mean **Europe will have to defend itself. Should a New Great Depression put an end to the Pax Americana, the world would become a much more dangerous place.** When the Great Depression began, Japan was the rising industrial power in Asia. It invaded Manchuria in 1931 and conquered much of the rest of Asia in the early 1940s. Would China, Asia’s new rising power, behave the same way in the event of a new global economic collapse? Possibly. China is the only nuclear power in Asia east of India (other than North Korea, which is largely a Chinese satellite state). However**, in this disaster scenario, it is not certain that China would** survive in its current configuration**. Its economy would be in ruins.** Most of its factories and banks would be closed. Unemployment could exceed 30 percent**. There would most likely be starvation both** in the **cities and in the countryside. The Communist Party could lose its grip on power, in which case the country could break apart,** as it has numerous times in the past. It was less than 100 years ago that China’s provinces, ruled by warlords, were at war with one another. **United or divided, China’s nuclear arsenal would make it Asia’s undisputed superpower if the United States were to withdraw** from the region. From Korea and Japan in the North to New Zealand in the South to Burma in the West, **all of Asia would be at China’s mercy. And hunger among China’s population of 1.3 billion people could necessitate territorial expansion into Southeast Asia.** In fact, the central government might not be able to prevent mass migration southward, even if it wanted to. In Europe, severe economic hardship would revive the centuries-old struggle between the left and the right**. During the 1930s, the Fascists movement arose and imposed a police state on most of Western Europe.** In the East, the Soviet Union had become a communist police state even earlier. The far right and the far left of the political spectrum converge in totalitarianism**. It is difficult to judge whether Europe’s democratic institutions would hold up better this time that they did last time. England had an empire during the Great Depression. Now it only has banks. In a severe worldwide depression, the country—or, at least London—could become ungovernable. Frustration over poverty and a lack of jobs would erupt into anti-immigration riots not only in the United Kingdom but also across most of Europe. The extent to which Russia would menace its European neighbors is unclear. On the one hand, Russia would be impoverished by the collapse in oil prices and might be too preoccupied with internal unrest to threaten anyone. On the other hand, it could provoke a war with the goal of maintaining internal order through emergency wartime powers. Germany is very nearly demilitarized today when compared with the late 1930s. Lacking a nuclear deterrent of its own, it could be subject to Russian intimidation. While Germany could appeal for protection from England and France, who do have nuclear capabilities, it is uncertain that would buy Germany enough time to remilitarize before it became a victim of Eastern aggression. As for the rest of the world, its prospects in this disaster scenario can be summed up in only a couple of sentences. Global economic output could fall by as much as half, from $60 trillion to $30 trillion. Not all of the world’s seven billion people would survive in a $30 trillion global economy. Starvation would be widespread. Food riots would provoke political upheaval and myriad big and small conflicts around the world. It would be a humanitarian catastrophe so extreme as to be unimaginable for the current generation, who, at least in the industrialized world, has known only prosperity. Nor would there be reason to hope that the New Great Depression would end quickly. The Great Depression was only ended by an even more calamitous global war that killed approximately 60 million people.**

# \*UQ Spending/Cuts\*

## UQ Cuts/Discipline Now

### US is pushing fiscal discipline, OECD proves

ABC June 28, 2012

(Australian Broadcast Corporation , June 28, 2012, “Tax reviewing sending US towards ‘collision with reality’”, LexisNexis, Accessed: 7-2-2012) ADJ

TICKY FULLERTON, PRESENTER: This week the OECD published its biannual report on the United States finding that recovery might be gaining momentum but that there were concerns about stagnant wages growth and inequality which has led in turn to controversial calls for the for higher taxes on the rich. The US remained vulnerable to Europe's fate but the advice given by the OECD's Deputy Secretary General was worry about Europe but fix American's problems. Joining me live from London is Ken Courtis, financial adviser and co-founder of Thames Investment Management. Ken welcome to the program. KEN COURTIS, GLOBAL ECONOMIST: Thank you Ticky. TICKY FULLERTON: There was a lot in the OECD report which it had said two years ago, was there much difference? KEN COURTIS: It's almost as if the report this year was written by the [Obama administration.](http://www.lexisnexis.com/lnacui2api/search/XMLCrossLinkSearch.do?bct=A&risb=21_T15042595183&returnToId=20_T15042925911&csi=300228&A=0.5840991891120072&sourceCSI=9369&indexTerm=%23PE000A0BO%23&searchTerm=Obama%20administration.%20&indexType=P" \t "_parent) http://www.lexisnexis.com/lnacui2api/images/arrow_blue.gifIt sort of said the US is on the right course, the economy is moving ahead, it's fragile but moving ahead. The US has the right fiscal policy, that is from here to slowly reduce the deficit. It has aggressive monetary policy and it should keep that and then it moved into a number of structural issues. Complicated politically but on the whole, which are the way they are posed in the report in favour of the what the [Obama administration](http://www.lexisnexis.com/lnacui2api/search/XMLCrossLinkSearch.do?bct=A&risb=21_T15042595183&returnToId=20_T15042925911&csi=300228&A=0.5840991891120072&sourceCSI=9369&indexTerm=%23PE000A0BO%23&searchTerm=Obama%20administration%20&indexType=P" \t "_parent) http://www.lexisnexis.com/lnacui2api/images/arrow_blue.gifhas been proposing in the election campaign.

### Spending cuts are coming in the status quo

Washington Post, 2012

[“Top Senate Democrat Reid Stands Behind Automatic Defense Cuts to Pressure GOP on Budget,” <http://www.washingtonpost.com/business/economy/top-senate-democrat-reid-stands-behind-automatic-defense-cuts-to-pressure-gop-on-budget/2012/05/09/gIQArAcMDU_story.html>]bg

President Barack Obama’s top Democratic ally in the Senate said Wednesday that he won’t block much-feared automatic spending cuts to the Pentagon and Medicare providers from taking effect unless Republicans show more flexibility on cutting the budget deficit. Majority Leader Harry Reid, D-Nev., said that $110 billion in automatic cuts coming due in January were designed to force both Republicans and Democrats to bargain over a “balanced approach” — including tax increases — to tackling trillion dollar-plus deficits. That hasn’t happened yet, Reid said, and he’s unwilling to let lawmakers off the hook.

### Fiscal discipline—Obama has reigned in spending

Nutting, WSJ contributor, 12

[Ray, “Obama spending binge never happened,” 5-22-12, <http://articles.marketwatch.com/2012-05-22/commentary/31802270_1_spending-federal-budget-drunken-sailor>]bg

WASHINGTON (MarketWatch) — Of all the falsehoods told about President Barack Obama, the biggest whopper is the one about his reckless spending spree. As would-be president Mitt Romney tells it: “I will lead us out of this debt and spending inferno.” Almost everyone believes that Obama has presided over a massive increase in federal spending, an “inferno” of spending that threatens our jobs, our businesses and our children’s future. Even Democrats seem to think it’s true. But it didn’t happen. Although there was a big stimulus bill under Obama, federal spending is rising at the slowest pace since Dwight Eisenhower brought the Korean War to an end in the 1950s. Even hapless Herbert Hoover managed to increase spending more than Obama has. Here are the facts, according to the official government statistics: • In the 2009 fiscal year — the last of George W. Bush’s presidency — federal spending rose by 17.9% from $2.98 trillion to $3.52 trillion. Check the official numbers at the Office of Management and Budget. • In fiscal 2010 — the first budget under Obama — spending fell 1.8% to $3.46 trillion. • In fiscal 2011, spending rose 4.3% to $3.60 trillion. • In fiscal 2012, spending is set to rise 0.7% to $3.63 trillion, according to the Congressional Budget Office’s estimate of the budget that was agreed to last August. • Finally in fiscal 2013 — the final budget of Obama’s term — spending is scheduled to fall 1.3% to $3.58 trillion. Read the CBO’s latest budget outlook. Over Obama’s four budget years, federal spending is on track to rise from $3.52 trillion to $3.58 trillion, an annualized increase of just 0.4%. There has been no huge increase in spending under the current president, despite what you hear. Why do people think Obama has spent like a drunken sailor? It’s in part because of a fundamental misunderstanding of the federal budget. What people forget (or never knew) is that the first year of every presidential term starts with a budget approved by the previous administration and Congress. The president only begins to shape the budget in his second year. It takes time to develop a budget and steer it through Congress — especially in these days of congressional gridlock. The 2009 fiscal year, which Republicans count as part of Obama’s legacy, began four months before Obama moved into the White House. The major spending decisions in the 2009 fiscal year were made by George W. Bush and the previous Congress. Like a relief pitcher who comes into the game with the bases loaded, Obama came in with a budget in place that called for spending to increase by hundreds of billions of dollars in response to the worst economic and financial calamity in generations

## UQ Discretionary Spending Freeze

### Discretionary spending frozen now

The New York Times, 2011

[“Pentagon Seeks Biggest Military Cuts Since Before 9/11,” [THOM SHANKER](http://topics.nytimes.com/top/reference/timestopics/people/s/thom_shanker/index.html?inline=nyt-per) and [CHRISTOPHER DREW](http://topics.nytimes.com/top/reference/timestopics/people/d/christopher_drew/index.html?inline=nyt-per), January 6, 2011

http://www.nytimes.com/2011/01/07/us/07military.html]bg

**The president's budget for the 2012 fiscal year**, which is due by mid-February, **would freeze discretionary spending,** but that would not apply to military, veterans and Homeland Security programs. Last fall, a majority of the members of Mr. **Obama's bipartisan National Commission on Fiscal Responsibility and Reform, including three Republican senators, said military spending also should be reduced as part of a long-term debt-reduction plan**.

## UQ Transportation Spending

## UQ GOP Pushing Cuts

### GOP pushing fiscal discipline

Crotty, Ph.D., Carnegie-Mellon University, 12

(Crotty, James, “The great austerity war: what caused the US deficit crisis and who should pay to fix it?” Cambridge Journal of Economics, Volume 36, Pages 79-104 Accessed: 6-29-12) ADJ

The radical budget bill passed by the House in April 2011 demonstrated conclusively that the Republican Party is committed to the destruction of New Deal programmes. The bill calls for non-defence spending cuts of $4.5 trillion dollars over ten years (not counting reduced interest payments). Cuts in low-income programmes, at $2.9 trillion, would be almost two-thirds of the total. An additional $400 billion would come from unspecified cuts in discretionary programmes serving lower-income Americans. The CBO’s analysis of the House bill states that all federal spending other than on Social Security (which the bill does not address), Medicare, Medicaid and interest payments will drop ‘from 12 percent [of GDP] in 2010 to 6 percent in 2022 and 3.5 percent by 2050’. It notes that ‘spending in this category has exceeded 8 percent of GDP in every year sinceWorldWar II’ (Greenstein, 2011A).

# \*UQ Economy\*

## UQ Econ-General

### US economy on the rise-key indicators

**Washington Post, 6-21-12**

[“Measure of US economy rose 0.3 percent in May, the 7th increase in 8 months”, Associated Press, June 21, 2012, lex/nex]bg

A measure of future U.S. economic activity rose in May to the highest level in four years, a sign the economy will keep growing but at a modest pace. The Conference Board said Thursday that its index of leading economic indicators rose 0.3 percent last month, after a 0.1 percent drop in April. April’s drop was the first in seven months. The index is now at 95.8. The last time it was higher was June 2008, six months into the Great Recession. Prior to the recession, the index routinely topped 100.

Other figures released Thursday, however, suggest the economy is softening. Weekly applications for unemployment benefits were little changed last week from a level that signals weak job growth. And factory activity in the Philadelphia region contracted for the second straight month, according to a survey by the Philadelphia Federal Reserve Bank. Seven of the ten components of the Conference Board’s index rose last month. The biggest drivers of the increase in the index were building permits, the spread between short-term and long-term interest rates, and an increase in new manufacturing orders, according to a survey by the Institute for Supply Management. The economy “is growing modestly, neither losing nor gaining momentum,” said Ken Goldstein, an economist at the Conference Board, a business research group. “The result is more of a muddle through.”

### The economy is improving, multiple factors prove

Orange County Register, June 28, 2012

(Orange County Register, “Somewhat cheerier economy on the way,” June 28, 2012, LexisNexis, Accessed: 7-4-12) ADJ

The economy is improving modestly across the country, but the recovery remains weak. That was the forecast Wednesday for the United States, California and Orange County from Chapman University's A. Gary Anderson Center for Economic Research, presented before about 800 local community and business leaders at The Hilton in Costa Mesa. Chapman President Jim Doti projected that real gross domestic product growth of 1.7 percent in 2011 would rise to 2.3 percent in 2012 and 2.6 percent in 2013. That's better than a recession, but not by much. The national unemployment rate is expected to drop further, to 7.2 percent in the fourth quarter of 2013 from 8.1 percent in the second quarter of 2012 (which ends Saturday). By contrast, previous recoveries, such as those in the mid-1980s, the mid-1990s and the early 2000s, brought unemployment down to 5 percent or less. Mr. Doti gave encouraging news on real estate. The days of sharp declines, such as the 11.9 percent price crash in 2009 and the 4.5 percent drop of 2011, are over. He's projecting a 0.9 percent rise in 2012, followed by a 4.1 percent increase in 2013, the first home-price advance above the inflation rate since the crash.

### The economy is slowly growing

Hodges, studies key influences shaping the chemical industry in Chemicals and the Economy, June 21, 2012

(Paul Hodges, studies key influences shaping the chemical industry in Chemicals and the Economy, “US leading indicators rise in May, economy to 'muddle through,” LexisNexis, June 21, 2012, Accessed: 7-2-12) ADJ

WASHINGTON (ICIS)--Economic data on near-term prospects for US growth edged up by 0.3% in May from April, reversing an April decline and suggesting that the nation will "muddle through" over the next six months, a key survey said on Thursday. The [1]Conference Board, a 95-year-old business analysis group in New York City, said its [2]leading economic index (LEI) for May rose to 95.8. The LEI represents a cumulative measure of ten different business and economic gauges, such as manufacturers' new orders, residential building permits, interest rates and consumer sentiment, among others. The current index is measured against the baseline level of 100 set in 2004, before the 2008-2009 US recession. The 0.3% gain in May more than offset the 0.1% decline in April and served to reaffirm the 0.2% advance in March, the board said. Board economist Ken Goldstein said data underlying the index "in general reflect a US economy that is growing modestly, neither losing nor gaining momentum". The US experienced GDP growth of only 1.9% in the first quarter of this year, slowing from the near-normal GDP rate of 3% in the fourth quarter of 2011. Subsequent data on [3]employment growth, consumer confidence, the long-depressed US housing sector and moderations in consumer spending and [4]business investment have suggested that the US economy could be cooling further in the second quarter. But Conference Board economist Ataman Ozyildirim noted that the leading economic index has remained "in expansionary territory and is well above its growth at the end of 2011". That indicates, said Ozyildirim, there is "a relatively low risk of a downturn in the second half of 2012". Goldstein said recent data suggest the US economy will be "more of a muddle through" rather than a strong expansion in quarters ahead. He also cautioned that ongoing headwinds, both domestic and foreign, "make further strengthening of the economy difficult".

### U.S. Growth is going up

Katz, reporter for Bloomberg, July 3, 2012

(Ian, IMF lowers U.S. Growth Projections to 2 percent, July 3, 2012, <http://www.bloomberg.com/news/2012-07-03/imf-lowers-u-s-growth-projections-to-2-percent.html>, 7-4-12) I.M.R.

The U.S. economy will grow by 2 percent this year and about 2.25 percent in 2013 amid a “tepid” recovery and the [European debt crisis](http://topics.bloomberg.com/european-debt-crisis/), the [International Monetary Fund](http://topics.bloomberg.com/international-monetary-fund/) said, lowering its previous projections.

The U.S. remains “subject to elevated downside risks, in light of financial strains in the euro area and uncertainty over domestic fiscal plans,” the IMF said in a statement today. In an April report, the IMF forecast U.S. growth of 2.1 percent this year and 2.4 percent in 2013.

“Further easing” by the [Federal Reserve](http://topics.bloomberg.com/federal-reserve/) might be needed “if the situation was to deteriorate,” IMF Managing Director[Christine Lagarde](http://topics.bloomberg.com/christine-lagarde/) said at a press conference in Washington today. She said she welcomed previous actions by the Fed to help the U.S. economy, including the expansion of the so-called Operation Twist that replaces short-term Treasuries in the Fed’s portfolio with longer-term debt to lengthen the average maturity of its holdings.

Lagarde said the “downside risks” include the euro crisis and the “fiscal cliff” of expiring tax cuts and mandatory spending reductions that will take effect at the end of the year unless Congress acts.

She said the risk of U.S. lawmakers not reaching an agreement on the federal debt ceiling “is also a clear potential for financial market disruption.” Treasury Secretary [Timothy F. Geithner](http://topics.bloomberg.com/timothy-f.-geithner/)has said the executive branch has “tools” that can push back raising the debt limit until early 2013.

## UQ Econ-Voters

### Economy is improving; voters prove

UPI July 3, 2012

(UPI, “Poll: Voters see economy improving,” July 3, 2012, LexisNexis, Accessed: 7-2-12) ADJ

Most Americans say economic conditions are poor but 60 percent say the economy will be in good shape next year, a poll released Tuesday indicated. The CNN/ORC International poll, conducted Thursday through Sunday, found three-fourths of those surveyed said the economy is in poor shape -- an increase in the number who said that in May. The 60 percent who said the economy will be better in the next 12 months was a substantial increase from the 39 percent who said the same thing in October. "Americans are usually optimists, but in 2011, polls for the first time found that more than half the country thought that economic conditions would worsen in the next 12 months," CNN Polling Director Keating Holland said. "Now that trend has reversed itself, with only four in 10 saying that the economy will be in poor shape a year from now." Keating said the economy is the top issue for voters heading into the 2012 election, followed by healthcare, the deficit, education, unemployment and terrorism. Forty-eight percent of registered voters said they thought President Barack Obama could do a better job than presumptive Republican nominee Mitt Romney of handling the economy, while 47 percent said Romney would do better -- and Romney was preferred by 52 percent of independents in the issue. Obama had an edge among lower-income voters, women and younger voters, while Romney led the president among men and higher-income and older voters. Those polled gave an edge to Romney on dealing with the federal deficit, while Obama had the edge on foreign policy and healthcare. ORC International conducted the poll by telephone for CNN, with a survey sample of 1,517 adults -- including 1,390 registered voters. The overall sampling error is 2.5 percentage points.

## UQ Econ-Housing

### The housing market proves that the economy is in good shape

McKenna, Columnist, June 27, 2012

(Barrie, Columnist for Globe and Mail, "U.S. housing market poised for new boom: economist; The U.S. economy is now close to the tipping point, where increased employment will generate significant increases in all types of homes, says housing specialist Doug Smyth,” Globe and Mail, June 27, 2012, LexisNexis, Accessed: 7-4-12) ADJ

Amid waves of troubling global economic news, there's a sleeper story that's gone largely overlooked, particularly in financial markets. The U.S. housing market is doing much better. And it's now on the cusp of what could be a dramatic turnaround. That's the conclusion of a new report by Vancouver-based independent housing economist Doug Smyth, who argues, among other good things, that millions of newly created jobs will eventually power another boom in demand for softwood lumber. Mr. Smyth's prediction is based on a much more impressive recovery in the U.S. jobs market than is generally recognized. That's driving mortgage foreclosures down, and household formations and consumer spending up. The result is enormous pent-up demand for homes, which he likened to a boiler rapidly filling with steam. Part of the untold story is new demand coming from a generation of foreign-born Latinos, who are waiting to jump into the market. "The U.S. economy is now close to the tipping point, where increased employment will generate significant increases in all types of homes," argued Mr. Smyth, former research director at the Industrial Wood and Allied Workers of Canada. Conditions are now ripe for builders to dig ground on new single family homes at a rate of up to 1.3 million a year as early as next year or 2014, and even more in 2015. "Given the combination of the improving economics and the enormous build-up of pent-up demographic demand for single-family housing after the last four years of poor starts, it is not a question of whether the recovery will come, or by how much, but when," the reports points out. Annual single-family starts of 1.3 million would mark a dramatic turnaround from the disaster of the past three years. Single-family housing starts totalled 445,000, 471,000 and 431,000, respectively, from 2009 to 2011. In May, U.S. builders started work on new single-family homes at an annual pace of 516,000. Unlike Canada, the U.S. economy has been slow to replace the jobs it lost in the Great Recession. But Mr. Smyth's research makes the case that the recovery is going much better than most Wall Street economists recognize. He argues that the "real" recovery has now reached 6.6 million in seasonally unadjusted non-farm jobs. That represents 83 per cent of the jobs lost since January, 2010 - the low point of the decade for employment. He bases the finding on a more rapid bounce-back in new jobs and a smaller estimate of jobs lost. The generally accepted estimate of jobs lost in the recession is 8.5 million. Mr. Smyth argues that number should be reduced by 630,000, representing the number of Mexican workers who returned home and are unlikely to re-enter the U.S. labour market. More jobs means more wealth, higher credit ratings and generally improving confidence. The report highlights two other factors contributing to the optimistic housing forecast - the improving mortgage market, Hispanic demographics and manufacturing renaissance. Mr. Smyth says there's been a dramatic improvement this year in key mortgage market indicators, including tumbling foreclosures and accelerating house price increases. The report also points out that the 6.3 million Latinos who came to the U.S. from 2000 to 2007 are now entering their prime home-buying years. And with the economy improving, they have the wealth to start buying.

## UQ Econ-Energy

### U.S. looking up- energy sector leading

Witkowski, journalist for wall street journal, July 3 2012

(Wallace, U.S. stocks finish higher led by energy sector, 7-3-12, <http://articles.marketwatch.com/2012-07-03/markets/32517363\_1\_energy-and-materials-stocks-rise-in-factory-orders-oil-and-gold-prices>, 7-4-12) I.M.R.

SAN FRANCISCO (MarketWatch) -- U.S. equity markets closed higher in an abbreviated session Tuesday before Wednesday's Independence Day holiday, following a rise in factory orders. The Dow Jones Industrial Average [(US:djia)](http://www.marketwatch.com/investing/index/djia?countrycode=US&link=MW_story_quote) closed up 72.43 points, or 0.6%, at 12,943.82. The S&P 500 Index [(US:spx)](http://www.marketwatch.com/investing/index/spx?countrycode=US&link=MW_story_quote) rose 8.51 points, or 0.6%, to close at 1,374.02, and the Nasdaq Composite Index [(US:comp)](http://www.marketwatch.com/investing/index/comp?countrycode=US&link=MW_story_quote) advanced 24.85 points, or 0.8%, to close at 2,976.08. Energy and materials stocks led the rise on higher oil and gold prices. In composite volume, about 2.05 billion NYSE-listed shares exchanged hands and 1.01 billion Nasdaq-listed shares traded.

## **UQ Econ Stocks**

### **U.S. stock market looking up- Tuesday shows**

Lynch, writer for daily Market news, July 3 2012

(Peter, United States Stocks Gain On Factory Orders, 7-3-12, <http://www.forexdice.com/united-states-stocks-gain-on-factory-orders/658348/>, 7-4-12) I.M.R.

United States stocks gained on Tuesday after an unexpected jump in may factor orders and gained commodities prices that increased materials and energy stocks.

The Dow Jones jumped up 0.6% and closed at 12,943.82. Prior to the midmorning data of factory orders this ended the day with 13 plus points. The commerce department posted that order for United States factory goods climbed 0.7% in May.

Stocks slipped down Monday following institute of supply management said that United States manufacturing in last month fell into reduction territory for the 1st time in recent past 3 years. Investors and traders looked at the more to the rear looking factory orders information for further indications of whether the United States recovery had smack a wall.

Better than projected factory order ware major thing in increasing the market on Tuesday, said chief market strategist, Robert Pavlik. “it was a mishmash of that and a market revival from last day’s low and it is very quiet today. So the way of least battle in the market sort of higher, he said.”

The standard & poor’s index gained 0.6% and closed at 1,374.02. The Nasdaq composite index jumped up 0.8% and closed at 2,976.08. The united state stock market ended at 1 p.m and will not be opened for Independence Day.

## UQ Econ-Jobs

### Government jobs growing at fastest pace in 4 years

Cauchon, writer for USA Today, 2012

(Dennis, "Hiring rebounds for state, local governments", <http://www.usatoday.com/news/nation/story/2012-06-27/state-local-hiring/55868796/1>, 7/2/12, Accessed: 7/4/12)AHL

In a rare bright sign for the job market, state and local governments are hiring at the fastest pace in four years. States, cities, counties and school districts hired 828,000 workers in the first four months of the year, up 20% from a year earlier, and the most since 2008, according to a USA TODAY analysis of the government's Job Openings and Labor Turnover Survey. The number of job openings at state and local governments also hit a four-year high. This lift in government hiring shows how state budget problems have eased in recent months as tax collections have improved. Total revenue is flat because extra federal aid is drying up. But tax money revenue generally is spent on workers, especially at the local level, while federal aid is often dedicated to outside vendors, such as health care providers in the Medicaid program and highway contractors. "We're hiring as many as we can," says Tucson police recruitment officer Liz Skeenes. "In the last few years, we haven't hired as many officers as we needed because of financial problems. Now we're going back to full force, and we're happy about that." Tucson — like other state and local governments — still expects to live with a smaller workforce than the 2008 peak. What's happening: Governments are filling jobs that had been left vacant to save money. State and local governments employ 19.6 million, down 3% from the peak. The recent jump in hiring is an early signal that job growth may be on the way, at least in government. It takes six months to a year for a boost in hiring to create a bigger workforce. Reason for the lag: Government workers are quitting for new jobs and retiring in greater numbers. Voluntary departures are another sign of an improving job market. When times are tough, workers hang on to their jobs. The "don't-leave" phenomenon — not more hiring — is what caused government payrolls to swell to record numbers during the recession while private employment collapsed. Private companies are hiring a little more, too, up 4% in the first four months of 2012 from a year earlier. That's a weak rebound when measured against hiring declines every year from 2006 to 2009, including a 20% hiring drop in 2009. The hiring turnaround has been most dramatic, starting last August, in the nation's state and local governments. These 89,500 cities, park districts, sewer systems and other governments are a backbone of working-class America, employing millions of low-profile truck drivers, health care aides and motor vehicle clerks with decent pay, good benefits and exceptional job security. Among those hiring: •California. The state is opening homes to care for indigent veterans, many suffering from Alzheimer's disease, and has 60 openings for physical therapists, office technicians, groundskeepers and others. •Delaware. The city of Dover is hiring a trash truck driver, a mechanic for the sewer system and a water plant operator. •Texas.[El Paso](http://content.usatoday.com/topics/topic/Places,+Geography/Towns,+Cities,+Counties/El+Paso) lifted a hiring freeze this year and is hiring 31, including a veterinarian for the animal shelter. •Florida. The state's website lists 592 job openings, including a bilingual customer service representative for Medicaid and a public relations person to promote Florida citrus. "The state had 4,000 vacant positions. As the budget gets worked out and we see it's not as severe as when we took huge revenue hits in '08 and '09, we can start to hire for some vacant positions," says Kristopher Purcell of the Florida Department of Management Services.

### US jobs on the rise

MarketWatch, Dow Jones company that provides business statistics, 7/2/2012

("Intuit Small Business Indexes Show Strong Employment Growth, Decrease in Revenue", 7/2/2012, <http://www.marketwatch.com/story/intuit-small-business-indexes-show-strong-employment-growth-decrease-in-revenue-2012-07-02>, Accessed: 7/4/2012) AHL

MOUNTAIN VIEW, Calif., Jul 02, 2012 (BUSINESS WIRE) -- U.S. small businesses are seeing unambiguous gains in employment rates and average compensation and hours worked, while revenue figures are down. These are among the results of the monthly Intuit Inc. [INTU +0.79%](http://www.marketwatch.com/investing/stock/INTU?link=MW_story_quote) Small Business Employment and Revenue Indexes, which together provide a complete and current picture of the economic health of the nation's small businesses. The employment index shows that employment increased by 0.3 percent in June, for an annualized rate of 4.1 percent -- the strongest rate of growth that small businesses have seen in the past three months. This equates to approximately 70,000 new jobs created, although Intuit is recalibrating the index and expects these numbers to change. Average monthly compensation grew by 0.5 percent, or $14, while average monthly hours worked increased by 0.3 percent, or 18 minutes. The employment index is based on data from Intuit Online Payroll and covers the period from January 2007 through June 23. The revenue index indicates that small businesses overall saw revenue decline in May. Among the industries tracked by the index, the construction and real estate fields were the only ones to see an increase, which posted 0.5 and 0.1 percent gains, respectively. The index is based on data from QuickBooks Online and covers the period from January 2005 through May 2012. "This month's employment figures are strong and indicate more progress to a full recovery than do the revenue figures," said Susan Woodward, the economist who worked with Intuit to create the indexes. "While the revenue figures are disappointing overall, the rise in revenue for the housing-related sectors has been a long time coming and is essential for the full recovery which still eludes us. "The rise in compensation and the hourly wage suggest that the labor market for the smallest firms is a bit firmer than it has been for several years," said Woodward. "The low hiring rate, however, indicates that small business employees are not yet feeling too secure and are sticking with the jobs they have. When a full recovery is underway, the small business hiring rate will likely rise as big firms hire people away from small firms, but this is not yet happening."

Small Business Revenue Index-

Small businesses overall saw revenue decline by 0.12 percent in May. Broken down by specific sectors, the accommodation and food services, professional services and health care categories were among those to post declines, while construction and real estate were the only sectors to post revenue increases.

The Intuit Small Business Revenue Index is based on data from approximately 150,000 small businesses, a subset of the total QuickBooks Online financial management user base.

Small Business Employment Index-

The healthy 0.3 percent gain in small business employment for June strengthens the growth rate of the last several months. As a result, Intuit revised upward the previously reported May growth rate from 0.2 to 0.4 percent. This equates to 75,000 jobs added in May, up from a previously reported 60,000 jobs, though these numbers are expected to change once the index is recalibrated.

Increase in Hours Worked, Compensation-

Small business hourly employees worked an average of 110.7 hours in June, an increase of 0.3 percent, or around 18 minutes, from the revised figure of 110.4 hours in May, making for a 25.6-hour workweek. Average monthly pay for all small business employees increased to $2,763 in June, an increase of 0.5 percent, or $14, from the May revised figure of $2,749 per month. The equivalent annual wages would be about $33,200 per year, which is part-time work for almost half of small business employees.

Small Business Employment by Geography-

The employment index shows overall employment growth in June for all census divisions except for the West North Central division, which remained flat. Increases were seen in all states statistically significant to the index, with the exception of Pennsylvania, which remained flat. Arizona, Colorado and Maryland recorded the highest rates of growth.

Small Business Employment by U.S. Census Division continues to grow in all parts of the country. The data reflects employment from approximately 80,000 small business employers, a subset of small businesses that use Intuit Online Payroll. The month-to-month changes are seasonally-adjusted and informative about the overall economy.

Small Business Employment by State is up for most states in which Intuit Online Payroll has more than 1,000 small business firms represented. The month-to-month changes are seasonally adjusted and informative about the overall economy.

About The Intuit Small Business Indexes-

The Intuit Small Business Indexes provide unique, near real-time information each month on the activity of the smallest businesses in the U.S. in terms of revenue, hiring and compensation trends. The revenue index is based on anonymized, aggregated data from 150,000 small businesses, a subset of users that use Intuit's QuickBooks Online financial management offering. The employment index is based on anonymized, aggregated data from 80,000 small business employers, a subset of users that use Intuit Online Payroll. Together, the indexes provide a more complete picture of the economic health of the nation's small businesses. More information on the Intuit Small Business Indexes is available at index.intuit.com.

About Intuit Inc.-

Intuit Inc. is a leading provider of business and financial management solutions for small and mid-sized businesses; financial institutions, including banks and credit unions; consumers and accounting professionals. Its flagship products and services, including QuickBooks(R), Quicken(R) and TurboTax(R), simplify small business management and payroll processing, personal finance, and tax preparation and filing. ProSeries(R) and Lacerte(R) are Intuit's leading tax preparation offerings for professional accountants. Intuit Financial Services helps banks and credit unions grow by providing on-demand solutions and services that make it easier for consumers and businesses to manage their money

## AT: Jobs N/U

### **Despite jobs reports, rest of the economy seems on upswing**

Bloomberg News June 5, 2012

[“US economy’s repeat pattern has a silver lining,” <http://www.tampabay.com/news/business/markets/us-economys-repeat-pattern-has-silver-lining/1233638>]bg

Stocks plunged Friday on news that American employers last month added the fewest workers to their payrolls in a year while the jobless rate rose. After the jobs report, Michael Feroli, chief U.S. economist at JPMorgan Chase in New York, lowered his forecast for third-quarter economic growth to 2 percent from 3 percent. Allen Sinai, chief executive officer of Decision Economics in New York, bumped up his odds of a recession next year to 15 percent from 10 percent. The decline in jobs growth to 69,000 last month from a high this year of 275,000 in January was reminiscent of the labor market cooling that occurred in both 2010 and 2011. Repeating the pattern of the last two years, Fed Chairman Ben Bernanke and his fellow central bankers are likely to respond to the job-market weakness by announcing further steps to stimulate growth. The moves could come when the Fed meets on June 19-20 to decide monetary strategy, Feroli said in a note to clients. Sinai said the United States is in "better shape" to weather the global economic tremors than it was in the past. He sees U.S. growth picking up to 2.5 to 3 percent in the second half of this year as consumer spending expands, encouraging employers to take on more workers. Consumers are benefiting from easier credit terms as financial institutions seek to put the money they've earned to work. U.S. banks "eased standards on credit card, auto and other consumer loans," according to the Fed's quarterly survey of senior loan officers, released April 30. Investor nervousness over the world economy has pluses and minuses for U.S. households. On the negative side, it has lowered stock prices, reducing household net worth. On the positive side, it has helped bring down gas prices and mortgage rates.

## UQ Consumer Spending

### Consumer spending is high and personal income rates are increasing

Xinhua News Service, June 29, 2012

(Xinhua News Service, “U.S. consumer spending falls in May, income nudges up,” June 29, 2012, Accessed: 7-2-12) ADJ

U.S. consumers cut their spending in May despite a modest growth in their income, the U.S. Commerce Department reported Friday. The total personal income of the United States rose 25.4 billion U.S. dollars, or 0.2 percent in May, the same pace as the previous month, the department said. U.S. personal consumption expenditures (PCE) decreased 4.7 billion dollars, or less than 0.1 percent in May, following a revised increase of 0.1 percent in April, according to the report. The U.S. personal savings rate, or personal saving as a percentage of disposable personal income, rose to 3.9 percent in May, higher than the 3.7 percent in April, indicating consumers were more cautious about spending. Consumer spending, which accounts for about 70 percent of U.S. economic activity, rose 2.5 percent in the first quarter, according to the final estimate released by the Commerce Department on Thursday. The overall economy expanded at an annual rate of 1.9 percent in the first quarter, a deceleration from the 3 percent growth in the fourth quarter of last year.

## UQ Inflation

### Inflation not a threat to U.S. Econ now

ROTELLA, Professor of Economics Emerita, Indiana University 1-1-12

(Elyce, Labor Policy and the Great Recession:

An Economist’s Perspective, 1-1-12, <http://www.repository.law.indiana.edu/ilj/vol87/iss1/5/>, 6-28-12) I.M.R.

Professor Flanagan gives us a primer on the economic analysis relevant to the labor market, organized sensibly around two issues: (1) the level of aggregate employment; and (2) the distribution of welfare—earnings and employment.1 To use the hackneyed metaphor, Flanagan looks at the size of the pie and how it is sliced up. Like any good primer, Flanagan’s is clear, concise, and teacherly. And like any good *economics* primer, the focus is on trade-offs. The simple insight at the center of all economic analysis is opportunity cost—in order to get something of value it is necessary to give up something else of value. That is, you can’t have it all. Economists are called dismal scientists for a good reason. Flanagan begins with the great macroeconomic trade-off at the center of the Keynesian model: policies that reduce unemployment put upward pressure on the price level—that is, they lead to inflation.2 He even introduces us to the nonaccelerating inflation rate of unemployment (NAIRU).3 Clearly the overwhelming problem in the American economy now is the stubbornly high rate of unemployment, which was stuck in October 2010 at 9.7% of the labor force— not much reduced from its high of 10.1% in October 2009.4 In the United States, we are well above NAIRU, and most (but not all) economists and bankers have stopped worrying about inflation.5 Economists commonly divide unemployment into three types: (1) frictional unemployment: some degree of which is always present because it takes time for people to be matched to jobs. NAIRU reflects frictional unemployment;6 (2) structural unemployment: comes from a disconnect between the characteristics of workers (e.g., their skills and location) and the characteristics that employers demand;7 (3) cyclical unemployment: comes from weak aggregate demand associated with a downswing in the business cycle. The Great Recession is mostly about cyclical unemployment, though you can get arguments from people who see structural problems in the current situation.8 Policies to combat cyclical unemployment come in two flavors: (1) deficitfinanced fiscal policy (increased government spending and lower government revenues) which necessarily leads to higher government deficits (Flanagan’s second trade-off); and (2) monetary policy (adjusting the quantity of money to lower interest rates).9

#### Severe inflation is not happening now

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012] ADJ

How do we measure inflation? The first port of call is, as it should be, the Consumer Price Index, in which the Bureau of Labor Statistics calculates the cost of a basket of goods and services that is supposed to represent the purchases of a typical household. What does the CPI tell us? Well, suppose we start from September 2008, the month in which Lehman fell—and, not coincidentally, the month when the Fed began large-scale asset purchases, “printing money” on a massive scale. Over the course of the next three years, consumer prices rose a grand total of 3.6 percent, or 1.2 percent a year. That doesn’t sound like the “severe inflation” many were predicting, far less the Zimbabwefication of America. That said, the rate of inflation wasn’t constant through that period. In the first year after the failure of Lehman, prices actually fell 1.3 percent; in the second, they rose 1.1 percent; in the third, they rose 3.9 percent. Was inflation taking off? Actually, no. By early 2012, inflation was clearly subsiding; average inflation at an annual rate over the previous six months had been only 1.8 percent, and markets seemed to expect inflation to stay low looking forward. And this came as no surprise to many economists, myself (and Ben Bernanke) included. For we had argued all along that the rise in inflation that took place in late 2010 and the first half of 2011 was a temporary blip, reflecting a bulge in world prices of oil and other commodities, and that no real inflationary process was under way, no big rise in underlying inflation in the United States.

#### Moderate inflation good

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012] ADJ

In February 2010 the International Monetary Fund released a paper written by Olivier Blanchard, its chief economist, and two of his colleagues, under the innocuous-sounding title “Rethinking Macroeconomic Policy.” The contents of the paper, however, weren’t quite what you’d expect to hear from the IMF. It was an exercise in soul-searching, questioning the assumptions on which the IMF and almost everyone else in responsible positions had based policy for the past twenty years. Most notably, it suggested that central banks like the Fed and the European Central Bank might have aimed for excessively low inflation, that it might be better to aim for 4 percent inflation rather than the 2 percent or less that has become the norm for “sound” policy. Many of us were surprised—not so much by the fact that Blanchard, a very eminent macroeconomist, *thinks* such things, but by the fact that he was allowed to say them. Blanchard was a colleague of mine at MIT for many years, and his views about how the economy works are, I believe, not too different from mine. It speaks well for the IMF, however, that it let such views receive a public airing, if not exactly an institutional imprimatur.

#### Higher inflation is good - three reasons

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012] ADJ

But what is the case for higher inflation? As we’ll see in a minute, there are actually three reasons why higher inflation would be helpful, given the situation we’re in. Before I get there, however, let’s ask about the costs of inflation. How bad a thing would it be if prices were rising 4 percent a year instead of 2 percent? The answer, according to most economists who have tried to put a number to it, is that the costs would be minor. Very high inflation can impose large economic costs, both because it discourages the use of money—pushing people back toward a barter economy—and because it makes planning very difficult. Nobody wants to minimize the horrors of a Weimar type of situation in which people use lumps of coal for money, and in which both long-term contracts and informative accounting become impossible. But 4 percent inflation doesn’t produce even a ghost of these effects. Again, the inflation rate was about 4 percent during Reagan’s second term, and that didn’t seem especially disruptive at the time. Meanwhile, a somewhat higher inflation rate could have three benefits. The first, which is the one Blanchard and colleagues emphasized, is that a higher normal inflation rate could loosen the constraints imposed by the fact that interest rates can’t go below zero. Irving Fisher—the same Irving Fisher who came up with the concept of debt deflation, the key to understanding the depression we’re in—pointed out long ago that higher expected inflation, other things being equal, makes borrowing more attractive: if borrowers believe that they’ll be able to repay loans in dollars that are worth less than the dollars they borrow today, they’ll be more willing to borrow and spend at any given interest rate. In normal times this increased willingness to borrow is canceled out by higher interest rates: in theory, and to a large extent in practice, higher expected inflation is matched one-for-one by higher rates. But right now we’re in a liquidity trap, in which interest rates in a sense “want” to go below zero but can’t, because people have the option of just holding cash. In this situation, higher expected inflation would not, at least at first, translate into higher interest rates, so it would in fact lead to more borrowing. Or to put it a bit differently (and the way Blanchard actually put it), if inflation had generally been around 4 instead of 2 percent before the crisis, short-term interest rates would have been around 7 percent instead of around 5, and the Fed would therefore have had that much more room to cut when crisis struck. Yet that isn’t the only reason higher inflation would be helpful. There’s also the debt overhang—the excessive private debt that set the stage for the Minsky moment and the slump that followed. Deflation, said Fisher, can depress the economy by raising the real value of debt. Inflation, conversely, can help by reducing that real value. Right now, markets seem to expect the U.S. price level to be around 8 percent higher in 2017 than it is today. If we could manage 4 or 5 percent inflation over that stretch, so that prices were 25 percent higher, the real value of mortgage debt would be substantially lower than it looks on current prospect—and the economy would therefore be substantially farther along the road to sustained recovery. There’s one more argument for higher inflation, which isn’t particularly important for the United States but is very important for Europe: wages are subject to “downward nominal rigidity,” which is econospeak for the fact, overwhelmingly borne out by recent experience, that workers are very unwilling to accept explicit pay cuts. If you say, but of course they are, you’re missing the point: workers are much less willing to accept, say, a 5 percent cut in the number on their paycheck than they are to accept an unchanged paycheck whose purchasing power is eroded by inflation. Nor should we declare that workers are stubborn or stupid here: it’s very difficult when you are asked to take a pay cut to know whether you’re being taken advantage of by your employer, whereas the question doesn’t arise when forces that are clearly not under your boss’s control raise your cost of living. This downward nominal rigidity—sorry, sometimes jargon really is needed to specify a particular concept—is probably the reason we haven’t seen actual deflation in the United States, despite the depressed economy. Some workers are still getting raises, for a variety of reasons; relatively few are seeing their pay actually fall. So the overall level of wages is still rising slowly despite mass unemployment, which in turn is helping keep overall prices rising slowly too. This is not a problem for America. On the contrary, the last thing we need right now is a general fall in wages, exacerbating the problem of debt deflation. But as we’ll see in the next chapter, it is a big problem for some European nations, which badly need to cut their wages relative to wages in Germany. It’s a terrible problem, but one that would be made considerably less terrible if Europe had 3 or 4 percent inflation, not the slightly more than 1 percent that markets expect to prevail in coming years. More on all that, coming next. Now, you may wonder what good it is wishing for higher inflation. Remember, the doctrine of immaculate inflation is nonsense: no boom, no inflation. And how can we get a boom?

# Links

## Link-Infrastructure Generic

### US must stop new spending initiatives to save the economy

Hunt, PhD in Economics from Temple University and Vice President of Hoisington Investment Management Company, 12

[Lacy, interviewed by The Gold Report, “Economic Recovery Via Shared Sacrifice, Cutting Government Spending, Deficit and Debts,” May, 17, 2012, http://www.marketoracle.co.uk/Article34706.html]bg

**TGR:** Exactly how does a country's role in world markets come into play when it comes to devaluing currencies? **LH:** A major economy that tries to correct debt problems by dropping the value of its currency will bring on immediate retaliation—and a race to the bottom. In today's world, devaluation is not really an option. This isn't new. Starting in the late 1920s, there had been a huge build-up of debt around the world. Some of the heaviest build-up was in resource countries. We were on the gold standard at the time. The Dutch East Indies devalued because it could no longer service its debt and then Australia shortly thereafter. They gained a momentary advantage, but lost it when competitors in Latin America and elsewhere also were forced to devalue. By 1931, the British devalued. A lot of the countries that had devalued previously devalued more. The U.S. tried to hang on to the gold standard, but between April 1933 and January 1934, the U.S. devalued by 60%. It had been devastated by a loss of export markets, as everyone else had been devaluing. Like the Dutch East Indies and Australia in the late 1920s, the U.S. temporarily regained some benefit, but lost it when France and the gold bloc countries devalued in 1937 and 1938. Then, when the U.S. entered World War II, a tremendous surge in exports took place. We were able to sell anything American mines, factories and farms could produce. Its citizens were paid for that work, but with mandatory rationing, they couldn't spend the money they were making. They couldn't buy new cars, washing machines and houses. **TGR:** The result was forced savings. **LH:** People were willing to stand for the austerity because we were in an endeavor they believed was worthwhile. If they needed 10 pounds of sugar and could only get one, they took it. If they needed 20 gallons of gasoline and they could only get five, they stood for it. So they saved their funds. The saving rate went up to 25% for three consecutive years. We paid off the debt. By the end of World War II, the U.S. was a wealthy nation once again, and it fueled the post-war boom. **LH:** In the current environment, the European countries that are in trouble don't want austerity. France's budget deficit is deteriorating badly, but it's quite possible that it's going to engage in more deficit spending. It's not as bad as in Italy and Spain, but France already has a massive problem. TGR: What if the European Central Bank (ECB) decided to devalue the euro? Would it just be the first domino to fall? LH: Yes. It would start another race to the bottom. TGR: What would happen to investments? LH: Investment values would decline. It would be chaos. **TGR:** We'd only have bonds in the secondary market at that point. **LH:** You wouldn't want to be in debt. And you'd want assets you can control and have complete confidence in—assets such as an income-producing property that you're confident of the income stream or if you have an asset that is perfectly acceptable in exchange. Europe today has not yet really gone to austerity. The ECB policy objective was to try to stimulate a recovery, boost the revenue base and bring their deficits under control. These bridge financings didn't solve the underlying problem. Instead, their economies deteriorated and the deficits worsened. **TGR:** So if there is no willingness to save, will the endgame be either that bang point or QE? **LH:** I think it will be the bang point, but it's hard to say. **TGR:** If they go with the bang point, forced austerity would reverberate through other countries that export to Europe. **LH:** There is a pathway out for the U.S., but it requires very intelligent uses of what we know about the multipliers for government expenditures, what we call the tax expenditures or loopholes, the marginal tax rates and general behavior. The U.S. has too much debt now and will have even more. The government expenditure multiplier is very close to zero; it might even be slightly negative. So the U.S. needs to cut down government spending, but is not going to be able to do so unless there's shared sacrifice by taxpayers. The magnitude of the problem is too great.

### **Federal infrastructure spending is wasteful and full of cost** overruns

Edwards, director of tax policy studies at the Cato Institute, 11

[“Infrastructure Projects to Fix the Economy? Don't Bank on It.,” Chris, Cato Institute, <http://www.cato.org/publications/commentary/infrastructure-projects-fix-economy-dont-bank-it>]bg

For plenty of examples of the downside of federal infrastructure, look at the two oldest infrastructure agencies — the Army Corps of Engineers and the Bureau of Reclamation. Their histories show that the federal government shouldn't be in the infrastructure business. Rather, state governments and the private sector are best equipped to provide it. The Corps of Engineers has been building levees, canals and other civilian water infrastructure for more than 200 years — and it has made missteps the entire time. In the post-Civil War era, for example, there were widespread complaints about the Corps' wastefulness and mismanagement. A 1971 book by Arthur Morgan, a distinguished engineer and former chairman of the Tennessee Valley Authority, concluded: "There have been over the past 100 years consistent and disastrous failures by the Corps in public works areas ... resulting in enormous and unnecessary costs to ecology [and] the taxpayer." Some of the highest-profile failures include the Great Mississippi Flood of 1927. That disaster dramatically proved the shortcomings of the Corps' approach to flood control, which it had stubbornly defended despite outside criticism. Hurricane Katrina in 2005 was like a dreadful repeat. The flooding was in large part a man-made disaster stemming from poor engineering by the Corps and misdirected funding by Congress. Meanwhile, the Bureau of Reclamation has been building economically dubious and environmentally harmful dams since 1902. Right from the start, "every Senator ... wanted a project in his state; every Congressman wanted one in his district; they didn't care whether they made economic sense or not," concluded Marc Reisner in his classic history of the agency, Cadillac Desert. The dam-building pork barrel went on for decades, until the agency ran out of rivers into which it could pour concrete. Looking at the Corps and Reclamation, the first lesson about federal infrastructure projects is that you can't trust the cost-benefit analyses. Both agencies have a history of fudging their studies to make proposed projects look better, understating the costs and overstating the benefits. And we've known it, too. In the 1950s, Sen. Paul Douglas (D-Ill.), lambasted the distorted analyses of the Corps and Reclamation. According to Reisner, Reclamation's chief analyst admitted that in the 1960s he had to "jerk around" the numbers to make one major project look sound and that others were "pure trash" from an economics perspective. In the 1970s, Jimmy Carter ripped into the "computational manipulation" of the Corps. And in 2006, the Government Accountability Office found that the Corps' analyses were "fraught with errors, mistakes, and miscalculations, and used invalid assumptions and outdated data." Even if federal agencies calculate the numbers properly, members of Congress often push ahead with "trash" projects anyway. Then-senator Christopher Bond of Missouri vowed to make sure that the Corps' projects in his state were funded, no matter what the economic studies concluded, according to extensive Washington Post reporting on the Corps in 2000. And the onetime head of the Senate committee overseeing the Corps, George Voinovich of Ohio, blurted out at a hearing: "We don't care what the Corps cost-benefit is. We're going to build it anyhow because Congress says it's going to be built." As Morgan noted in his 1971 book, these big projects have often damaged both taxpayers and ecology. The Corps, Reisner argues, has "ruined more wetlands than anyone in history" with its infrastructure. Meanwhile, Reclamation killed wetlands and salmon fisheries as it built dams to provide high-cost irrigation water to farmers in the West — so they could grow crops that often compete with more efficiently grown crops in the East.

the country.

## Link-Magnifier

### **Infrastructure costs increasing—making cost overruns likely**

Washington Post, March 21, 2012

[“Why Can’t We just Leave Infrastructure Spending to the States?,” <http://www.washingtonpost.com/blogs/ezra-klein/post/why-cant-we-just-leave-infrastructure-spending-to-the-states/2012/03/21/gIQAjpYBSS_blog.html>]bg

Keep in mind that this is all happening at a time when infrastructure is getting increasingly expensive to build — the CBO notes that the cost of building highways has tripled since 1980, far faster than inflation. States are spending the same, but getting less and less. Now, maybe this would all be okay if we were keeping our roads and bridges and pipes in good shape. But various experts and groups like the American Civil Society of Engineers [seem to think](http://www.washingtonpost.com/local/decaying-infrastructure-costing-us-billions-report-says/2011/07/27/gIQAAI0zcI_story.html) that we’re woefully under-investing in infrastructure of all sorts.

### Spending bills get packed with supplementals—spiraling costs

Pergram, Edward R. Murrow Award winning reporter, 11

[Chad Pergram, "Natural Disasters Could Challenge Campaign Spending Promises", 5-24-2011, http://politics.blogs.foxnews.com/contributors/chad-pergram/]

It often starts like this. There's a series of natural disasters. Or 9-11. Or war. And Congress decides it needs to approve an additional spending bill to fund a critical area of the federal government in mid-year. Lawmakers fillet the federal budget into 12 sections, each one receiving an annual spending measure. But over the past 11 years, Congress has approved 16 extra spending bills, known as "supplementals," totaling nearly $1 trillion. $20 billion just after September 11th. $79 billion in 2003 for the war in Iraq. $10.5 billion in 2005 to respond to Hurricane Katrina. And in each case, some lawmakers make a compelling case for tacking on additional spending. It's essential for the troops. The people of New Orleans are desperate. And on Tuesday afternoon, the process started again. Rep. Robert Aderholt (R-AL) chairs the House Homeland Security Appropriations Subcommittee. That panel controls the purse strings for the Federal Emergency Management Agency (FEMA). Twisters ravaged parts of Aderholt's district and other sections of Alabama just a few weeks ago. Then came floods, up and down the Mississippi River. The federal government even blew up a major levee in Missouri to alleviate upstream flooding. And then a monster tornado sacked Joplin, MO, Sunday night. "It's going to be close," said Aderholt, when asked if FEMA had enough money to make it through September 30, the end of the government's fiscal year. On Tuesday, the House Appropriations Committee "marked-up" or wrote the final version of a measure to fund Homeland Security programs and FEMA. No one has tallied the cost of the storms in Alabama. There's no price tag on the flooding. And it's way too early to ring up the damages in Missouri. But Aderholt and others wanted to make sure FEMA had enough money for now. So during the markup session, lawmakers from both sides of the aisle injected $1 billion into FEMA's budget. Aderholt and others believe that on top of the $1 billion, they'll also have to craft an entirely separate supplemental spending bill to pay for the natural disasters. And perhaps those yet to come. "Hurricane season is just days away," warned Aderholt ominously. Not a single lawmaker expressed reservation and the Appropriations Committee adopted Aderholt's request by voice vote. There's a reason why no one objected. This year, it's flooding and tornadoes in the South and Midwest. But come summertime, it could be hurricanes in Florida and North Carolina. Or earthquakes in California. Wildfires in the west. Fiscal hawks are loathe to vote against such emergency measures. First, they want to help those in need. And second, they know their district or state could be next. Now here's where it gets interesting. In tight budget times, lawmakers are intent to find "pay-fors" to cover the additional costs of the natural disasters. In the case of the $1 billion for FEMA, the Appropriations Committee transferred unused funds from an Energy Department "green vehicle" program. Still, this money is not for NEXT fiscal year. It's for THIS fiscal year. The fiscal year for which Congress and President Obama just finished doing battle. The fiscal year where Republicans successfully pared $61 billion out of the budget. An alternative interpretation, but inaccurate interpretation of Tuesday's $1 billion FEMA infusion means the budget deal dwindled to just $60 billion. That's they way it would appear on a balance sheet if you're scoring at home. But if you're scoring in Congress, it doesn't work that way. Congress considers FEMA's $1 billion as an emergency. By definition, all emergency money is "off-budget." It's real dollars and cents going out the door. But Congress doesn't count it against the bottom line. It's kind of like a pitcher's Earned Run Average (ERA) in baseball. If a pitcher yields a run, it counts on the scoreboard. However, if someone committed an error that allowed that run to score, it's not marked against the pitcher's ERA. Regardless, the run crossed the plate and shows up on the scoreboard. Spending is spending. And a budgetary gimmick like this is precisely what so incensed the electorate last fall. Now there's a question of forging a supplemental spending bill once all of the disasters are paid for. Aderholt has talked about the need for an additional spending bill to cover FEMA. And he's not the only one. "$1 billion isn't going to do it," conceded Rep. David Price (D-NC), the top Democrat on the House Homeland Security Appropriations Subcommittee. "We are going to need the administration to offer a supplemental request." House Majority Leader Eric Cantor (R-VA) knows how sensitive this is. "If there is support for a supplemental, it would be accompanied by support for having pay-fors to that supplemental," said Cantor on Monday. Note that Cantor said "if there is support for a supplemental." Locating that support could be a problem. Rep. Jo Ann Emerson (R-MO) is a senior member of the Appropriations Committee and represents the district right next to where the tornadoes hit Sunday. Emerson conceded it may be hard to court conservatives whose districts aren't experiencing a natural disaster. "We can try and be responsible, but people need money," Emerson said. "While I think it's important we do everything to offset (the additional FEMA spending), I don't think we can find all that money." When it's a challenge to cobble together votes for a supplemental spending bill, lawmakers often turn to a time-honored tradition on Capitol Hill. They begin to decorate the supplemental with all sorts of baubles and ornaments to attract the support of reluctant lawmakers. But times have changed in Washington. And most conservatives are unwilling to go that route. "These bills become Christmas trees," said Rep. Steve Scalise (R-LA). "You end up having a bunch of items that having nothing to do with the bill." Rep. Jeff Landry (R-LA) is a freshman who represents Cajun country and the mouth of the Mississippi River. Some of the most serious flooding has washed over parts of Landry's southern Louisiana district. Landry knows what's essential to recover from the floods.

## Link-Nat Infrastructure Bank

### **An Infrastructure Bank will cause multiple rounds of spending with no short term economic benefits**

Brownfield- Assistant Director of Strategic Communications at The Heritage Foundation-2011

[Mike, “Morning Bell: Big Government Rising?,” Enterprise and Free Markets, September 6th, http://blog.heritage.org/2011/09/06/morning-bell-big-government-rising/print/]bg

It’s no surprise that the left favors more government spending–after all, it’s the core of their philosophy. Yet for months we have heard President Obama give lip service to cuts in spending, largely in response to the political shift that conservatives and the Tea Party revolution ushered into Washington last November. But with the President’s jobs speech on Thursday, Americans may see Obama “go bold” and propose a return to big government. In his [speech to labor unions in Detroit yesterday](http://www.whitehouse.gov/the-press-office/2011/09/05/remarks-president-detroit-labor-day-event) [6], President Obama gave a preview of what “bold” means to him: more infrastructure spending*.*The trouble is that the President tried this approach before in his stimulus plan, and it just didn’t work. The stimulus included $48.1 billion for transportation infrastructure, but the funded projects have been very slow to get underway and have had a minuscule impact on economic activity. An “infrastructure bank” is the latest permutation of the President’s plan for more of the same kind of spending. In the President’s February 2011 highway reauthorization proposal, the infrastructure bank would be funded by an appropriation of $5 billion per year in each of the next six years and would provide loans, loan guarantees, and grants to eligible transportation infrastructure projects. Translation: more big government spending and more federal bureaucracy. As Heritage’s Ronald Utt [explains](http://www.heritage.org/Research/Reports/2011/08/Using-Infrastructure-Banks-to-Spur-Economic-Recovery) [7], that’s a road to nowhere. The President’s ongoing obsession with an infrastructure bank as a source of salvation from the economic crisis at hand is—to be polite about it—a dangerous distraction and a waste of his time . . . Obama’s infrastructure bank would likely yield only modest amounts of infrastructure spending by the end of 2017 while having no measurable impact on job growth or economic activity—a prospect woefully at odds with the economic challenges confronting the nation.

### Infrastructure Bank will just be a new vehicle for deficit-spending it will not be self sustaining

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,11

[Ronald, “Obama’s Peculiar Obsession with Infrastructure Banks Will Not Aid Economic Revival,” The Heritage Foundation, 2011, http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery]bg

In response to the credit downgrade by Standard & Poor’s in August, the grim reports on the state of the economy, and the collapse of the stock and financial markets in the week after the downgrade, President Barack Obama has re-engaged with the issue of America’s faltering economy and the human misery left in its wake. While it is possible he may propose a serious and detailed plan during his much-anticipated jobs speech next week, so far his response has included policies that both Democrats and Republicans have rejected in the past.

The President’s proposal for an infrastructure bank is one idea that he and other progressives have been flogging for the past few years.[[1]](http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery" \l "_ftn1) Although several infrastructure bank proposals have been introduced in Congress,[[2]](http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery" \l "_ftn2)all involve the creation of a new federal bureaucracy that would provide federally funded loans and grants to approved infrastructure proposals submitted to the bank by eligible entities. Funds to provide these loans would either be borrowed by the bank or provided by appropriations, depending on the proposal. But an infrastructure bank would do little to spur the economic recovery—and nothing to create new jobs.

**Misplaced Humor**

In reviewing these infrastructure plans it is apparent that, as a proposal to jump-start the economy, these banks possess all the liabilities of (but are even more ineffective than) the failed American Revitalization and Investment Act of 2009 (ARRA), which committed $800 billion to stimulus spending, including $48.1 billion for transportation infrastructure. As the President has recently acknowledged, and The Heritage Foundation predicted,[[3]](http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery" \l "_ftn3) the funded projects have been very slow to get underway and have had a limited impact on economic activity.

In a recent meeting with his Jobs Council, Obama noted that “Shovel-ready was not as…uh…shovel-ready as we expected.” The media reported that the “Council [Council on Jobs and Competitiveness ], led by GE’s Jeffrey Immelt, erupted in laughter.”[[4]](http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery" \l "_ftn4) That the President and his business community advisers found this waste of $800 billion and the subsequent loss of hundreds of thousands of jobs a source of humor is emblematic of the Administration’s failed approach to the economy.

**Banks Make Loans, Not Grants**

Take for example the President’s national infrastructure bank proposal, which was included in his February 2011 highway reauthorization proposal. His bank would be part of the Department of Transportation and would be funded by an appropriation of $5 billion per year in each of the next six years. Obama’s “bank” would be permitted to provide loans, loan guarantees, and grants to eligible transportation infrastructure projects.[[5]](http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery" \l "_ftn5)

As Heritage and others have noted, the common meaning of a “bank” describes a financial intermediarythat borrows money at one interest rate and lends it to credit-worthy borrowers at a somewhat higher interest rate to cover the costs incurred in the act of financial intermediation. In this regard, the Obama proposal is not a bank, and it relies entirely on congressional appropriations—thus, on deficit finance and taxpayer bailouts.

Grants are not paid back, prompting “one former member of the National Infrastructure Financing Commission to observe that ‘institutions that give away money without requiring repayment are properly called ‘foundations’ not ‘banks.’”[[6]](http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery" \l "_ftn6) Senator James Inhofe (R–OK), the ranking member of the Senate Environment and Public Works Committee, further noted that:

*Banks don’t give out grants; they give out loans. There is also currently a mechanism for giving out federal transportation grants—it is called the highway bill. I don’t believe an infrastructure bank will increase total transportation investment—it will only take money away from what would otherwise go through the existing highway and transit programs.**[[7]](http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery" \l "_ftn7)*

**Bureaucratic Delays**

Although Obama has yet to offer any legislation to implement his “bank,” infrastructure bank bills introduced by Senator John Kerry (D–MA) and Representative Rosa DeLauro (D–CT) illustrate the time-consuming nature of creating such a bank, suggesting more than a year or two will pass before the first dollar of a grant or loan is dispersed to finance a project.[[8]](http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery" \l "_ftn8) Both the DeLauro and Kerry bills are—appropriately—concerned with their banks’ bureaucracy, fussing over such things as detailed job descriptions for the new executive team, how board members will be appointed, duties of the board, duties of staff, space to be rented, creating an orderly project solicitation process, an internal process to evaluate, negotiate, and award grants and loans, and so on. Indicative of just how bureaucracy-intensive these “banks” would be, the Obama plan proposes that $270 million be allocated to conduct studies, administer his new bank, and pay the 100 new employees hired to run it.

By way of contrast, the transportation component of the ARRA worked through existing and knowledgeable bureaucracies at the state, local, and federal levels. Yet despite the staff expertise and familiarity with the process, as of July 2011—two and a half years after the enactment of ARRA—38 percent of the transportation funds authorized have yet to be spent and are still sitting in the U.S. Treasury, thereby partly explaining ARRA’s lack of impact.

**Infrastructure “Banks” No Source of Economic Growth**

The President’s ongoing obsession with an infrastructure bank as a source of salvation from the economic crisis at hand is—to be polite about it—a dangerous distraction and a waste of his time. It is also a proposal that has consistently been rejected by bipartisan majorities in the House and Senate transportation and appropriations committees, and for good reason. Based on the ARRA’s dismal and remarkably untimely performance, Obama’s infrastructure bank would likely yield only modest amounts of infrastructure spending by the end of 2017 while having no measurable impact on job growth or economic activity—a prospect woefully at odds with the economic challenges confronting the nation.

### Don’t by the Aff hype--Infrastructure bank will be a never-ending deficit expense

Calabria, Director of Financial Regulation Studies at the Cato Institute, 2010

[Mark A., “A Fannie Mae for Infrastructure, The Cato Institute,”September 9, 2010, http://www.cato-at-liberty.org/a-fannie-mae-for-intrastructure/print/]bg

Like President Bush before him, Obama has a knack for taking the worst ideas of his opponents and making them his own.  It is truly bipartisanship in the worst of ways (think Sarbanes-Oxley, the TARP or No Child Left Behind).  The newest example is the President’s proposed “infrastructure bank.”  A bill along those lines was introduced a few years ago by then Senator Hagel, although the idea is far from new. First, let’s get out of the way the myth that we have been “under-funding” intrastructure.  Take the largest, and usually most popular, piece:  transportation.  Over the last decade, transportation spending at all levels of government has increased over 70 percent.  One can debate if that money has been spent wisely, but there’s no doubt we’ve been spending an ever-increasing amount on infrastructure – so there goes one rationale for an infrastructure bank. The real rationale for an infrastructure bank is to transfer the risk of default away from investors, bankers and local/state governments onto the federal taxpayer, but to do so in such a manner that the taxpayer has no idea what they are on the hook for. If there are truly great projects out there that will pay their own way, then they should have no trouble getting private funding. Of course, we will be told that the bank will charge an interest rate sufficient to cover losses and that the taxpayer won’t be on the hook.  Again, if it is charging an appropriate rate, then why does the bank need to be chartered (and backed) by the taxpayer?  We’ve heard this story before…with Social Security, flood insurance, FHA, Fannie/Freddie…the list goes on, that all of these programs would pay their own way and never cost the taxpayer a dime.  If there are truly outstanding infrastructure needs, then appropriate the money and pay for them.  An infrastructure bank is just another way to allow Wall Street to line its pockets while leaving the risk with the taxpayer.  If bankers aren’t willing to actually take the risks, then why exactly do we need them?

### Infrastructure Bank will fail and just cause more spending—Asian banks prove

Chin, former U.S. ambassador to the [Asian Development Bank](http://www.washingtontimes.com/topics/asian-development-bank/), 2011

[Curtis,” CHIN: Obama’s infrastructure bank won’t create real jobs, Asia shows trade growth lifts economy more than government projects,” The Washington Times, Oct. 17th, <http://www.washingtontimes.com/news/2011/oct/17/obamas-infrastructure-bank-wont-create-real-jobs/?page=all>]bg

With U.S. unemployment persistently and unacceptably high, President[Obama](http://www.washingtontimes.com/topics/barack-obama/) and others from all political persuasions have voiced support once again for establishment of a new government-created institution that would provide loans and guarantees to finance U.S. infrastructure. They note Asia’s continued economic growth and cite the region’s - and particularly [China](http://www.washingtontimes.com/topics/china/)’s - tremendous investments in showcase infrastructure projects as reason enough to support greater government financing of infrastructure and development - and the jobs that come with such spending.

Policymakers in Washington would be mistaken, however, if they see short-term job creation as rationale for creation of another federal bureaucracy in the guise of a U.S. national infrastructure bank. The latest proposal, part of [Mr. Obama](http://www.washingtontimes.com/topics/barack-obama/)’s recent [Senate](http://www.washingtontimes.com/topics/senate/)-rejected $447 billion jobs bill, envisioned a new $10 billion institution in Washington.

That subproposal of the “jobs” bill may well rise again. The benefits, proponents say, will be twofold: rebuilding the United States’ crumbling infrastructure and creating jobs.

Just as the [World Bank](http://www.washingtontimes.com/topics/world-bank/) helped rebuild Europe after World War II and brings critical investment dollars to the poorest nations, isn’t it time, they say, to do the same thing at home in the United States?

Yet, like many things too good to be true, caveat emptor - buyer beware. Asia, with its multitude of infrastructure projects, offers a lesson, albeit a counterintuitive one. For all the billions of dollars in projects pushed by the [World Bank](http://www.washingtontimes.com/topics/world-bank/) and other multilateral development banks, what is clear is that such institutions are not the key players when it comes to infrastructure investment and job creation for much of Asia.

Much more critical to growth have been trade, a still-evolving but strengthening infrastructure of transparency, governance and the rule of law, and allowing businesspeople the chance to, well, go about doing their business.

In that context, the recently passed U.S. Free Trade Agreements with Korea, Panama and Colombia may well do more in the long run to spur economic growth in the United States and those countries than any individual bridge or other single infrastructure project.

A further case in point: [China](http://www.washingtontimes.com/topics/china/) borrows a few billion dollars annually from the [World Bank](http://www.washingtontimes.com/topics/world-bank/) and the[Asian Development Bank](http://www.washingtontimes.com/topics/asian-development-bank/). That being said, for an economy of several trillion dollars, the financial and employment impact of these banks’ infrastructure lending to [China](http://www.washingtontimes.com/topics/china/) are minimal, and even questionable on other policy grounds.

And therein lies another lesson: A new U.S. national infrastructure bank may capture headlines but any proposal needs to be thoroughly vetted, lest taxpayers find themselves with another government-created institution that made political sense, but delivered very little in the long run beyond employment of the people who work there

## Link-HSR

HSR projects are expensive and depend on long-term subsidies-California proves

Williams, reporter, 2012

[Lance, “Bullet train's low operating costs are 'elephant in room,' experts say,” April 30, 2012, California Watch <http://californiawatch.org/print/15973>]bg

In recent months, the CEO of the controversial project [resigned](http://californiawatch.org/dailyreport/rail-authoritys-ceo-announces-resignation-14458" \t "_blank) [2]. Brown installed Dan Richard, an official with political and transportation industry connections, as new board chairman. More importantly, the California High-Speed Rail Authority dramatically revamped its business plan, slashing as much as [$30 billion](http://californiawatch.org/dailyreport/new-bullet-train-plan-shaves-30b-cost-15598" \t "_blank)[3] from the price tag for building the San Francisco-to-Los Angeles system – from $98 billion to as little as $68 billion. But none of those changes addressed what a panel of outside financial experts has styled “the elephant in the room” for California’s proposed high-speed rail system – its extraordinarily low projected operating costs. If the bullet train project is to pencil out, it must operate far more economically than any high-speed rail system in the world, according to the experts, who include former World Bank executive William Grindley. Unless these extraordinary economies actually are achieved, the train will require alarmingly high annual operating subsidies “forever,” as the experts wrote in a [report](http://www.cc-hsr.org/" \t "_blank) [4] last month. The annual operating deficit could top $2 billion, they wrote.

### HSR is notorious for cost overruns and inaccurately low cost estimates

Reisman, staff writer, 12

[Will, SF Examiner Staff Writer, “High-speed rail cost increase latest in public works projects,” 1-8-12, <http://www.sfexaminer.com/local/transportation/2012/01/high-speed-rail-cost-increase-latest-public-works-projects>]

Overpromising and underdelivering have become the hallmark of California’s public works projects, and the latest plan to engage in this dubious practice is the state’s high-speed rail system. Originally estimated to cost $25 billion, the price tag for high-speed rail has now swelled to $98 billion, an explosion that has been assailed by critics and generated calls for the plan to be abandoned. Making that projection even more worrisome is that the original $25 billion estimate entailed the entire high-speed rail route from San Diego to Sacramento, while the newly revised $98 billion projection only details the costs from San Francisco to Anaheim. Click on the photo to the right to see photos from projects with cost overruns. The final tally of the state’s high-speed rail project will go well past $100 billion. Still, the story of high-speed rail is little different than the wildly vacillating cost estimates that have plagued other major projects. When the BART system was finally completed in the early 1970s, the total cost of the project was $1.6 billion — $624 million more than originally projected. BART’s project was so disappointing that it constitutes a chapter in Peter Hall’s 1980 book, “Great Planning Disasters.” It’s not alone. The rebuild of the Bay Bridge’s eastern span will cost $6.3 billion — more than four times the original projection of $1.5 billion, and more than 30 times an earlier $200 million estimate to retrofit the span. When the idea to connect Marin and San Francisco counties was first developed, the public was told that a bridge would cost $17 million. The Golden Gate Bridge ended up costing $35 million to complete. The BART extension to San Francisco International Airport, Muni’s Central Subway and T-Third Street expansion plans, and the Santa Clara Valley Transportation Agency’s light-rail system are just some of many examples of public works projects that exceeded their original price tags. According to a report by Caltrans, the state’s transportation department, a public works project with a value of more than $100 million is likely to have cost overruns ranging from 40 percent to 60 percent. Rod Diridon, executive director of the Mineta Transportation Institute and former member of the California High-Speed Rail Authority, said there are a number of reasons that contribute to this scenario. Federal mandates require that project backers release a cost estimate at the end of a plan’s concept study — a very rough sketch that often changes greatly as the undertaking is developed. As details emerge, the public often demands changes to the plan’s design, fearful that the project will interfere with their daily lives. That forces engineers and architects to come back with costlier versions of the original project. Redesigns create delays, which further drive up the overall cost of the project. “I compare public works projects to those hurricane forecasts that have these ‘cones of uncertainty’ where damage may be felt,” said Tom Radulovich, a BART board member. “Well, the further a project is from being completed, the bigger its ‘cone of uncertainty’ is.” John Knox White, a program director at TransForm, a regional transit advocacy group, said policymakers become enamored with an idea for a project, and then put the rosiest possible projections before the public to garner support for the plan. “If there is an idea, no one wants to overestimate the cost, because the more expensive it becomes, the less likely there will be support,” Knox White said

### **Cost of HSR outweigh the economic benifits**

O’Toole, cato institute senior fellow, 2009

(randal, 8/24/2009, cato, “high speed fail”, <http://www.cato-at-liberty.org/high-speed-fail/>, 6/26/2012,) TAS

In a four-part series on the *New York Times* [Economix blog](http://economix.blogs.nytimes.com/" \t "_blank), Harvard economist Edward Glaeser scrutinized high-speed rail and concluded that the benefits are overwhelmed by the costs. After making generous assumptions regarding the [costs](http://economix.blogs.nytimes.com/2009/07/28/is-high-speed-rail-a-good-public-investment/" \t "_blank), [user benefits](http://economix.blogs.nytimes.com/2009/08/04/running-the-numbers-on-high-speed-trains/" \t "_blank), [environmental benefits](http://economix.blogs.nytimes.com/2009/08/12/how-big-are-the-environmental-benefits-of-high-speed-rail/" \t "_blank), and [effects on urban development](http://economix.blogs.nytimes.com/2009/08/18/what-would-high-speed-rail-do-to-suburban-sprawl/" \t "_blank), Glaeser concludes that all the benefits of high-speed rail would still be less than half the costs.

As *Washington Post* writer Robert Samuelson [observes](http://www.washingtonpost.com/wp-dyn/content/article/2009/08/23/AR2009082302037.html" \t "_blank), the Obama administration’s vision of high-speed rail is “a mirage. The costs of high-speed rail would be huge, and the public benefits meager.” Yet even Samuelson falls victim to the common assumption that high-speed rail “works in Europe and Asia” because population densities in those places are higher than in the United States.

The truth is that high-speed rail doesn’t work in Europe or Asia either. Japan and France have both spent about as much on high-speed rail as they have on their intercity freeway systems, yet the average residents of those countries travel by car 10 to 20 times as much as they travel by high-speed rail. They also fly domestically more than they take high-speed rail. While the highways and airlines pay for themselves out of gas taxes and other user fees, high-speed rail is heavily subsidized and serves only a tiny urban elite.

HSR costs swell once the projects are approves and they fail to deliver on promises

O’Toole, cato institute senior fellow, 2008

(randal, 10/31/2012, cato, “High-Speed Rail: The Wrong Road for America”, <http://www.cato.org/publications/policy-analysis/highspeed-rail-wrong-road-america>, 6/26/12,) TAS

In the face of high energy prices and concerns about global warming, **environmentalists and planners offer high-speed rail as an environmentally friendly alternative to driving and air travel.** California, Florida, the Midwest, and other parts of the country are actively considering specific high-speed rail plans.

**Close scrutiny of these plans reveals that they do not live up to the hype. As attractive as 110-to 220-mile-per-hour trains might sound, even the most optimistic forecasts predict they will take few cars off the road.** At best, they will replace for profit private commuter airlines with heavily subsidized public rail systems that are likely to require continued subsidies far into the future.

**Nor are high-speed rail lines particularly environmentally friendly. Planners have predicted that a proposed line in Florida would use more energy and emit more of some pollutants than all of the cars it would take off the road.** California planners forecast that high-speed rail would reduce pollution and greenhouse gas emissions by a mere 0.7 to 1.5 percent—but only if ridership reached the high end of projected levels. Lower ridership would nullify energy savings and pollution reductions.

[**More by Randal O'Toole**](http://www.cato.org/people/randal-otoole)

**These assessments are confirmed by the actual experience of high-speed rail lines in Japan and Europe. Since Japan introduced high-speed bullet trains, passenger rail has lost more than half its market share to the automobile. Since Italy, France, and other European countries opened their high-speed rail lines, rail's market share in Europe has dwindled from 8.2 to 5.8 percent of travel. If high-speed rail doesn't work in Japan and Europe, how can it work in the United States?**

As megaprojects—the California high-speed rail is projected to cost $33 to $37 billion—**high-speed rail plans pose serious risks for taxpayers. Costs of recent rail projects in Denver and Seattle are running 60 to 100 percent above projections. Once construction begins, politicians will feel obligated to throw good taxpayers' money after bad. Once projects are completed , most plans call for them to be turned over to private companies that will keep any operational profits,while taxpayers will remain vulnerable if the trains lose money.**

**In short, high-speed rail proposals are high cost, high-risk megaprojects that promise little or no congestion relief, energy savings, or other environmental benefits. Taxpayers and politicians should be wary of any transportation projects that cannot be paid for out of user fees.**

## Link-Oil/Gas Pipelines

### Pipelines facing escalating costs and cost overruns

Buuma, writer for the Wall Street Journal, 10/8/2009

(Christine, "Costs Rising for Natural Gas Pipeline Developers", <http://www.downstreamtoday.com/news/article.aspx?a_id=18931&AspxAutoDetectCookieSupport=1>, Wall Street Journal, October 8, 2009, Accessed: 6/28/2012) AHL

Energy companies are rushing to build natural-gas pipelines to carry swelling supplies from onshore fields but, as the backlog of projects grows, costs are following suit. Developers including Kinder Morgan Energy Partners LP, Spectra Energy Corp. and CenterPoint Energy Inc. have faced escalating costs as they develop new pipelines to transport gas from the Rockies and from so-called shale plays, where gas is extracted from deep within formations of dense rock. Shale-gas production has grown exponentially in recent years as improved technology makes it easier to extract gas from these areas, creating a need for more pipelines to transport the output to market. Several major pipeline projects developed over the past two years, including the Rockies Express Pipeline, the Southeast Supply Header and the Midcontinent Express Pipeline, have been beset by cost overruns. Managing the increased costs of labor, equipment, materials and permitting has proved difficult for many developers, weakening the companies' balance sheets at a time when falling energy prices are putting a dent in their earnings. And as developers continue to build shale-gas pipelines, the financial risks are likely to persist. "When cost overruns become significant, the rates of return on these projects shift quickly from attractive to mediocre," said Jason Stevens, an analyst with Morningstar Inc. in Chicago.

### Pipelines face massive overruns—labor, equipment, materials

Buuma, writer for the Wall Street Journal, 10/8/2009

(Christine, "Costs Rising for Natural Gas Pipeline Developers", <http://www.downstreamtoday.com/news/article.aspx?a_id=18931&AspxAutoDetectCookieSupport=1>, Wall Street Journal, October 8, 2009, Accessed: 6/28/2012) AHL

Pipeline projects that go significantly over budget tend to have weaker credit quality than other pipelines do. Moody's Investors Service in August gave a Baa3 credit rating -- barely investment grade -- to Southeast Supply Header LLC, a joint venture between Spectra Energy and CenterPoint Energy that built a 274-mile pipeline stretching from east Texas to Southeast markets. Cost overruns of about 50%, from the original $842 million to $1.2 billion, left the project saddled with debt. Spectra, which managed construction of the project, had delays in securing certain permits, said C. Greg Harper, senior vice president and group president, pipelines and field services, for Houston-based CenterPoint. A large number of pipelines being developed at the same time can overwhelm regulators, leading to increased wait times for permits. "The number-one rule is to have all your ducks in a row in terms of having the permits in hand," Mr. Harper said. Spectra did encounter some permitting problems for the Southeast Supply Header, but weather delays and the scarcity of experienced contract workers contributed to the bulk of the cost overruns, said Joseph Ramsey, group vice president, project execution for Spectra. Pipeline developers are also facing rising costs for labor, equipment and materials as companies compete for the same resources. The cost of building the 1,679-mile Rockies Express Pipeline from Colorado to eastern Ohio, developed by Kinder Morgan Energy Partners, Sempra Energy and ConocoPhillips, climbed to $6 billion from earlier estimates of $4.4 billion as a result of rising labor and permitting costs. Similar cost overruns beset the 500-mile Midcontinent Express from Oklahoma to Alabama developed by Kinder Morgan and Energy Transfer Partners LP. Costs for that project rose from an initial $1.25 billion to $1.8 billion. Labor and materials costs have eased somewhat within the past year as a result of the economic downturn, and developers can minimize financial risks by forming partnerships with other pipeline companies.

## Link-Ports

### Port infrastructure expensive- $2.37 billion price tag

Nagi, A writer for American Metal Market, 2012

(Catherine, “Dredging, infrastructure spending must top US priorities: AAPA chief”, lexis/nexis, 6-28-12) I.M.R.

Dredging maintenance and infrastructure spending issues should be addressed before initiating discussions on growing the economy, according to the head of the American Association of Port Authorities (AAPA). "We talk a lot about wanting to increase trade and exports to boost the economy, but we need to first recognize that we must invest in our infrastructure so trade will be competitive," AAPA president and chief executive officer Kurt Nagel told AMM. "The last cycle of dredging funding was the highest level it has been, and it was barely half of what should have entered the system." Speaking on the sidelines of AAPA's Shifting International Trade Routes Conference in Tampa, Fla., Nagel said that money collected through the federal Harbor Maintenance Tax, a levy on goods shipped into the country, is not properly routed to maintain dredging needs at U.S. ports. As a result, he said, importers who bring in such heavy products as steel are unable to do so efficiently. The U.S. Army Corps of Engineers said that $2.37 billion was allotted for operation and maintenance in the fiscal 2011 budget, with another $264 million set aside for the Mississippi River and its tributaries. But some say that isn't enough. ."

## Link-Dams and Waterways

### There is no money in the budget for dam infrastructure

Boselovic, Reporter, 12

(Boselovic, Len, “Locks and dams repair budget dried up,” Pittsburgh Post-Gazette, Ebsco Host, Accessed: 6-29-12) ADJ

Federal budget woes mean there is no more money for the foreseeable future to make major repairs to aging locks and dams on the Allegheny River, after one last project is completed before Memorial Day weekend, the U.S. Army Corps of Engineers said. The cutbacks come after the Corps' budget for operating and maintaining locks and dams on the river was cut from $8.4 million in the 2011 fiscal year to $4 million in the current year. The Corps expects it will also be hamstrung next year, based on the $4.3 million allocated for Allegheny River operations in President Barack Obama's 2013 budget. Corps spokesman Jeff Hawk said repair money will run out after work on the hydraulic system that fills and drains a lock at Highland Park is completed in time for the holiday weekend. "This is it for the Allegheny," he said. "If something breaks, we've got to scramble for funds and there's no guarantee we'll fix it."

### Dam repairs are expensive

NYT 11

(New York Times, February 21, 2011, <http://www.nytimes.com/2011/02/22/science/22dam.html?pagewanted=all>, Accessed: 6-28-12) ADJ

Nationwide, the potential repair costs are staggering. A 2009 report by the state dam safety officials’ group put the cost of fixing the most critical dams — where failure could cause loss of life — at $16 billion over 12 years, with the total cost of rehabilitating all dams at $51 billion. But those figures do not include Lake Isabella and other dams among the approximately 3,000 that are owned by the federal government. The corps, for example, says that more than 300 of the roughly 700 dams it is responsible for need safety-related repairs, and estimates the total fix-up bill at about $20 billion. The corps has already spent about $24 million just to determine the scope of the problems at Lake Isabella, and with the New Orleans levee failures during Hurricane Katrina a lingering memory, Congress has appropriated money for other federal dam repair projects as well. But about two-thirds of all dams are private, and financially struggling state and local governments own most of the remainder. It is difficult to predict how needed repairs to these dams will be financed; legislation to provide federal money to help has languished in Congress. What’s more, the number of high-risk dams keeps rising as structures age, downstream development increases and more accurate information is obtained about watersheds and earthquake hazards. Among the corps’s dams, Lake Isabella is one of 12 that are ranked in the highest category, as a dam with serious problems and serious failure consequences, given the large downstream population. “The classification is it’s an unsafe dam,” said Eric C. Halpin, the corps’s special assistant for dam and levee safety. But Mr. Halpin noted that 319 of the corps’s dams were considered “actionable from a safety standpoint.”

## Link-Airports

### Airport infrastructure updates costs are huge

Principato, staff writer, 2007

(Greg, 8/1/2007, Washington post, “the cost of friendlier skies”, <http://web.ebscohost.com/src/detail?vid=6&hid=11&sid=f914de9c-fc71-4b87-b8f2-30b20cfa3dbb%40sessionmgr104&bdata=JnNpdGU9c3JjLWxpdmU%3d#db=nfh&AN=4KB520070801030122004>, 6/26/12, TAS)

Airports estimate they will need to invest $87.4 billion over the next five years to build runways and terminals to meet surging passenger demand for air travel. To help fund this massive investment, Congress has proposed a modest increase in the Passenger Facility Charge (PFC) that is collected from travelers. PFCs - by law - fund projects that improve airport infrastructure and promote competition. Unlike the fees airlines charge (from paper tickets to curbside check-in to bag of chips) PFCs will deliver real benefits to future passengers.

# Internal Links

## IL--US Key to Global Economy

### U.S economic growth is key to global recovery

Washington Times, 10

[Erica Werner-Associated Press, “Obama: Strong U.S. economy key to global recovery”, <http://www.washingtontimes.com/news/2010/nov/10/obama-strong-us-economy-key-global-recovery/>]

SEOUL (AP) — President Obama said a strong, job-creating economy in the United States would be the country’s most important contribution to a global recovery as he pleaded with world leaders to work together despite sharp differences. Arriving in South Korea on Wednesday for the G-20 summit, Mr. Obama is expected to find himself on the defensive because of plans by the Federal Reserve to buy $600 billion in long-term government bonds to try to drive down interest rates, spur lending and boost the U.S. economy. Some other nations complain that the move will give American goods an unfair advantage. In a letter sent Tuesday to leaders of the Group of 20 major economic powers, Mr. Obama defended the steps his administration and Congress have taken to help the economy. “The United States will do its part to restore strong growth, reduce economic imbalances and calm markets,” he wrote. “A strong recovery that creates jobs, income and spending is the most important contribution the United States can make to the global recovery.” Mr. Obama outlined the work he had done to repair the nation’s financial system and enact reforms after the worst recession in decades. He implored the G-20 leaders to seize the opportunity to ensure a strong and durable recovery. The summit gets under way on Thursday. “When all nations do their part — emerging no less than advanced, surplus no less than deficit — we all benefit from higher growth,” the president said in the letter. The divisions between the economic powers was evident when China’s leading credit rating agency lowered its view of the United States, a response to the Federal Reserve’s decision to buy more Treasury bonds. Major exporting countries such as China and Germany are complaining that the Federal Reserve’s action drives down the dollar’s value and gives U.S. goods an edge in world markets.

### US recession correlates with reductions in economic growth- US is the engine of the world economy

Dees, Principal Economist at European Central Bank, and Saint-Guilhem, Economist at European Central Bank, 10/9/10

(Stephane and Arthur, "The role of the United States in the global economy and its evolution over time", Journal of Economic Literature, 10/9/10, Accessed: 7/4/12, pg 574-575) AHL

The U.S. economy is very often seen as “the engine” of the world economy. As a result, any sign of slowdown in the United States rises concerns about harmful spillovers to the other economies. As the recent global economic recession has shown, the history of past U.S. recessions usually coincides with significant reductions in global growth. Figure 1 shows the relatively strong correlation of U.S. real GDP growth and that of the rest of the world. In addition to a large correlation (45%), it seems that in some periods, the U.S. cycle tends to lead the rest of the world one. Indeed, the correlation between the U.S. and the rest of the world growth rates lagged by one or two quarters increases to 49%. While this topic has been widely studied in the literature, it has received renewed attention recently. The increasing economic integration at the world level and the resulting emergence of large economic players, like China, is likely to have weakened the role of the U.S. economy as a driver of global growth. For instance, Dees and Vansteenkiste (2007) note that while the U.S. business cycle still leads the world’s, Asia, where China’s rise is helping the region to establish business cycles largely independent of its main trading partners, is a notable exception. Hence, when the United States entered into recession at the end of 2007, one has questioned the ability of the global economy to “decouple” from U.S. cyclical developments. While there were some signs of decoupling in the ﬁrst quarters following the U.S. downturn, they disappeared rapidly toward the end of 2008, when the crisis became more global and the economic cycles turned out to be more synchronous across the world. Overall, the U.S.’s inﬂuence on other countries’ economies remains larger than direct trade ties would suggest, owing to third-market effects together with increased ﬁnancial integration that tends to foster the international transmission of cyclical developments. Estimating the source and the size of spillovers across industrialized countries, Bayoumi and Swiston (2009) show that the U.S. shocks generate significant spillovers, while those from the euro area and Japan are small. They also show that ﬁnancial effects tend to dominate the international spillovers. Analyzing the results for two subperiods (1970–1987 and 1988–2006), they ﬁnally show the importance of the great moderation in U.S. output ﬂuctuations and associated ﬁnancial stability in lowering output volatility elsewhere. As the study over two subperiods might hide recent changes, this article aims at showing the evolution over time of the role of the United States in the global economy. Based on a Global VAR (GVAR) modeling approach, this article shows ﬁrst that the economies with a large trade exposure with the U.S. economy have a relatively larger sensitivity to U.S. developments. However, even for countries that do not trade so much with the U.S., they are largely inﬂuenced by its dominance through other partners’ trade. Moreover, while no clear trend seems to emerge, it seems that the role of the U.S. in the global economy has changed over time. Overall, for most countries— the latest recession excluded—a change in U.S. GDP had weaker impacts—though more persistent—for most recent periods. The latest recession, however, led to some renewed increase in the sensitivity of the economies to U.S. developments. Section 2 presents the modeling strategy chosen to study the international transmission of changes in U.S. economic activity. Section 3 shows the empirical results by distinguishing an analysis over the sample 1979–2009 and a time-varying analysis to identify any change in the degree of transmission over time. Section 4 concludes.

### US shocks critical to global economy--shocks

Bayoumi and Bui, IMF analysts, 2/1/11

(Tamim and Trung, "Deconstructing The International Business Cycle: Why Does A U.S. Sneeze Give The Rest Of The World A Cold?", Journal of Economic Literature, 2/1/11, Accessed: 7/4/12, pg 14) AHL

This paper has explored the nature of growth spillovers across the main advanced country regions using a new identification method for VARs that accounts for the uncertainty associated with the estimation of the contemporaneous correlation matrix across shocks. As a result, the VAR identification involves only two assumptions—the variables included in the VAR and the chosen lag length. The results from 1970 through the end of 2007 describe a relatively coherent picture for international growth spillovers. First, U.S. shocks dominate the international business cycle. European financial market shocks—proxied by U.K. spillovers—may also matter for the euro area. Commodity price shocks—proxied by a grouping of smaller advanced and emerging markets—create negative effects on the major advanced country regions. Lastly, euro area shocks matter primarily through commodity prices. It is also striking that this description of global spillovers through end-2007 fits the experience of the great depression in 2008 and 2009 so well, as a disturbance largely emanating out of the U.S. had major global consequences.

## IL--Investor Confidence

### Spending crushes investor confidence– confidence key to stop a sell-off of assets that would cause a global depression

SCHILLER 97 Professor of economics at American University

[Bradley R., 5/6, The LA Times, p. lexis]

The ever-cautious budget office hints at the kind of disaster that might ensue: "Foreign investors might suddenly stop investing in U.S. securities, causing the exchange value of the dollar to plunge, interest rates to shoot up and the economy to stumble into a severe recession . . . Higher levels of debt might also ignite fears of inflation in the nation's financial markets, which would push up interest rates even further. Amid the anticipation of declining profits and rising rates, the stock market might collapse, and consumers, fearing economic catastrophe, might suddenly reduce their spending. Moreover, severe economic problems in this country could spill over to the rest of the world and might seriously affect the economics of U.S. trading partners, undermining international trade." In other words, the projected U.S. deficit might trigger another Great Depression.

### Fiscal irresponsibility from the Fed discourages businesses from investing

Saphir, Reuters Correspondent, 12

(Ann, “Fed is sugar-coating Congress's task,” 4-30-12, <http://www.reuters.com/article/2012/04/30/usa-fed-fisher-idUSL1E8FUI6K20120430>)

(Reuters) - The U.S. Federal Reserve's super-easy monetary policy is doing little to spur job creation and is giving Congress license to avoid tackling looming fiscal problems and the towering national debt, a top Fed official said on Monday. "By providing monetary accommodation, we are saying, in essence, 'Congress, you better eat your vegetables, or we are going to serve you a big plate of monetary cookies,'" Richard Fisher, president of the Dallas Fed, told the Milken Institute Global Conference. The Fed's program of bond purchases is pushing down the price of debt, interfering with a pricing mechanism that would otherwise force Congress to come to terms with its "fiscal misfeasance," he said. "We have children in Congress," he said. "They need to be disciplined." Unless Congress acts to reduce uncertainties around fiscal policy, the Fed's low-interest-rate policy will remain powerless to boost jobs, he said, reprising a theme he revisits often in speeches around the country. The U.S. central bank last week kept its policy on hold, reiterating its expectation that it will need to keep rates near zero through late 2014 to support a weak recovery. Fisher, who is not a voter this year on the Fed's policy-setting panel, has been a staunch opponent of further Fed easing and identifies as an inflation hawk. While the Fed has been successful in keeping inflation in hand, he said, its easy money policy has not succeeded in bringing unemployment down to acceptable levels. Unemployment registered 8.2 percent in March, well above the 5.5 percent rate that is typically seen as representing full employment in the United States. Asked to explain why low rates have not pushed unemployment down faster, Fisher said, "My argument is because of fiscal policy." Uncertainty over taxes and regulation are keeping businesses from hiring, Fisher added.

## IL-Protectionism

### **New rounds of protectionism will escalate—traditional checks fail**

Bremmer, President of Eurasia Group-the political risk consulting firm and Roubini, Professor of Economics at NYU, 11

[Ian and Nouriel, “A G-Zero World: The New Economic Club Will Produce Conflict, Not Cooperation,” Foreign Affairs, Vol. 90, Iss. 2]bg

International commerce is a different game; trade can benefit all players. But the divergence of economic interests in the wake of the financial crisis has undermined global economic cooperation, throwing a wrench into the gears of globalization. In the past, the global economy has relied on a hegemon-the United Kingdom in the eighteenth and nineteenth centuries and the United States in the twentieth century-to create the security framework necessary for free markets, free trade, and capital mobility. But the combination of Washington's declining international clout, on the one hand, and sharp policy disagreements, on the other-both between developed and developing states and between the United States and Europe- has created a vacuum of international leadership just at the moment when it is most needed. For the past 20 years, whatever their differences on security issues, governments of the world's major developed and developing states have had common economic goals. The growth of China and India provided Western consumers with access to the world's fastest-growing markets and helped U.S. and European policymakers manage inflation through the import of inexpensively produced goods and services. The United States, Europe, and Japan have helped developing economies create jobs by buying huge volumes of their exports and by maintaining relative stability in international politics. But for the next 20 years, negotiations on economic and trade issues are likely to be driven by competition just as much as recent debates over nuclear nonproliferation and climate change have. The Doha Round is as dead as the dodo, and the World Trade Organization cannot manage the surge of protectionist pressures that has emerged with the global slowdown.

## IL--Dollar Sell-Off

### Loss of confidence because of spending sparks a dollar sell-off crushing the economy

FINANCIAL TIMES 2009

[May, 22, http://www.ft.com/cms/s/0/bdd23cb0-4639-11de-803f-00144feabdc0.html]

Congressional Budget Office estimates suggest that under administration policies the US will have a medium-term structural deficit (the deficit when the economy is operating at full potential) of roughly 5 per cent of gross domestic product. “If we are winding up with deficits that are in the 5 per cent of GDP range we will change policies,” a senior administration official told the FT. “We have said that 5 per cent is unsustainable.” Another administration official said the biggest threat to recovery was the risk that the bond market might lose confidence in US public finances, pushing up bond yields and throttling growth. That would present the Federal Reserve with the choice of standing by or creating more money to buy bonds to push private borrowing rates back down – a move that could spook foreign creditors and fuel a sell-off in the dollar. The yield on 10-year Treasuries has risen 74 basis points to 3.15 per cent since the start of the year, in spite of Fed buying. Meanwhile, the dollar is close to its lows for 2009. Analysts said recovery hopes naturally led to higher Treasury yields and a weaker dollar, but movements likely reflected concern about US finances as well. “It is to be expected that as we come out of the downturn bond yields will go up,” Mr Orszag said. But he added “we have said for a long time under current policies the nation is on an unsustainable fiscal path and therefore something has to change”.

## IL--High Deficits Kill Economy

### Continued deficit spending will lead to a “Greece-style” economic collapse

Gardiner, Washington-based foreign affairs analyst and political commentator, 2012

[Nile Gardiner-, “Why Greece’s economic collapse is a nightmare for Barack Obama,” The Telegraph, [**http://blogs.telegraph.co.uk/news/nilegardiner/100158147/why-greeces-economic-collapse-is-a-nightmare-for-barack-obama/**](http://blogs.telegraph.co.uk/news/nilegardiner/100158147/why-greeces-economic-collapse-is-a-nightmare-for-barack-obama/)]bg

As Greece teeters on the brink of economic collapse, and Athens heads for an inevitable exit from the Euro, the White House is watching nervously. The Greek calamity is having a distinctly unsettling effect on US markets, and stocks could fall heavily on Wall Street as well as London, Paris, Frankfurt, Milan and Madrid as economic uncertainty mounts across the Eurozone. It will also hurt the fragile economic recovery in the United States, with unemployment still stuck firmly above 8 percent for a record 39th month in a row, a housing market still in the doldrums, and anemic levels of job creation. 70 percent of Americans [still believe](http://www.huffingtonpost.com/2010/07/14/70-percent-of-americans-s_n_645665.html)the US is in recession, an impression that won’t be helped by the economic crisis across the Atlantic.

But perhaps most damagingly for the Obama presidency, the debt crisis in Greece and across much of the EU is a sharp reminder to US voters of America’s own economic mess, which has been greatly exacerbated by the big government policies of the current administration. Economic freedom in the US has been [declining significantly](http://www.heritage.org/index/country/unitedstates)over the past few years, propelled by excessive levels of government intervention, spending and borrowing, with the largest budget deficits since World War Two. America’s national debt now stands at a staggering $15 trillion, and gross public debt surpassed 100 percent of GDP in 2011. And with the introduction of Obamacare, which is expected to add [$1.6 trillion to net federal spending](http://www.nationalreview.com/blogs/print/296052) over the next decade according to George Mason University’s Mercatus Center, the federal budget deficit will [grow by more than $340 billion](http://www.nationalreview.com/blogs/print/296052)over the same period on the present trajectory.

The dire situation in Greece is a stark warning for the United States if it continues down its current path of profligate spending. The debt and broader economic crisis in Europe is merely the shape of things to come for America unless it reverses course. The Obama presidency has been in denial regarding the extent of the economic crisis, continuing to push the same failing big government solutions both at home and abroad in a self-defeating effort to revive economic growth.

### **Continued spending crushes economic growth—debt composition proves**

Hunt, PhD in Economics from Temple University and Vice President of Hoisington Investment Management Company, 12

[Lacy, interviewed by The Gold Report, “Economic Recovery Via Shared Sacrifice, Cutting Government Spending, Deficit and Debts,” May, 17, 2012, http://www.marketoracle.co.uk/Article34706.html]bg

**TGR:** One of the core points you make is that the quality of debt determines the velocity of money. If the debt is productive, the velocity increases. At this time, the velocity of money is moving in the other direction. What's wrong with our debt?

**LH:** The debt problem is complex. U.S. debt is about 360% of the Gross Domestic Product (GDP), public and private—too much relative to GDP. We have about $55 trillion (T) in debt and only $15T of GDP. The debt-to-GDP ratio is more than 100 points higher than in 1997–1998, yet our standard of living is unchanged. A key problem is that the composition of the debt has deteriorated. A greater proportion now supports daily consumption, either directly by consumer borrowing or indirectly via the Fed. Such loans won't generate future income. The debt is unproductive or even counterproductive, and the more it grows, the more it diminishes our ability to service the debt. As long as we proceed along this course, the velocity of money will continue to decline.

It's a very interesting question you raise. Just within the last couple of years, velocity has fallen below the post-1900 mean of 1.68. In the first quarter, velocity fell to 1.58—a very significant deviation from the mean and about the lowest level in 50 years. The decline in velocity confirms that the quality of the debt is deteriorating.There is another way to observe the deterioration. We need increases in productive lending to generate increases in output per hour, which in turn is necessary to generate increases in income. Prosperity is measured by income, not GDP. GDP only measures spending, and although we've had some GDP expansion, disposable income per capita has basically been close to zero for most of the last two years. The spending only supports daily consumption; it won't generate the productivity needed to raise our standard of living.

### Deficit reductions now, key to economic recovery

Bloomberg, January 7, 2011

[<http://www.bloomberg.com/news/2011-01-07/bernanke-sees-slow-drop-in-joblessness-even-with-growth-pickup.html>]

Bernanke said that the longer lawmakers wait to deal with the federal budget deficit, “the greater the risks and the more wrenching the inevitable changes to the budget will be.”

“By contrast, **the prompt adoption of a credible program to reduce future deficits would not only enhance economic growth and stability in the long run, but could also yield substantial near-term benefits in terms of lower long-term interest rates and increased consumer and business confidence**,” Bernanke said.

**Republicans have promised to seek cuts to reduce a budget deficit** that may widen to $1.34 trillion for fiscal 2011, Credit Suisse Group AG strategists estimated on Dec. 7, a day after the president announced a deal with Republicans on extending Bush- era tax rates. The shortfalls were $1.29 trillion in fiscal 2010 and $1.42 trillion in fiscal 2009.

## IL-Debt Ceiling

### Profligate spending prevents compromise on debt limit extension, kills investment

Welna, NPR congressional reporter, 12

[David, “Debt Ceiling Debate Is Revived In Washington,” 5-16-12, <http://www.npr.org/2012/05/16/152809395/debt-ceiling-debate-is-revived-in-washington>)

If you thought the two political parties had moved past their differences over the debt ceiling, think again. INSKEEP: Let's recall - who could forget - Congress boosted the Treasury's borrowing authority by $2 trillion after a dramatic showdown last summer that also led to the first downgrade ever of the nation's credit rating. But yesterday, the Obama administration said that borrowing authority is set to max out by the end of the year. GREENE: And that prompted House Speaker John Boehner to insist that any increase in the debt limit will have to be matched by even greater cuts in spending. Here's NPR's David Welna. DAVID WELNA, BYLINE: Sometimes it takes a Washington summit to tease out what's coming down the political pike. That's just what happened yesterday in the big auditorium a few blocks from the White House, where administration officials and lawmakers came together for the third annual Peter G. Peterson Foundation Fiscal Summit. Treasury Secretary Timothy Geithner arrived with a warning: The United States, he said, will likely hit its debt limit sometime before the end of the year. SECRETARY TIMOTHY GEITHNER: Only Congress, of course, can act to raise the debt limit and, you know, we hope that they do it this time without the drama and the pain and the damage they caused the country last July. WELNA: Inflicting such pain and damage, Geithner pointedly noted, would not be responsible. House Speaker John Boehner responded a few hours later. REPRESENTATIVE JOHN BOEHNER: Yes, allowing America to default on its debt would be irresponsible. But it would be more irresponsible to raise the debt ceiling without taking dramatic steps to reduce spending and reform the budget process. WELNA: Boehner vowed he'll approach raising the debt ceiling next time the same way he did last year. BOEHNER: When the time comes, I will again insist on my simple principle of cuts and reforms greater than the debt limit increase.

# Impacts

## Econ Decline-Turns Case

### DA turns case—economic decline guts infrastructure funding

Duncan, chief economist Blackhorse Asset Management former IMF consultant and financial sector specialist for the World Bank, 12

[Richard, The New Depression: The Breakdown of the Paper Money Economy, 2012, ebook]bg

**The consequences of a New Great Depression would extend far beyond the realm of economics. Hungry people will fight to survive. Governments will use force to maintain internal order at home. This section considers the geopolitical repercussion of economic collapse, beginning with the United States. First, the U.S. government’s tax revenues would collapse with the depression. Second, because global trade would shrivel up, other countries would no longer help finance the U.S. budget deficit by buying government bonds because they would no longer have the money to do so. At present, the rest of the world has a $500 billion annual trade surplus with the United States. The central banks of the United States’ trading partners accumulate that surplus as foreign exchange reserves and invest most of those reserves into U.S. government bonds. An economic collapse would cause global trade to plummet and drastically reduce (if not eliminate altogether) the U.S. trade deficit. Therefore, this source of foreign funding for the U.S. budget deficit would dry up. Consequently, the government would have to sharply curtail its spending, both at home and abroad. Domestically, social programs for the old, the sick, and the unemployed would have to be slashed. Government spending on education and infrastructure would also have to be curtailed. Much less government spending would result in a dramatic increase in poverty and, consequently, in crime. This would combine to produce a crisis of the current two-party political system. Astonishment, frustration, and anger at the economic breakdown would radicalize politics. New parties would form at both extremes of the political spectrum. Given the great and growing income inequality going into the crisis, the hungry have-nots would substantially outnumber the remaining wealthy. On the one hand, a hard swing to the left would be the outcome most likely to result from democratic elections. In that case, the tax rates on the top income brackets could be raised to 80 percent or more, a level last seen in 1963. On the other hand, the possibility of a right-wing putsch could not be ruled out. During the Great Depression, the U.S. military was tiny in comparison with what it became during World War II and during the decades of hot, cold, and terrorist wars that followed. In this New Great Depression, it might be the military that ultimately determines how the country would be governed.**

## Econ Decline-Wars

Economic decline causes great power wars—multiple studies

Royal, Director of Cooperative Threat Reduction at the US Dept. of Defense, 10

[Jedidiah, “Economic Integration, Economic Signaling and the Problem of Economic Crisis,” Economics of War and Peace: Economic, Legal, and Political Perspectives, 2010 p. 205-224]bg

Less intuitive is how periods of economic decline may increase the likelihood of external conflict. Political science literature has contributed a moderate degree of attention to the impact of economic decline and the security and defence behaviour of interdependent states. Research in this vein has been considered at systemic, dyadic and national levels. Several notable contributions follow. First, on the systemic level, Pollins (2008) advances Modelski and Thompson's (1996) work on leadership cycle theory, finding that rhythms in the global economy are associated with the rise and fall of a pre-eminent power and the often bloody transition from one pre-eminent leader to the next. As such, exogenous shocks such as economic crises could usher in a redistribution of relative power (see also Gilpin, 1981) that leads to uncertainty about power balances, increasing the risk of miscalculation (Fearon, 1995). Alternatively, even a relatively certain redistribution of power could lead to a permissive environment for conflict as a rising power may seek to challenge a declining power (Werner, 1999). Separately, Pollins (1996) also shows that global economic cycles combined with parallel leadership cycles impact the likelihood of conflict among major, medium and small powers, although he suggests that the causes and connections between global economic conditions and security conditions remain unknown. Second, on a dyadic level, Copeland's (1996, 2000) theory of trade expectations suggests that 'future expectation of trade' is a significant variable in understanding economic conditions and security behaviour of states. He argues that interdependent states are likely to gain pacific benefits from trade so long as they have an optimistic view of future trade relations. However, if the expectations of future trade decline, particularly for difficult to replace items such as energy resources, the likelihood for conflict increases, as states will be inclined to use force to gain access to those resources. Crises could potentially be the trigger for decreased trade expectations either on its own or because it triggers protectionist moves by interdependent states.4 Third, others have considered the link between economic decline and external armed conflict at a national level. Blomberg and Hess (2002) find a strong correlation between internal conflict and external conflict, particularly during periods of economic downturn. They write, The linkages between internal and external conflict and prosperity are strong and mutually reinforcing. Economic conflict tends to spawn internal conflict, which in tum returns the favour. Moreover, the presence of a recession tends to amplify the extent to which international and external conflicts self-reinforce each other. (Blomberg & Hess, 2002, p. 89) Economic decline has also been linked with an increase in the likelihood of terrorism (Blomberg, Hess, & Weerapana, 2004), which has the capacity to spill across borders and lead to external tensions. Furthermore, crises generally reduce the popularity of a sitting government. 'Diversionary theory' suggests that, when facing unpopularity arising from economic decline, sitting governments have increased incentives to fabricate external military conflicts to create a 'rally around the flag' effect. Wang (1996), DeRouen (1995), and Blomberg, Hess, and Thacker (2006) find supporting evidence showing that economic decline and use of force are at least indirectly correlated. Gelpi (1997), Miller (1999), and Kisangani and Pickering (2009) suggest that the tendency towards diversionary tactics are greater for democratic states than autocratic states, due to the fact that democratic leaders are generally more susceptible to being removed from office due to lack of domestic support. DeRouen (2000) has provided evidence showing that periods of weak economic performance in the United States, and thus weak Presidential popularity, are statistically linked to an increase in the use of force.

### Impact-Economic downturn causes war

Mead, Sr fellow in U.S. Foreign Policy at the Council on Foreign Relations 2009

[Henry , , The New Republic, 2/4/09, [**http://www.tnr.com/politics/story.html?id=571cbbb9-2887-4d81-8542-92e83915f5f8&p=2**](http://www.tnr.com/politics/story.html?id=571cbbb9-2887-4d81-8542-92e83915f5f8&p=2)]

So far, such half-hearted experiments not only have failed to work; they have left the societies that have tried them in a progressively worse position, farther behind the front-runners as time goes by. Argentina has lost ground to Chile; Russian development has fallen farther behind that of the Baltic states and Central Europe. Frequently, the crisis has weakened the power of the merchants, industrialists, financiers, and professionals who want to develop a liberal capitalist society integrated into the world. Crisis can also strengthen the hand of religious extremists, populist radicals, or authoritarian traditionalists who are determined to resist liberal capitalist society for a variety of reasons. Meanwhile, the companies and banks based in these societies are often less established and more vulnerable to the consequences of a financial crisis than more established firms in wealthier societies. As a result, developing countries and countries where capitalism has relatively recent and shallow roots tend to suffer greater economic and political damage when crisis strikes--as, inevitably, it does. And, consequently, financial crises often reinforce rather than challenge the global distribution of power and wealth. This may be happening yet again. None of which means that we can just sit back and enjoy the recession. History may suggest that financial crises actually help capitalist great powers maintain their leads--but it has other, less reassuring messages as well. If financial crises have been a normal part of life during the 300-year rise of the liberal capitalist system under the Anglophone powers, so has war. The wars of the League of Augsburg and the Spanish Succession; the Seven Years War; the American Revolution; the Napoleonic Wars; the two World Wars; the cold war: The list of wars is almost as long as the list of financial crises. Bad economic times can breed wars. Europe was a pretty peaceful place in 1928, but the Depression poisoned German public opinion and helped bring Adolf Hitler to power. If the current crisis turns into a depression, what rough beasts might start slouching toward Moscow, Karachi, Beijing, or New Delhi to be born? The United States may not, yet, decline, but, if we can't get the world economy back on track, we may still have to fight.

### Economic decline causes resource wars—preventative institutions cant solve the impact

Business Insider, 11

[Ricky Kreitner, “Serious people are starting to realize that we may be looking at World War III,” Aug, 8, 2011, http://articles.businessinsider.com/2011-08-08/politics/30089820\_1\_credit-rating-standard-poor-interest-rates]bg

The [statement](http://www.standardandpoors.com/servlet/BlobServer?blobheadername3=MDT-Type&blobcol=urldata&blobtable=MungoBlobs&blobheadervalue2=inline%3B+filename%3DUS_Downgraded_AA%2B.pdf&blobheadername2=Content-Disposition&blobheadervalue1=application%2Fpdf&blobkey=id&blobheadername1=content-type&blobwhere=1243942957443&blobheadervalue3=UTF-8) released Friday by Standard & Poor's explaining its downgrade of the United States' [credit rating](http://articles.businessinsider.com/2011-08-08/politics/30089820_1_credit-rating-standard-poor-interest-rates) expressed greater concern about the inability of the American political system to handle troublesome economic realities than it did about those economic realities themselves. It read: "The downgrade reflects our view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating on April 18, 2011." Thus, what directly prompted the historic decision to downgrade the U.S. credit rating was worsening political dysfunction, not the "economic challenges" which Standard & Poor's described as "ongoing." The political, even geopolitical, repercussions of those challenges can only be expected to grow. Noting liberal despair over the government's inability to combat economic depression, and conservative skepticism that traditional tools will be effective, [John Judis of The New Republic argues](http://www.tnr.com/article/john-judis/93287/obama-administration-economy-recession?page=0,0) that a global depression far longer and more severe than anyone expected now seems nearly impossible to avoid. Judis believes that the coming "depression" will be accompanied by geopolitical upheaval and institutional collapse. "As the experience of the 1930s testified, a prolonged global downturn can have profound political and geopolitical repercussions. In the U.S. and Europe, the downturn has already inspired unsavory, right-wing populist movements. It could also bring about [trade](http://articles.businessinsider.com/2011-08-08/politics/30089820_1_credit-rating-standard-poor-interest-rates) wars and intense competition over natural resources, and the eventual breakdown of important institutions like European Union and the World Trade Organization. Even a shooting war is possible." Daniel Knowles of the Telegraph has noticed a similar trend. In a post titled, "[This Really Is Beginning To Look Like 1931](http://blogs.telegraph.co.uk/news/danielknowles/100099605/this-really-is-beginning-to-look-like-1931/)," Knowles argues that we could be witnessing the transition from recession to global depression that last occurred two years after the 1929 market collapse, and eight years before Germany invaded Poland, triggering the Second World War: "The difference today is that so far, the chain reaction of a default has been avoided by bailouts. Countries are not closing down their borders or arming their soldiers – they can agree on some solution, if not a good solution. But the fundamental problem – the spiral downwards caused by confidence crises and ever rising interest rates – is exactly the same now as it was in 1931. And as Italy and Spain come under attack, we are reaching the limit of how much that sticking plaster can heal. Tensions between European countries unseen in decades are emerging."

### **Great Depression had catastrophic political ramifications- Modern day depression could have same effect**

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p. 15-17]AHL

The ultimate costs of the Great Depression went far beyond economic losses, or even the suffering associated with mass unemployment. The Depression had catastrophic political effects as well. In particular, while modern conventional wisdom links the rise of Hitler to the German hyperinflation of 1923, what actually brought him to power was the German depression of the early 1930s, a depression that was even more severe than that in the rest of Europe, thanks to the deflationary policies of Chancellor Heinrich Brüning. Can anything like that happen today? There’s a well-established and justified stigma attached to invoking Nazi parallels (look up “Godwin’s law”), and it’s hard to see anything quite that bad happening in the twenty-first century. Yet it would be foolish to minimize the dangers a prolonged slump poses to democratic values and institutions. There has in fact been a clear rise in extremist politics across the Western world: radical anti-immigrant movements, radical nationalist movements, and, yes, authoritarian sentiments are all on the march. Indeed, one Western nation, Hungary, already seems well on its way toward reverting to an authoritarian regime reminiscent of those that spread across much of Europe in the 1930s. Nor is America immune. Can anyone deny that the Republican Party has become far more extreme over the past few years? And it has a reasonable chance of taking both Congress and the White House later this year, despite its radicalism, because extremism flourishes in an environment in which respectable voices offer no solutions as the population suffers.

## Econ Decline--Terror

### **Continued recession leads to terrorism and global upheaval**

Nouraee, staff writer-Finalist for the Society of Professional Journalists’ Excellence in Journalism Award, 9

[Andisheh, “Is the global economic crisis going to lead to another world war?,” CL Atlanta News, <http://clatl.com/atlanta/is-the-global-economic-crisis-going-to-lead-to-another-world-war/Content?oid=1278564>, March 16, 2009]bg  
  
Unlike in the 1930s, the world’s top military powers get along pretty well these days. China and Russia are the only two military powers that pose a conventional threat to the U.S. or Western Europe. Fortunately, neither is interested in going to war with us. They are too economically dependent on exports to wealthy democracies to go to war with one. War is bad for business. Unfortunately, as we’ve all learned from 9/11 and the War On Terror™, 21st-century national security is a lot more complicated than tanks, planes, ships and lines on maps. The U.S.’ biggest national security concern isn’t that little Hitlers will start popping up because of the economic downturn. Instead, the U.S. is worried that the financial meltdown will create several more Afghanistans, Pakistans and Somalias — anarchic, failed states that become safe havens for terrorists, guerilla armies, drug dealers and pirates. Testifying in front of the House of Representatives last month, U.S. Director of National Intelligence Dennis Blair said the global recession is actually a bigger threat to U.S. national security right now than al-Qaeda. Blair warns the financial mess has diminished the ability of several governments to maintain law and order within their borders. Countries with weak central governments are fertile territory for militants, terrorists and organized criminals. They’re also more likely to fall into regional or civil wars that can leave millions dead, injured and displaced from their homes. Historian Niall Ferguson echoes Blair’s worries in the current issue of *Foreign Policy*. He says the U.S. should quit fretting over the “Axis of Evil” and start worrying about what he calls an “Axis of Upheaval” — a collection of nations he worries could be the 21st century’s most violent places. Ferguson says his studies of 20th-century wars show they were more or less predictable. Find a faltering economy, a history of ethnic rivalry, and a history of colonialism, he says, and you’ll find war. Not shocking to anyone who has watched even one TV news program in the past decade, his Axis of Upheaval includes well-known hot spots like Somalia, Israel, Palestine, Pakistan, Afghanistan, Iran, Sudan and Zimbabwe. Quite freakily, however, he also groups Russia, Indonesia, Thailand and Mexico into his axis. The sputtering world economy, he says, promotes disorder in places that were once relatively orderly.  
Ferguson worries the recession will cause the U.S. and Europe to turn inward and ignore these potential hot spots until it’s too late.

Terror causes extinction  
Toon et al, chair of the Department of Atmospheric and Oceanic Sciences at CU-Boulder, 7

[Owen B. Toon, , et al., April 19, 2007, “Atmospheric effects and societal consequences of regional scale nuclear conflicts and acts of individual nuclear terrorism,” online: [http://climate.envsci.rutgers.edu/pdf/acp-7-1973-2007.pdf]bg](http://climate.envsci.rutgers.edu/pdf/acp-7-1973-2007.pdf%5dbg)

To an increasing extent, people are congregating in the world’s great urban centers, creating megacities with populations exceeding 10 million individuals. At the same time, **advanced technology has designed nuclear explosives of such small size they can be easily transported in** **a** car, **small** plane or **boat to the heart of a city.** We demonstrate here that **a single detonation in the 15 kiloton range can produce** urban **fatalities approaching one million** in some cases, and casualties exceeding one million. Thousands of small weapons still exist in the arsenals of the U.S. and Russia, and there are at least six other countries with substantial nuclear weapons inventories. In all, **thirty-three countries control sufficient amounts of highly enriched uranium or plutonium to assemble nuclear explosives.** A conflict between any of these countries involving 50-100 weapons with yields of 15 kt has the potential to create fatalities rivaling those of the Second World War. Moreover, **even a single surface nuclear explosion**, or an air burst in rainy conditions, **in a city center is likely to cause the entire metropolitan area to be abandoned at least for decades** owing to infrastructure damage and radioactive contamination. As the aftermath of hurricane Katrina in Louisiana suggests, the economic consequences of even a localized nuclear catastrophe would most likely have severe national and international economic consequences. Striking effects result even from relatively small nuclear attacks because low yield detonations are most effective against city centers where business and social activity as well as population are concentrated. **Rogue nations and terrorists would be most likely to strike there**. Accordingly, **an organized attack on the U.S**. **by** **a small nuclear state, or terrorists supported by such a state, could generate casualties comparable to those once predicted for a full-scale nuclear “counterforce” exchange in a superpower conflict**. Remarkably, **the estimated quantities of smoke generated by attacks totaling about one megaton of nuclear explosives could lead to significant global climate perturbations** (Robock et al., 2007). While we did not extend our casualty and damage predictions to include potential medical, social or economic impacts following the initial explosions, such analyses have been performed in the past for large-scale nuclear war scenarios (Harwell and Hutchinson, 1985). Such a study should be carried out as well for the present scenarios and physical outcomes.

## Econ Decline--Trade wars--China CCP Collapse

### Double-dip recession spurs protectionism, start trade-wars and collapses China’s economy

**Duncan, chief economist Blackhorse Asset Management former IMF consultant and financial sector specialist for the World Bank, 12**

[Richard, The New Depression: The Breakdown of the Paper Money Economy, 2012, ]bg

Alternatively, protectionism could be the catalyst for calamity. This road to ruin would be more winding than a sudden financial-sector Armageddon, but it would end in complete economic breakdown just the same. In this scenario, renewed economic contraction (it would be called a double-dip recession) would push U.S. unemployment above 12 percent, and a grass-roots movement demanding trade protection for U.S. jobs would take shape. It would be recalled that presidential candidate Ross Perot had warned Americans in 1992 that NAFTA and GATT would result in “a giant sucking sound” as U.S. manufacturing jobs were relocated to low-wage countries. Anger against unfair trade and currency manipulation would infect the Tea Party movement or give rise to separate, similar populist political organizations. Growing panic over the lack of jobs in the United States would bring about a political realignment that swept protectionist politicians into Congress during the 2014 mid-term elections. Aggressive protectionist legislation would be enacted the following year. Trade tariffs would cause an immediate increase in U.S. consumer price inflation as the price of imported goods rose in line with the rate of the tariff. Higher inflation would push up interest rates, further damaging the housing market. Other countries would match U.S. tariffs with retaliatory tariffs on U.S. exports. To this, the United States would respond with a further round of tariffs. A trade war would begin. Global trade would contract sharply.

Asia’s export-driven economies would suffer, and China, the country with the world’s largest trade surplus, would be particularly hard hit. Its industrial output could not be absorbed domestically due to the country’s low wage structure. The Chinese people do not earn enough to be able to afford to buy what China’s factories produce. The resulting glut of Chinese goods would cause a collapse in their product prices, lead to a wave of business failures, and put an end to new investment. Corporate distress would result in a systemic banking crisis. Unemployment would soar. China’s economy would quickly collapse into severe depression. China’s imports would contract in line with its exports. The boost that Chinese demand had given to global commodity prices would end. The commodity-producing countries such as Brazil, Australia, Thailand, and Indonesia would be hard hit, as would be countries such as Germany, Japan, and Korea, which had supplied China with higher valued-added products. International finance could not survive the strain of contracting global trade, plunging commodity prices, falling corporate profits, and the bankruptcies those developments would cause. A systemic banking crisis would be the inevitable outcome. Here, then, would be a complete replay of the Great Depression: mass joblessness, extensive credit destruction, and a collapse in international trade.

### CCP collapse causes WMD use-kills 200 million

Rexing, staff writer, 05

[San, Staff – Epoch Times, The CCP’s Last Ditch Gamble: Biological and Nuclear War, 8-5]

 These speeches describe in a comprehensive, systematic, and detailed way the CCP’s nearly 20 years of fear and helplessness over its doomed fate, and its desperate fight to extend its life. In particular, the speeches lay uncharacteristically bare what is really on the CCP’s mind and hide nothing from the public—a rare confession from the CCP that can help people understand its evil nature. If one truly understands what is said in this confession, one will immediately catch on to the CCP’s way of thinking.  In short, the speeches are worth reading, and I would like to comment on them.  I. A Gangster Gambles with the World as His Stake, and the Lives of People in this Global Village Become Worthless  What, then, is the gist of this wild, last-ditch gamble? To put it in a few words: A cornered beast is fighting desperately to survive in a battle with humanity. If you don’t believe me, read some passages directly from the speeches.  1) “We must prepare ourselves for two scenarios. If our biological weapons succeed in the surprise attack [on the US], the Chinese people will be able to keep their losses at a minimum in the fight against the U.S. If, however, the attack fails and triggers a nuclear retaliation from the U.S., China would perhaps suffer a catastrophe in which more than half of its population would perish. That is why we need to be ready with air defense systems for our big and medium-sized cities. Whatever the case may be, we can only move forward fearlessly for the sake of our Party and state and our nation’s future, regardless of the hardships we have to face and the sacrifices we have to make. The population, even if more than half dies, can be reproduced. But if the Party falls, everything is gone, and forever gone!”  2) “In any event, we, the CCP, will never step down from the stage of history! We’d rather have the whole world, or even the entire globe, share life and death with us than step down from the stage of history!!! Isn’t there a ‘nuclear bondage’ theory? It means that since the nuclear weapons have bound the security of the entire world, all will die together if death is inevitable. In my view, there is another kind of bondage, and that is, the fate our Party is tied up with that of the whole world. If we, the CCP, are finished, China will be finished, and the world will be finished.”  3) “It is indeed brutal to kill one or two hundred million Americans. But that is the only path that will secure a Chinese century, a century in which the CCP leads the world. We, as revolutionary humanitarians, do not want deaths. But if history confronts us with a choice between deaths of Chinese and those of Americans, we’d have to pick the latter, as, for us, it is more important to safeguard the lives of the Chinese people and the life of our Party. That is because, after all, we are Chinese and members of the CCP. Since the day we joined the CCP, the Party’s life has always been above all else!”  Since the Party’s life is “above all else,” it would not be surprising if the CCP resorts to the use of biological, chemical, and nuclear weapons in its attempt to extend its life. The CCP, which disregards human life, would not hesitate to kill two hundred million Americans, along with seven or eight hundred million Chinese, to achieve its ends. These speeches let the public see the CCP for what it really is. With evil filling its every cell the CCP intends to wage a war against humankind in its desperate attempt to cling to life. That is the main theme of the speeches.

## Econ Decline--China/Taiwan War

### Declines in China’s economic growth rate would lead to a number of impacts—global recession, civil unrest, and war with Taiwan

Lewis, Research Director of the Economic Research Council, 8

[Dan Lewis, “The nightmare of a Chinese economic collapse”, 5/13/08, <http://www.worldfinance.com/news/finalbell/article117.html>]

A reduction in demand for imported Chinese goods would quickly entail a decline in China’s economic growth rate. That is alarming. It has been calculated that to keep China’s society stable – ie to manage the transition from a rural to an urban society without devastating unemployment - the minimum growth rate is 7.2 percent. Anything less than that and unemployment will rise and the massive shift in population from the country to the cities becomes unsustainable. This is when real discontent with communist party rule becomes vocal and hard to ignore. It doesn’t end there. That will at best bring a global recession. The crucial point is that communist authoritarian states have at least had some success in keeping a lid on ethnic tensions – so far. But when multi-ethnic communist countries fall apart from economic stress and the implosion of central power, history suggests that they don’t become successful democracies overnight. Far from it. There’s a very real chance that China might go the way of Yugoloslavia or the Soviet Union – chaos, civil unrest and internecine war. In the very worst case scenario, a Chinese government might seek to maintain national cohesion by going to war with Taiwan – whom America is pledged to defend. Today, people are looking at Chang’s book again. Contrary to popular belief, foreign investment has actually deferred political reform in the world’s oldest nation. China today is now far further from democracy than at any time since the Tianneman Square massacres in 1989. Chang’s pessimistic forecast for China was probably wrong. But my fear is there is at least a chance he was just early.

### China-Taiwan conflict goes nuclear

O’Hanlon, Senior Fellow in Foreign Policy at Brookings Institution, 5

[Michael E. O’Hanlon, , “The Risk of war over Taiwan is real”, 5/1/05, <http://www.brookings.edu/opinions/2005/0501asia_ohanlon.aspx>]

Does it really matter, in the end, what Europe does about its arms embargo on China? Robert Zoellick, US deputy secretary of state, recently suggested that for the European Union to sell arms or related technologies to China would amount to painting bull's-eyes on the backs of US troops. For many Europeans, such arguments may seem hyperbolic. Now that China has been slapped on the wrist for its antisecession law threatening war if Taiwan moves actively for independence, the EU will want to return to the issue at some point and lift its embargo. And Britain, which takes over the six-month EU presidency in June, will only be able to hold off such pressures for so long. The recent friendly visit by Lien Chan, the Taiwanese opposition leader, to mainland China may also suggest that the risk of war, and therefore the stakes in the EU arms embargo issue, are both rather low. Nonetheless, Mr Zoellick is more right than wrong. In the absence of strong constraints on future high-technology sales, lifting the European arms embargo on China would be a big mistake. There really is a chance of a Sino-US war over Taiwan, which may ebb and flow month to month but nonetheless remains quite real. And any European decision to lift the embargo could make any war more likely and more costly in lives and assets. The reasons are simple. First, China is serious about being willing to risk war to prevent Taiwan's secession. Second, although many in China as well as Europe cannot quite believe it, the US is just as serious about defending Taiwan. And third, even though American military power remains far superior to that of China, the Chinese do not need to equal US power to make any war over nearby Taiwan very challenging for American forces. Given the right catalyst from Taipei, therefore, US deterrence of China could fail and the world's first true war between nuclear weapons states could ensue. It is not just China's ruling communist party that considers Taiwan a part of China; an increasingly nationalistic population does as well. In fact, the Chinese see themselves as patient and restrained because they are simply demanding that Taiwan not secede, rather than insisting on immediate reunification. They worry that if Taiwan broke away, it would encourage other separatist movements in places such as Tibet and Xinjiang province, and weaken China strategically at the very moment it is poised to regain its status as a global power. China's leaders operate on the assumption that Taiwanese secession would doom their own prospects for holding on to power. At a minimum, they would have to show they had gone the extra mile to try to prevent secession, meaning that even an unsuccessful military operation might be preferable to inaction.

## Econ Decline--Competitiveness

### US competitiveness is at a crisis point—continued decline will be devastating

Koba, Senior Editor at CNBC, 11

[Mark, 9-12-11, “American Economic Decline? Exaggerated,” http://www.cnbc.com/id/44271677/American\_Economic\_Decline\_Exaggerated,]

With a recent ratings downgrade, chronic unemployment, a growing budget deficit and a political system that seems determined to self-destruct, it might appear that the U.S. is losing its grip as the world's top economic power. That's not to say that the U.S. shouldn't look over its shoulder. Many countries, specifically China, have long been gaining economic strength. "China has had high growth rates for over 30 years," says Frank Lavin, CEO of Export Now and a former U.S. ambassador to Singapore. "Their ability to sustain those rates combined with the softness in the U.S. economy gives rise to speculation that China will surpass the U.S and assume economic leadership on international issues." With China's GDP rate at around 8 percent to 11 percent a year, and the U.S. stuck at around 2 percent to 3 percent, it's easy to see why some say China's economy will be larger than the U.S. economy by 2016. China isn't the only growing economic force on the horizon, say experts. "The largest change over the last 10 to 15 years has been the growth of emerging markets," says Thomas Root, associate professor in finance at Drake University. "The BRIC countries capture the headlines, but many smaller countries, like some in South America and Asia, are having an increase in production." "The European Union and Germany in particular are the most **formidable threats** to the U.S.," Massey University's Haley adds. "They are big enough countries to be threats even as they struggle." America's battle to get its own economy growing at a faster pace opens the door for others, analysts point out. "Perhaps the most damning evidence [of potential American decline] is the unemployment rate of around 9 percent," explains Adrian Cronje, a partner and Chief Investment Officer at Balentine, a worldwide investment firm. "The question is whether large segments of the U.S. workforce are sufficiently skilled and productive to compete and drive future economic growth." There's also the falling value of the dollar that could help knock the U.S. off its perch, Cronje argues. "The U.S. dollar is in danger of losing its status as a safe haven for investors," Cronje says. "It's been in a long term bear market against hard assets like gold, and that decline reflects a decline in economic power." If the U.S. did lose its number one position, that would have global implications, according to Northeastern University's Dadkhah. "For the U.S., it would mean a lower standard of living and less power to influence international events," Dadkhah explains. "And America is the pole holding up the tent of international finance. It the pole falls, we'd have a period of uncertainty and upheaval on a worldwide scale." But what currently ails the U.S. is also hitting the rest of the world, according to analysts. Nations that for now seem to be riding a faster economic track will have likely have troubles of their own, says Roger Scher, professor of international political economy at Seton Hall University. "History has shown us that economic success stories turn sour," explains Scher. "Witness poorly growing Brazil and Peru, and Europe's bust in recent years. And watch out for China's potential property price bubble. It's huge and brings **considerable political risk**." As tempting as it may be to gloat over other countries' economic declines, analysts say the U.S. has plenty of work to do in order to remain a viable leader. "We need long-term plans to cut the deficit and reduce entitlement and defense spending," says Seton Hall University's Scher. "At the same time, we need to invest in education and infrastructure, and cut tax loopholes." In the end, say analysts, the U.S. should ultimately focus on its own economy and leave the question of who's number one to history. "It's always trendy to speak about the decline of the U.S.," says Sizemore Investment Letter's Sizemore. "I'm not sure it really matters that much. Other countries are beating us with faster growth, but they're starting at a lower base."

### Competitiveness prevents great power nuclear war.

Khalilzad, former United States ambassador to Afghanistan, Iraq, and the United Nations and the director of policy planning at the Defense Department from 1990 to 1992, 11

[Zalmay Khalilzad was, “ The Economy and National Security”, 2-8-11, <http://www.nationalreview.com/articles/print/259024>]bg

We face this domestic challenge while other major powers are experiencing rapid economic growth. Even though countries such as China, India, and Brazil have profound political, social, demographic, and economic problems, their economies are growing faster than ours, and this could alter the global distribution of power. These trends could in the long term produce a multi-polar world. If U.S. policymakers fail to act and other powers continue to grow, it is not a question of whether but when a new international order will emerge. The closing of the gap between the United States and its rivals could intensify geopolitical competition among major powers, increase incentives for local powers to play major powers against one another, and undercut our will to preclude or respond to international crises because of the higher risk of escalation. The stakes are high. In modern history, the longest period of peace among the great powers has been the era of U.S. leadership. By contrast**,** multi-polar systems have been unstable, with their competitive dynamics resulting in frequent crises and major wars among the great powers. Failures of multi-polar international systems produced both world wars. American retrenchment could have devastating consequences. Without an American security blanket, regional powers could rearm in an attempt to balance against emerging threats. Under this scenario, there would be a heightened possibility of arms races, miscalculation, or other crises spiraling into all-out conflict. Alternatively, in seeking to accommodate the stronger powers, weaker powers may shift their geopolitical posture away from the United States. Either way, hostile states would be emboldened to make aggressive moves in their regions. As rival powers rise, Asia in particular is likely to emerge as a zone of great-power competition. Beijing’s economic rise has enabled a dramatic military buildup focused on acquisitions of naval, cruise, and ballistic missiles, long-range stealth aircraft, and anti-satellite capabilities. China’s strategic modernization is aimed, ultimately, at denying the United States access to the seas around China. Even as cooperative economic ties in the region have grown, China’s expansive territorial claims — and provocative statements and actions following crises in Korea and incidents at sea — have roiled its relations with South Korea, Japan, India, and Southeast Asian states. Still, the United States is the most significant barrier facing Chinese hegemony and aggression. Given the risks, the United States must focus on restoring its economic and fiscal condition while checking and managing the rise of potential adversarial regional powers such as China. While we face significant challenges, the U.S. economy still accounts for over 20 percent of the world’s GDP. American institutions — particularly those providing enforceable rule of law — set it apart from all the rising powers. Social cohesion underwrites political stability. U.S. demographic trends are healthier than those of any other developed country. A culture of innovation, excellent institutions of higher education, and a vital sector of small and medium-sized enterprises propel the U.S. economy in ways difficult to quantify. Historically, Americans have responded pragmatically, and sometimes through trial and error, to work our way through the kind of crisis that we face today.

## Econ Decline--Primacy

### Economic collapse kills all aspects of U.S. primacy and leads to international conflict with China, India, Iran and Russia

McCoy, Professor of History at the University of Wisconsin-Madison ,2010

[Alfred W , “How America will collapse (by 2025),” 12/6/10, <http://www.salon.com/news/feature/2010/12/06/america_collapse_2025>]

Such negative trends are encourage increasingly sharp criticism of the dollar's role as the world’s reserve currency. "Other countries are no longer willing to buy into the idea that the U.S. knows best on economic policy," observed Kenneth S. Rogoff, a former chief economist at the International Monetary Fund. In mid-2009, with the world's central banks holding an astronomical $4 trillion in U.S. Treasury notes, Russian president Dimitri Medvedev insisted that it was time to end "the artificially maintained unipolar system" based on "one formerly strong reserve currency." Simultaneously, China's central bank governor suggested that the future might lie with a global reserve currency "disconnected from individual nations" (that is, the U.S. dollar). Take these as signposts of a world to come, and of an possible attempt, as economist Michael Hudson has argued, "to hasten the bankruptcy of the U.S. financial-military world order." Economic Decline: Scenario 2020 After years of swelling deficits fed by incessant warfare in distant lands, in 2020, as long expected, the U.S. dollar finally loses its special status as the world's reserve currency. Suddenly, the cost of imports soars. Unable to pay for swelling deficits by selling now-devalued Treasury notes abroad, Washington is finally forced to slashes its bloated military budget. Under pressure at home and abroad, Washington slowly pulls U.S. forces back from hundreds of overseas bases to a continental perimeter. By now, however, it is far too late. Faced with a fading superpower incapable of paying the bills, China, India, Iran, Russia, and other powers, great and regional, provocatively challenge U.S. dominion over the oceans, space, and cyberspace. Meanwhile, amid soaring prices, ever-rising unemployment, and a continuing decline in real wages, domestic divisions widen into violent clashes and divisive debates, often over remarkably irrelevant issues. Riding a political tide of disillusionment and despair, a far-right patriot captures the presidency with thundering rhetoric, demanding respect for American authority and threatening military retaliation or economic reprisal. The world pays next to no attention as the American Century ends in silence.

### Primacy creates a stable political, democratic, and open foundation to prevent the risk of conflict. Our evidence cites empirics

Delong 6

(J Bradfold Delong, Harvard Magazine, “Growth is Good,” <http://harvardmagazine.com/2006/01/growth-is-good.html>)

Benjamin M. Friedman ’66, Jf ’71, Ph.D. ’71, Maier professor of political economy, now fills in this gap: he makes a powerful argument that—politically and sociologically—modern society is a bicycle, with economic growth is being the forward momentum that keeps the wheels spinning. As long as the wheels of a bicycle are spinning rapidly, it is a very stable vehicle indeed. But, he argues, when the wheels stop—even as the result of economic stagnation, rather than a downturn or a depression—political democracy, individual liberty, and social tolerance are then greatly at risk even in countries where the absolute level of material prosperity remains high. Consider just one of his examples—a calculation he picks up from his colleague Alberto Alesina, Ropes professor of political economy, and others: in an average country in the late twentieth century, real per capita income is falls by 1.4 percent in the year in when a military coup occurs; it is rising by 1.4 percent in the year in which there is a legitimate constitutional transfer of political power; and it is rising by 2.7 percent in the year in which no major transfer of political power takes place. If you want all kinds of non-economic good things, Friedman says—like openness of opportunity, tolerance, economic and social mobility, fairness, and democracy—rapid economic growth makes it much, much easier to get them; and economic stagnation makes getting and maintaining them nearly impossible. The book is a delight to read, probing relatively deeply into individual topics and yet managing to hurry along from discussions of political order in Africa to economic growth and the environment, to growth and equality, to the Enlightenment thinkers of eighteenth-century Europe, to the twentieth-century histories of the major European countries, to a host of other subjects. Yet each topic’s relationship to the central thesis of the book is clear: the subchapters show the virtuous circles (by which economic growth and sociopolitical progress and liberty reinforce each other) and the vicious circles (by which stagnation breeds violence and dictatorship) in action. Where growth is rapid, the movement toward democracy is easier and societies become freer and more tolerant. And societies that are free and more tolerant (albeit not necessarily democratic) find it easier to attain rapid economic growth. Friedman is not afraid to charge head-on at the major twentieth-century counterexample to his thesis: This is similar to the Great Depression in the United States. Elsewhere in the world, that catastrophe offers no challenge to his point of view. Rising unemployment and declining incomes in Japan in the 1930s certainly played a role in the assassinations and silent coups by which that country went from a functioning constitutional monarchy with representative institutions in 1930 to a fascist military dictatorship in 1940—a dictatorship that, tied down in a quagmire of a land war in Asia as a result of its attack on China, thought it was a good idea to attack, and thus add to its enemies, the two superpowers of Britain and the United States. In western Europe the calculus is equally simple: no Great Depression, no Hitler. The saddest book on my shelf is a 1928 volume called Republican Germany: An Economic and Political Survey, the thesis of which is that after a decade of post-World War I political turmoil, Germany had finally become a stable, legitimate, democratic republic. And only the fact that the Great Depression came and offered Hitler his opportunity made it wrong.

## Econ Decline--Disease

### Economic decline causes pandemics

Alexander 9

(Brian, Staff Writer, “Recession may worsen spread of exotic diseases,” MSNBC, March 10 www.msnbc.msn.com/id/29599786)

Few believe Americans face a killer epidemic from tropical diseases. But scientists who specialize in emerging infectious diseases say such illnesses may become more common here as the economic downturn batters [an already weakened public health system](file://localhost/id/29013047/ns/health-infectious_diseases) , creating environmental conditions conducive to infectious diseases spread by insects or other animals. At the same time, such vector-borne diseases are capable of spreading around the world much more rapidly due to massive south-to-north immigration, rapid transportation, and global trade.“We truly did become a global village,” said Duane Gubler, Director of the Duke/NUS Graduate School of Medicine Emerging Infectious Disease Program in Singapore. “It has been a sequence of events over a period of 30 years and has come to a head in the last ten years. So we have sounded the alarm.”

### Economic collapse creates an insular focus as opposed to solving global health – makes disease rampant

Mohindra, global health postdoctoral research fellow supported by the Canadian Institutes of Health Research, 10

(K. S.. R.L. is supported through the Canada Research Chair program. 4-1-10 “Making sense of the global economy: 10 resources for health promoters” Health Promot. Int. (2010) 25 (3): 355-362. doi: 10.1093/heapro/daq027 First published online: April 21, 2010)

One of the most ‘globalized’ disease burdens of our time, and one that is increasingly wearing the face of women, is HIV/AIDS. Stephen Lewis' A Race Against Time (Lewis, 2005) is a passionate examination of HIV/AIDS in sub Saharan Africa and the underlying and globalization-related causes fuelling the epidemic. He has held a number of key humanitarian and diplomatic posts, with a lengthy experience with the United Nations (UN), most recently as the UN Secretary-General's special envoy for HIV/AIDS in Africa. Lewis provides an insider's look into the policy meetings and trade talks he attended, bringing a different perspective to Stiglitz's views. He is unapologetic in criticizing any organization, individual or policy that has acted as a barrier in preventing the transmission or HIV or reducing access to AIDS treatment, including IFIs, structural adjustment policies (SAPs), Western and African leaders and rock stars. Lewis offers a critical look at SAPs, which he argues continue to have a negative impact today, trade inequities and the lack of real commitment to ODA from the West—a lack of commitment already worsening with the more insular attention wealthier countries are paying to their own needs subsequent to the global financial crisis and recession. Lewis acknowledges that aid to Africa has failed to stimulate the economic growth and political reforms that can sustain development, although there is also evidence that aid is both effective in promoting health and education, and increasingly so. As with debt, the problems with aid have as much to do with the policies of the donor/lender nation as with the recipient/borrower country. Lewis exposes the devastating actions of various agencies and individuals on African countries, illuminating the needs of Africa's poor and vulnerable while also pointing out the strength and resilience of Africans. Lewis' short book presents an examination of globalization from the vantage of a specific health problem. Kelley Lee's Globalization and Health: An Introduction (2003) is a similarly brief overview that substitutes Lewis' passion with a more learned discussion of a wider range of globalization-related health topics. Unlike many of other writers cited in this paper, her approach to globalization is more agnostic. She offers a range of competing definitions before settling on a model that usefully elaborates three different dimensions: spatial (world geographies are being redrawn through regional and global economic agreements, while transport and communicative technology is shrinking its distance—at least to those with access to such technologies); temporal (a result of technology speeding everything up, from transport to capital to knowledge flows); and cognitive (the global diffusion of cultural images, notably but not exclusively Western). These dimensions are not unique to contemporary globalization, as Lee's interesting account of globalization's earlier epochs shows; but they do have unique features. Spatially, Lee focuses on the health implications of globalized pharmaceutical, food and tobacco industries, and the health effects of environmental and demographic shifts. Temporally, her attention is more on how the rapid pace of global change (from pandemic spread to fast food societies) is affecting us physically, and mentally. Cognitively, Lee expresses concern with the role of ‘global epistemic communities’ in promoting market-driven health sector reform, controlling scientific research (both topics and patentable products) and the marketing of pathogenic lifestyles. While she does not reduce globalization to economics alone, the important role of global markets and unregulated capital in shaping globalization's health effects is never far from her analysis. Her book is filled with short, illustrative case studies, and concludes with a discussion of an agenda for global health, including governance reforms that can better ensure more, and more fairly distributed, health opportunities for all. In today's world of international integration accompanied by growing inequalities in wealth, environmental degradation and human suffering, ‘global governance’ is becoming a matter of pressing concern. The financial crisis has shown how quickly nations can muster resources and (some) regulatory reform when their own immediate interests are at risk; but how can the larger and more longer term challenges of promoting equitable forms of global health and development be managed? The concept of GPG, one of Birdsall's priorities for a new global polity, has been offered as one new framework to promote international cooperation and collective action towards such an end. GPGs extend to the global level the economic notion of public goods, meaning those that can be used by one user without reducing the availability to another (non-rivalry) and that are equally available to all (non-excludability). The rationale behind public goods is that some resources, such as protection of air or water resources, are prone to market failures if left to private actors alone; unless all pay to protect, none will (the problem of the ‘free-rider’); protecting these resources is of benefit to all; and it is not ethically defensible to exclude access to such essential life resources to those personally too poor to pay themselves. Building on the work of the United Nations Development Programme (Kaul et al., 1999), Richard Smith et al. provide an in-depth analysis of the concept of global public goods for health (GPGH) in the edited volume Global Public Goods for Health: Health Economics and Public Health Perspectives (Smith et al., 2003). This book assesses if and how the concept can be utilized to address health. It is argued that while health per se is best viewed as a private good (with potential positive externalities), interventions to improve health internationally can be viewed as a GPG. Case studies authored by international experts are presented, demonstrating the utility of GPGH on issues ranging from specific diseases to the environment to public health knowledge to the prevention of global public ‘bads’ (e.g. increases in tobacco use) through such regulatory mechanisms (otherwise known as ‘intermediary global public goods’) as the Framework Convention on Tobacco Control (FCTC). The authors argue that the GPGH framework can serve as an important advocacy tool to help overcome the lack of incentives for the provision of GPGs across borders and to improve international collective action for population health.

## Econ Decline--Democracy

### Increasing wealth is the only way to produce democracy, several empirical claims prove.

Stelzer, American economist who is the U.S. economic and business columnist for the Sunday Times, 94

[Irwin,“A question of linkage: capitalism, prosperity, democracy…” URL: http://findarticles.com/p/articles/mi\_m2751/is\_n35/ai\_15353275/. DA: 7/14/11]bg.

The simultaneous explosion of economic growth in still-authoritarian China and economic collapse in increasingly democratic Russia rekindles an old debate concerning the relationship between democracy, capitalism, free markets,and economic development. There is little doubt that the economy and the polity interact with each other**,** but the nature of that interaction is elusive. We begin with the conventional, conservative formulation. Crudely stated, it goes something like this. Market capitalism is the greatest engine for economic development the world has ever seen, what Peter Berger calls a "horn of plenty that heaped...immense material wealth and an entrepreneurial class, on the countries in which it originated." By creating a thrusting entrepreneurial class, impatient with government restrictions on its adventures, and a middle class clamoring for consumer goods, education and choice, capitalism creates counterpoises to government authority, eventually forcing the acceptance of democratic institutions. In short, byproducing economic wealth and an entrepreneurial class, capitalisminevitably produces democracy.And since democracies don't start wars or have expansionist proclivities--forget, for the moment, Theodore Roosevelt and imperialist Britain--capitalist-democratic development contributes to security and to world peace. There is much to be said for this view, especially that portion that relates prosperity to market capitalism. Certainly, it seems to be validated by our own recent experience. Entrepreneurial capitalism became more dominant in the America of Ronald Reagan than it had been before, and job growth and record-breaking prosperity followed. In Britain, Margaret Thatcher reversed almost four decades of socialism--only the pace, but not the direction, of increasing government involvement in economic affairs changed when pre-Thatcher Tories alternated with Labour as Her Majesty's ministers--and changed her country from the sick man of Europe into one positioned for long-term, non-inflationary growth. Meanwhile, the Soviet economy was shown to be like the Wizard of Oz--an imposing facade, but impotent and powerless at its core. Put these events together and you have an unassailable proof that capitalism produces a level of economic welfare that a planned economy simply cannot emulate. Add to that the apparent relationship between capitalism, prosperity, and democracy, and you have reason for self-satisfaction with the American political-economic system, at least in the broad. After all, in recent years a more-or-less free marketcapitalismin Chile, South Korea and Taiwan has produced, first, prosperity and, then, democratization. In Russia it may be the other way around: democratization (glasnost) preceded economic restructuring (perestroika). No matter: it all comes out well in the end--capitalism,democracy and prosperity march hand-in-hand into a bright, and therefore secure, future. Knowledge (or faith) that this is so informsseveral aspects of domesticand foreignpolicy**.**

### Democratic societies fail when economies do, empirics prove.

Remmer, Ph.D. from the University of Chicago. Remmer joined the Duke faculty in 2001 as a professor of Political Science, 91.

[Karen L. Remmer. “The Political Impact of Economic Crisis in Latin America in the 1980s”. URL: <http://www.jstor.org/stable/pdfplus/1963850.pdf>. DA: 7/14/11]bg

The comparative politics literature is replete with analyses of the relationship between economic conditions and democratic politics. The research is severely bifurcated, however, with scholars specializing in the study of different world regions asking very different sets of theoretical questions. For students of West European and U.S. politics, the electoral implications of economic performance have been a major concern, with debate focused on such issues as the existence of a "political business cycle" or the relative strength of economic and noneconomic voting (e.g., Alt and Chrystal 1983; Beck 1982; Bellucci 1984; Eulau and Lewis-Beck 1985; Franz 1986; Hibbs and Fassbender 1981; Lewis-Beck1 988; Tufte 1978;V isser and Wijnhoven 1990; Whiteley 1986). For analysts of Latin America and other parts of the Third World, on the other hand, electoral issues have been of secondary. interest. Scholarly attention has focused instead on the linkage between economic conditions and democratic breakdown, with theoretical controversy revolving around such questions as the relationship betweene conomicu nderdevelopmenat nd coups d'6tat (O'Kane 1981, 1983; Londregan and Poole 1990; McGowan and Johnson 1984; Midlarsky and Tanter 1967; Putnam 1967), the political implications of economic dependency (Cardoso and Faletto 1979; Evans 1979), and the nexus between the exhaustion of import substitution industrialization and the rise of bureaucratic authoritarianism (Collier 1979; O'Donnell 1973, 1978; Remmer and Merkx 1982). Whereas hypotheses about politics in the North Atlantic have been formulated predominantly with reference to conditions of relative economic prosperity and stability, the political impact of economic crisis and deprivation have figured prominently in this second body of literature. South, the existing theoretical division of labor has left comparativists with an impoverished understanding of the impact of economic conditions on democratic governance. Those studying electoral outcomes have largely ignored the impact of economic crises and developed empirical generalizationst hat apply to but a limited range of economic conditions. Those emphasizing the political significance of economic crises, on the other hand, have devoted little attention to elections. Zimmermann and Saalfeld, whose work represents a major exception to broader research trends, recently underlined this division of labor when they characterized the comparative analysis of the breakdown of European democracy in the 1930s as "among the most underresearched areas in political science" (1988, 305). The same might be said of the comparative study of electoral outcomes in the Third World. Inasmuch as a key purpose of comparative research is to define "the limits of generalization by specifying the conditions under which hypotheses are valid" (Antal, Dierkes, and Weiler 1987, 14), bridging the theoretical chasm dividing research on the political implications of economic conditions into two distinct bodies of literature is likely to yield significant dividends. This study attempts to take a preliminary step in this direction by addressing a series of questions about the electoral effects of economic crisis: Do the political effects of major economic setbacks parallel the effects of minor ones? Do generalizationsa bout the link between economic conditions and electoral outcomes fit the political experience of nonOECD nations? What factors explain varying political responses to crisis conditions? Economic Crisis and Politics in Latin America To link the study of economic crisis with research on democratic elections, the subsequent analysis focuses specifically upon the Latin American experience of the 1980s. During that decade, the region underwent a far-reaching process of political transformation that resulted in the largest and most extended series of competitive elections in its entire history. Simultaneously, however, Latin America was struck by its worst economic crisis since the Great Depression. Following Mexico's mid-1982 declaration of financial insolvency, countries throughout the region began facing acute problems in servicing relatively high levels of accumulated debt with only limited access to fresh external finance. Living standards and investment capacity plummeted in response. As the 1980s drew to a close, the average per capita product of Latin America was 8% lower than at the beginning of the decade, average inflation had surgedt o the unprecedentedle vel of nearly 1,000%, and the net transfer of resources abroad was continuing at an annual rate of U.S. $25 billion (Economic Commission for Latin America and the Caribbean 1989; hereafter ECLA). With few exceptions, these economic trends provoked regional specialists to paint a dismal picture of the future of Latin American democracy. Electoral pressures have been seen as undermine the capacity of democratic governments to implement the policies necessary to cope with economic crisis, while lowered living standards, high levels of inflation, and other economic difficulties associated with the net transfer of resources abroad have been linked with the prospect of declining support for democratic rule (e.g., Inter-AmericanD ialogue 1989, ix).

### This solves all impacts

Diamond, hoover institution senior fellow, 95

(Larry Diamond, Hoover Institution senior fellow, co-editor of the Journal of Democracy, December 1995, A Report to the Carnegie Commission on Preventing Deadly Conflict, “Promoting Democracy in the 1990s: Actors and Instruments, Issues and Imperatives,” <http://wwics.si.edu/subsites/ccpdc/pubs/di/1.htm>)  
  
OTHER THREATS This hardly exhausts the lists of threats to our security and well-being in the coming years and decades. In the former Yugoslavia nationalist aggression tears at the stability of Europe and could easily spread. The flow of illegal drugs intensifies through increasingly powerful international crime syndicates that have made common cause with authoritarian regimes and have utterly corrupted the institutions of tenuous, democratic ones. Nuclear, chemical, and biological weapons continue to proliferate. The very source of life on Earth, the global ecosystem, appears increasingly endangered. Most of these new and unconventional threats to security are associated with or aggravated by the weakness or absence of democracy, with its provisions for legality, accountability, popular sovereignty, and openness. LESSONS OF THE TWENTIETH CENTURY The experience of this century offers important lessons. Countries that govern themselves in a truly democratic fashion do not go to war with one another. They do not aggress against their neighbors to aggrandize themselves or glorify their leaders. Democratic governments do not ethnically “cleanse” their own populations, and they are much less likely to face ethnic insurgency. Democracies do not sponsor terrorism against one another. They do not build weapons of mass destruction to use on or to threaten one another. Democratic countries form more reliable, open, and enduring trading partnerships. In the long run they offer better and more stable climates for investment. They are more environmentally responsible because they must answer to their own citizens, who organize to protest the destruction of their environments. They are better bets to honor international treaties since they value legal obligations and because their openness makes it much more difficult to breach agreements in secret. Precisely because, within their own borders, they respect competition, civil liberties, property rights, and the rule of law, democracies are the only reliable foundation on which a new world order of international security and prosperity can be built.

## Econ Decline--Racism

### Economic downturn fuels racism.

Associated Press 09

[“U.N. Chief: Bad Economy Threatens More Racism”. URL: <http://www.foxnews.com/story/0,2933,517127,00.html>.]

U.N. Secretary-General Ban Ki-moon urged the world Monday to rally against the threat that intolerance could rise as a result of the economic crisis, saying "the time is now" to stamp out racism. Ban, opening the global body's first racism conference in eight years, said racism including anti-Semitism and Islamophobia needed to be tackled. "I fear that today's economic crisis, if not handled properly, could evolve into a full-scale political crisis marked by social unrest, weakened governments and angry publics who have lost faith in their leaders and their own future," the U.N. chief said. "In such circumstances, the consequences for communities already victimized by prejudice or exclusion could be frightening." He also said he regretted the absence of the United States and eight other Western nations that have pulled out because of fears Muslim nations will dominate the conference with calls for to denounce Israel and for a global ban on criticizing Islam. "There comes a time to reaffirm our faith in fundamental human rights and the dignity and worth of us all," Ban told the gathering of thousands of ministers, diplomats and dignitaries at the U.N.'s European headquarters in Geneva. The administration of Barack Obama, America's first black president, announced Saturday it would boycott the weeklong meeting because it makes reference to a declaration made in 2001 at the global body's first racism conference in Durban, South Africa. That document was agreed after the United States and Israel walked out over attempts to liken Zionism — the movement to establish a Jewish state in the Holy Land — to racism. Organizers have sought to steer clear of the controversies that marred the Durban meeting, but have run into many of the same contentious issues. Australia, Canada, Germany, Israel, Italy, Netherlands, New Zealand and Poland are also not participating, while Iran's hardline President Mahmoud Ahmadinejad is scheduled to take the floor later Monday. The major sticking points in the draft final declaration prepared for the current meeting concern its implied criticism of Israel and an attempt by Muslim governments to ban all criticism of Islam, Sharia law, the prophet Muhammad and other tenets of their faith. Obama, speaking in Trinidad on Sunday after attending the Summit of the Americas, said: "I would love to be involved in a useful conference that addressed continuing issues of racism and discrimination around the globe." But he said the language of the U.N.'s draft declaration risked a reprise of Durban, during which "folks expressed antagonism toward Israel in ways that were often times completely hypocritical and counterproductive." "We expressed in the run-up to this conference our concerns that if you adopted all of the language from 2001, that's not something we can sign up for," Obama said. Ban said no society — rich or poor, large or small — is immune to the dangers of racism, which he called a "denial of human rights, pure and simple." Addressing intolerance in its various forms, Ban said racism "may be institutionalized, as the Holocaust will always remind us," but that it may manifests itself in more subtle forms through the "hatred of a particular people or a class — as anti-Semitism, for example, or the newer Islamophobia." Many Muslim nations want curbs to free speech to prevent insults to Islam they claim have proliferated since the terrorist attacks in the United States on Sept. 11, 2001. They cite the 2005 cartoons of Muhammad published by a Danish newspaper that sparked riots in the Muslim world, and allegations that authorities in the West have targeted innocent Muslims through anti-terror and other police action. Those demands had been largely resisted by the United States and other Western nations, some of whom are participating in the conference. Ban steered clear of the issue of a global ban on religious defamation, as demanded by Muslim nations, but urged action against a "new politics of xenophobia" that is on the rise and could become dramatically worse as a result of new technologies that proliferate hatred.

## Econ Decline--Warming

### The economy turns warming and the environment – several reasons

Richard, 08

(Michael Graham, L.L.P, 10-10-2008 Law “4 Reasons Why Recession is BAD for the Environment”

<http://www.huffingtonpost.com/michael-graham-richard/4-reasons-why-recession-i_b_133564.html>)

1) When squeezed companies will reduce their investments into research & development and green programs. These are usually not short-term profit centers, so that is what's axed first. Some progress has been made in the past few years, it would be sad to lose ground now. 2) Average people, when money is tight, will look for less expensive products (duh). Right now, that usually means that greener products won't make it. Maybe someday if we start taxing "bads" instead of "goods" (pollution, carbon, toxins instead of labor, income, capital gains) the least expensive products will also be the greenest, but right now that's not the case. 3) There's less money going into the stocks markets and bank loans are harder to get, which means that many small firms and startups working on the breakthrough green technologies of tomorrow can have trouble getting funds or can even go bankrupt, especially if their clients or backers decide to make cuts. 4) During economic crises, voters want the government to appear to be doing something about the economy (even if it's government that screwed things up in the first place). They'll accept all kinds of measures and laws, including those that aren't good for the environment. Massive corn subsidies anyone? **Don't even think about progress on global warming...**

## Econ Decline--Environment

### Economic collapse turns the global environment – countries utilize methods to bounce back that are detrimental to the environment

Biello , Editor for the Scientific American , 08

(David, Editor for the Scientific American. “Is a Global Recession Good for the Environment?” <http://www.scientificamerican.com/podcast/episode.cfm?id=is-a-global-recession-good-for-the-08-11-132>)

Times are tough when a millionaire oil man can't get a wind farm built. T. Boone Pickens backed off of his much ballyhooed mega-wind project in Texas this week, citing the declining cost of natural gas. Fossil fuel burning power plants are still too good of a deal to bother investing $2 billion into wind turbines. A bear market might seem like a boon for the environment: less overall economic activity, like manufacturing and driving, means less overall pollution. Right? Actually, as the Pickens example proves, global economic downturns take a toll on the environment by restrain economic activity that could improve the situation. But that's not all. Over-farming and drought led to 400,000 square kilometers of prime top soil blowing away in the wind in the 1930s, exacerbating, and exacerbated by, the Great Depression. And the economic crises that crippled the economies of southeast Asia in the 1990s also set in motion a rapid uptick in environmentally damaging pursuits such as illegal logging and cyanide fishing, according to the World Bank. Even as I speak, economic worries have prompted some European countries to begin backpedaling on their commitments to cut back on global warming pollution. So an **economic downturn is no friend of the environment**. Brother, can you spare a turbine?

## **Growth Solves War**

### **Growth good – democracy, values, and modern society, prevents conflict.**

Mandel 5 (Michael Mandel, Bloomberg Business, “Whats So Good About Growth?,” <http://www.businessweek.com/magazine/content/05_45/b3958122.htm>)

The real benefit of growth, Friedman argues, is that it encourages a wide range of social virtues, including dedication to democracy, tolerance of diversity, social mobility, and commitment to fairness. By contrast, he writes, "when living standards stagnate or decline, most societies make little if any progress toward any of these goals, and in all too many instances they plainly retrogress." The book, at almost 600 pages, is too long and quite repetitive in spots. And it doesn't pack the punch of Friedman's influential 1988 book, Day of Reckoning: The Consequences of American Economic Policy Under Reagan and After, which warned that massive budget deficits were going to badly damage the U.S. economy. But in this book Friedman has scored a dead-center hit on the critical question: Why do we value economic growth? The usual argument is that a bigger GDP -- more goods and services -- leads to happier, more satisfied citizens. But that apparently simple proposition turns out to be far more complicated. As Friedman notes, there is plenty of evidence that people judge their well-being by comparing themselves to others. As the average income in a country goes up, so do expectations. As a result, the level of GDP per person in a country, taken alone, doesn't necessarily say much about the level of happiness. The lack of a direct link between personal satisfaction and the level of GDP per person seems to undercut the purely economic arguments in favor of growth. After all, why should we undergo all the turmoil of technological change and economic restructuring if more gadgets and bigger homes aren't going to make us happier in the end? Friedman argues that economic growth has a key additional benefit: As long as people see their own income rises, they worry less about competing. And that in turn creates a more favorable environment for political and social advances. To demonstrate this point, he draws on economic studies and historical examples, both American and global. In the 1700s, he points out, it became accepted that the rise of commercial and trading activity was a force for positive legal and institutional change. Adam Smith, for one, believed that moral progress went hand in hand with economic progress, as voluntary exchange replaced the use of force. Friedman points to the the Ku Klux Klan in the U.S. and the Nazis in Germany as examples of what can happen when growth vanishes. And he worries that "rising intolerance and incivility and the eroding generosity and openness...have been, in significant part, a consequence of the stagnation of American middle class living standards during much of the last quarter of the twentieth century."

## Growth Solves Poverty

### Economic growth solves poverty

Acemoglu, Professor of Economics at MIT, 1/7/2012

[Daron, "Introduction to Economic Growth", Journal of Economic Theory, January 7, 2012, Accessed: 6/28/2012, pg 545]

Economic growth continues to be one of the most relevant and exciting sub-areas of economics. Its relevance stems from the questions it focuses on. The problem of economic development remains a major one for humanity at large and for economics as a science. At the time Adam Smith laid many of the foundations of modern economics, there were likely small differences between the richest and the poorest nations in the world (e.g., Maddison [18], Acemoglu, Johnson and Robinson [3]). Since then, the gaps between the rich and poor have increased to a level that would have been incomprehensible to most 18th and 19th century economists. At the root of this great disparity is the differential growth experience around the world. Some, like many in western Europe and western European offshoots around the world, have grown rapidly during the 19th and early 20th centuries, while many others have stagnated. This differential growth led to a huge gap in income per capita and living standards that continues to this day. Naturally, economic growth also has the power to rapidly close such gaps as illustrated by the experiences of countries of Japan, South Korea, Singapore, and more recently China. Thus, the consequences of a few percent change in the growth rate of a nation can have huge consequences for the well-being and living standards of its citizens in one or two generations.

## Growth Solves Debt Crisis

#### The debt doesn't have to be paid- only has to grow significantly less than the economy

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012,]AHL

Suppose that the bond vigilantes aren’t set to make an appearance and cause a crisis. Even so, shouldn’t we be concerned about the burden of debt we’re leaving for the future? The answer is a definite “Yes, but.” Yes, debt we run up now, as we try to cope with the aftermath of a financial crisis, will place a burden on the future. But the burden is a lot smaller than the heated rhetoric of deficit hawks suggests. The key thing to bear in mind is that the $5 trillion or so in debt America has run up since the crisis began, and the trillions more we’ll surely run up before this economic siege is over, won’t have to be paid off quickly, or indeed at all. In fact, it won’t be a tragedy if the debt actually continues to grow, as long as it grows more slowly than the sum of inflation and economic growth. To illustrate this point, consider what happened to the $241 billion in debt the U.S. government owed at the end of World War II. That doesn’t sound like much by modern standards, but a dollar was worth a lot more back then and the economy was a lot smaller, so this amounted to about 120 percent of GDP (compared with a combined federal, state, and local debt of 93.5 percent of GDP at the end of 2010). How was that debt paid off? The answer is that it wasn’t. Instead, the federal government ran roughly balanced budgets over the years that followed. In 1962 the debt was about the same as it had been in 1946. But the ratio of debt to GDP had fallen 60 percent thanks to a combination of mild inflation and substantial economic growth. And the debt-to-GDP ratio kept falling through the 1960s and 1970s even though the U.S. government generally ran modest deficits in that era. It was only when the deficit got much bigger under Ronald Reagan that debt finally started growing faster than GDP. Now let’s consider what all this implies for the future burden of the debt we’re building up now. We won’t ever have to pay off the debt; all we’ll have to do is pay enough of the interest on the debt so that the debt grows significantly more slowly than the economy. One way to do this would be to pay enough interest so that the real value of the debt— its value adjusted for inflation—stays constant; this would mean that the ratio of debt to GDP would fall steadily as the economy grows. To do this, we’d have to pay the value of the debt multiplied by the real rate of interest—the interest rate minus inflation. And as it happens, the United States sells “inflation-protected securities” that automatically compensate for inflation; the interest rate on these bonds therefore measures the expected real rate of interest on ordinary bonds. Right now, the real interest rate on ten-year bonds—the usual benchmark for thinking about these things—is actually slightly below zero. OK, that reflects the dire state of the economy, and that rate will rise someday. So maybe we should use the real interest rate that prevailed before the crisis, which was around 2.5 percent. How much burden would the $5 trillion in additional debt we’ve added since the crisis began impose if the government had to pay that much in interest? The answer is $125 billion a year. That may sound like a big number, but in a $15 trillion economy, it’s well under 1 percent of national income. The point is not that debt doesn’t impose any burden at all but that even shock-and-awe debt numbers aren’t nearly as big a deal as often claimed. And once you realize that, you also realize just how wrongheaded the pivot from jobs to deficits really was.

## Econ-Unemployment Kills-VTL

Unemployment kills value to life

Kervick, PhD in Philosophy from Univ. of Mass, 12

[Dan, “Doing what needs to be done: Facing the Future with Full Employment and a Renewed Public Sector,” New Economic Perspectives, Feb. 2, 2012,http://neweconomicperspectives.org/2012/02/02, accessed 7-2-12]bg

Let’s be clear about one thing: Unemployment on the scale we are seeing right now, both in the United States and around the world, is a moral catastrophe. The human costs of unemployment have been well documented by Bill Mitchell and his colleagues at CofFEE, the Center of Full Employment and Equity at the University of Newcastle in Australia. The unemployed often experience feelings of worthlessness and incompetence, and suffer higher rates of depression and suicide. They can lose their sense of connection and engagement with the broader society, and their alienation can become self-perpetuating. Their marketable skills atrophy and are lost as the economy moves forward without them. Marriages and family relationships are strained by unemployment, sometimes to the breaking point. Some of the persistently unemployed will turn to crime, and to other forms of self-destructive and anti-social activity. And in any society that values and promotes hard work, unemployment is simply humiliating, consigning the unemployed person to the lower caste status occupied by the jobless and the needy. In a word, unemployment sucks.

The problem of unemployment for the jobless individual is thus not solely due to a loss of income, although the loss of income is certainly at the root of many of the problems. In every thriving society, a tacit bond exists among the members of the society, a bond that is based on norms of reciprocity and mutual obligation. Each person receives substantial benefits by virtue of their membership in the society, and in return they are made to understand from an early age that they are expected to contribute their fair share of the work burden that is required for the society to prosper. Most people grasp and internalize these norms, and earnestly seek an opportunity to earn their way in the society and prove their value to their fellow citizens through their work. People want to be full and equal adult participants in their societies, not dependents on the charity of others. So when we deprive people of the opportunity to participate in the work force, and to put their best talents and skills to work for the good of themselves, their families and their societies, we rob them of an opportunity to manifest their dignity to others, and we steal their self-respect in the process.

But unemployment is not just a personal problem for the unemployed individual; it is also an economic problem for the larger society. When there is significant work to be done, mass unemployment represents a tremendous opportunity cost. It means that the society is failing to invest all they should in their current prosperity, and in the world they are going to leave to their descendants. We should therefore regard full employment as both a moral and economic imperative.

### Unemployment ruins lives in multiple ways

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p. 8-10 ]AHL

Well, the U.S. Bureau of Labor Statistics tries to capture these unfortunates in a broader measure of unemployment, known as U6; it says that by this broader measure who had lost a job. Moreover, almost 40 percent of families had suffered from reduced hours, wages, or benefits. The pain, then, is very widespread. But that’s not the whole story: for millions, the damage from the bad economy runs very deep. Ruined Lives. There is always some unemployment in a complex, dynamic economy like that of modern America. Every day some businesses fail, taking jobs with them, while others grow and need more staff; workers quit or are fired for idiosyncratic reasons, and their former employers take on replacements. In 2007, when the job market was pretty good, more than 20 million workers quit or were fired, while an even larger number were hired. All this churning means that some unemployment remains even when times are good, because it often takes time before would-be workers find or accept new jobs. As we saw, there were almost seven million unemployed workers in the fall of 2007 despite a fairly prosperous economy. There were millions of unemployed Americans even at the height of the 1990s boom, when the joke was that anyone who could pass the “mirror test”— that is, anyone whose breath would fog a mirror, indicating that they were actually alive— could find work. In times of prosperity, however, unemployment is mostly a brief experience. In good times there is a rough match between the number of people seeking work and the number of job openings, and as a result most of the unemployed find work fairly quickly. Of those seven million unemployed Americans before the crisis, fewer than one in five had been out of work as much as six months, fewer than one in ten had been out of work for a year or more. That situation has changed completely since the crisis. There are now four job seekers for every job opening, which means that workers who lose one job find it very hard to get another. Six million Americans, almost five times as many as in 2007, have been out of work for six months or more; four million have been out of work for more than a year, up from just 700,000 before the crisis. This is something almost completely new in American experience— I say almost completely, because long-term unemployment was obviously rife during the Great Depression. But there’s been nothing like this since. Not since the 1930s have so many Americans found themselves seemingly trapped in a permanent state of joblessness. Long-term unemployment is deeply demoralizing for workers anywhere. In America, where the social safety net is weaker than in any other advanced country, it can easily become a nightmare. Losing your job often means losing your health insurance. Unemployment benefits, which typically make up only about a third of lost income anyway, run out— over the course of 2010– 11 there was a slight fall in the official unemployment rate, but the number of Americans who were unemployed yet receiving no benefits doubled. And as unemployment drags on, household finances fall apart— family savings are depleted, bills can’t be paid, homes are lost. Nor is that all. The causes of long-term unemployment clearly lie with macroeconomic events and policy failures that are beyond any individual’s control, yet that does not save the victims from bearing a stigma. Does being unemployed for a long time really erode work skills, and make you a poor hire? Does the fact that you were one of the long-term unemployed indicate that you were a loser in the first place? Maybe not, but many employers think it does, and for the worker that may be all that matters.

### Jobs key to happiness and well-being; involuntary unemployment an inherent issue

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p. 5-8 ]AHL

Economists, the old line goes, know the price of everything and the value of nothing. And you know what? There’s a lot of truth to that accusation: since economists mainly study the circulation of money and the production and consumption of stuff, they have an inherent bias toward assuming that money and stuff are what matter. Still, there is a field of economic research that focuses on how self-reported measures of well-being, such as happiness or “life satisfaction,” are related to other aspects of life. Yes, it’s known as “happiness research”— Ben Bernanke even gave a speech about it in 2010, titled “The Economics of Happiness.” And this research tells us something very important about the mess we’re in. Sure enough, happiness research tells us that money isn’t all that important once you get to the point of being able to afford the necessities of life. The payoff to being richer isn’t literally zero— citizens of rich countries are, on average, somewhat more satisfied with their lives than citizens of less well-off nations. Also, being richer or poorer than the people you compare yourself with is a fairly big deal, which is why extreme inequality can have such a corrosive effect on society. But when all is said and done, money is less important than crude materialists— and many economists— would like to believe. That’s not to say, however, that economic affairs are unimportant in the true scale of things. For there’s one economics-driven thing that matters enormously to human well-being: having a job. People who want to work but can’t find work suffer greatly, not just from the loss of income but from a diminished sense of self-worth. And that’s a major reason why mass unemployment— which has now been going on in America for four years— is such a tragedy. How severe is the problem of unemployment? That question calls for a bit of discussion. Clearly, what we’re interested in is involuntary unemployment. People who aren’t working because they have chosen not to work, or at least not to work in the market economy— retirees who are glad to be retired, or those who have decided to be full-time housewives or househusbands— don’t count. Neither do the disabled, whose inability to work is unfortunate, but not driven by economic issues. Now, there have always been people claiming that there’s no such thing as involuntary unemployment, that anyone can find a job if he or she is really willing to work and isn’t too finicky about wages or working conditions. There’s Sharron Angle, the Republican candidate for the Senate, who declared in 2010 that the unemployed were “spoiled,” choosing to live off unemployment benefits instead of taking jobs. There are the people at the Chicago Board of Trade who, in October 2011, mocked anti-inequality demonstrators by showering them with copies of McDonald’s job application forms. And there are economists like the University of Chicago’s Casey Mulligan, who has written multiple articles for the New York Times website insisting that the sharp drop in employment after the 2008 financial crisis reflected not a lack of employment opportunities but diminished willingness to work. The classic answer to such people comes from a passage near the beginning of the novel The Treasure of the Sierra Madre (best known for the 1948 film adaptation starring Humphrey Bogart and Walter Huston): “Anyone who is willing to work and is serious about it will certainly find a job. Only you must not go to the man who tells you this, for he has no job to offer and doesn’t know anyone who knows of a vacancy. This is exactly the reason why he gives you such generous advice, out of brotherly love, and to demonstrate how little he knows the world.” Quite. Also, about those McDonald’s applications: in April 2011, as it happens, McDonald’s did announce 50,000 new job openings. Roughly a million people applied. If you have any familiarity with the world, in short, you know that involuntary unemployment is very real. And it’s currently a very big deal. How bad is the problem of involuntary unemployment, and how much worse has it become? The U.S. unemployment measure you usually hear quoted in the news is based on a survey in which adults are asked whether they are either working or actively seeking work. Those who are seeking work but don’t have jobs are considered unemployed. In December 2011 that amounted to more than 13 million Americans, up from 6.8 million in 2007. If you think about it, however, this standard definition of unemployment misses a lot of distress. What about people who want to work, but aren’t actively searching either because there are no jobs to be had, or because they’ve grown discouraged by fruitless searching? What about those who want full-time work, but have only been able to find part-time jobs?

## Econ Decline--Social Services Cut

### If deficits grow, it will result in the cancellation of social services

Crotty, Ph.D., Carnegie-Mellon University, 12

(Crotty, James, “The great austerity war: what caused the US deficit crisis and who should pay to fix it?” Cambridge Journal of Economics, Volume 36, Pages 79-104 Accessed: 6-29-12) ADJ

Third, rather than attack the root causes of the current deficit crisis—slow growth under the post-Reagan right-wing economic model, the radical deregulation of financial markets that contributed to the recent global financial crisis, endless regressive tax cuts and excessive defence spending on wars of choice—both Democrats and Republicans have insisted that substantial non-defence spending cuts must bear the brunt of deficit reduction. The Democrats offer large cuts in social spending, while the Republicans want to destroy the entire New Deal project.1 Both parties also propose regressive tax cuts that will increase deficits, thus ratcheting up the pressure for even more spending reductions. This increasing political pressure to destroy the foundations of the New Deal is paradoxical. The right-wing coalition is on the verge of succeeding in its 80-year quest to defeat the New Deal, not in spite of, but because it produced three decades of economic failure and exploding deficits. The worse the economy performs and the more the deficits grow, the greater the likelihood the coalition will achieve its ultimate goal

## Nuke war=Ext

#### No second chance after nuclear winter- Probability arguments irrelevant in the face of the magnitude

Manson, Research Fellow at the University of Aberdeen, 1/30/07

(Neil, "The Precautionary Principle, the Catastrophe Argument, and Pascal's Wager", Journal of Scottish Philosophy, January 30, 2007, Accessed: 7/3/12) AHL

There are real uncertainties involved in the nuclear winter predictions. They are based on models of poorly-understood processes. Many of the complex scientific problems will take many years to resolve and some of the key uncertainties will remain unless there is a nuclear war. Science cannot provide certainty on this issue. However, one doesn't require certainty to take decisions about risks. . . .With nuclear winter there would be no second chance. The potential costs are so enormous that it hardly matters for our argument whether the probability that the nuclear winter predictions are basically correct is 10 per cent, 50 per cent, or 90 per cent.. . [emphasis mine] The risk of a nuclear winter means that the present nuclear weapon arsenals are unacceptable.

# \*\*AT:\*\*

## AT: Plan Creates Jobs and Stimulus

Transportation Infrastructure won’t create jobs or stimulate the economy—it’s not self-sustaining

Harding, Adjunct Professor at Santa Barbara City College-JD Hastings College of Law, 11

[Jeff, “The Hoax That Is The Infrastructure Bank,” The Daily Capitalist, Sept. 18, http://dailycapitalist.com/2011/09/18/the-hoax-that-is-the-infrastructure-bank/]bg

Does anyone seriously believe that the reason we have high unemployment in America is because we have a substandard infrastructure?  Apparently the politicians in Washington believe that is so because they are trying to make a case for massive infrastructure spending in order to “create jobs” and to “prepare our economy for the 21st Century.” I was watching that fountain of conventional wisdom, Fareed Zakaria tonight and he seems to buy into this proposition. He interviewed Senator Kay Baily Hutchison about her proposal for an infrastructure bank: The Kerry-Hutchison Bipartisan Infrastructure Bank also known as the BUILD Act. It won’t cost the taxpayers any money, she says, because it is a one-time $10 billion funding of this bank which will lend money for projects. As she says on her web site: The idea of a national infrastructure bank is an innovative way to [leverage private-public partnerships and maximize private funding](http://www.senate.gov/cgi-bin/exitmsg?url=http%3A//money.cnn.com/2011/03/15/news/economy/infrastructure_bank/index.htm" \t "_blank) to address our water, transportation, and energy infrastructure needs. In our current fiscal situation, we must be creative in meeting the needs of our country and spurring economic development and job growth, while protecting taxpayers from new federal spending as much as possible. This is viewed as a “sensible and business-like approach” to solving this “problem.” When anyone does reporting on this topic you see shots of China’s high speed trains zooming along as well as Brazil’s new super port that will be “the road to China.” We don’t need any of these things because we have an excellent infrastructure despite what the “experts” say. Most of these experts want to cash in on this spending boondoggle. Let me be clear: not one new job will be created by this infrastructure bank. The truth is, we don’t need it. Our freeways, trucks, railroads, and aircraft do just fine getting around delivering people and goods. I’m not arguing that some things need repair, but that is minor compared to what this Infrastructure Bank envisions. As we all know, like all things run by government, they have let some of our bridges, roads, and schools go into disrepair because they manage it incompetently. While I am sure some kids go to run-down government schools, it’s not the buildings that are the problem, it’s the unions. I haven’t heard that our water supply is unsafe or that anyone has been poisoned by drinking out of the tap (spare me the occasional example, please). Our ports are fine despite the longshoremen’s union. We don’t need high speed trains because they are expensive and inefficient and people will fly instead. Please see Bob Poole’s work at the [Reason Foundation](http://reason.org/areas/topic/transportation" \t "_blank) if you need confirmation of this fact or on any matter dealing with public transportation.  Here are some things to think about when the politicians spout this nonsense: 1. Jobs aren’t created by government. That is not to say that government employees or contractors do not work; they do. What it means is that government does not create wealth-creating jobs that are self-sustaining as would a private business. This should be fairly simple to understand. Taxes fund government operations. Only the private sector creates wealth that pay taxes. We can have an argument about whether or not government should provide much of the services that they do. For example, we know that private schools do a far better job at providing an education because they are not controlled by unions who control politicians. But, that is not the topic here.  2. Government spending known as fiscal stimulus, or Keynesian stimulus, as a cure for unemployment is another matter. The idea here is that since consumers aren’t spending all we need to do to revive the economy is to start spending somewhere in the economy and magically things will revive and take off.  Unfortunately such stimulus never works to “jump start” the economy. It never has and never will. The American Recovery and Reinvestment Act of 2009 pushed $840 billion into the economy under this theory and it failed. No one (especially our politicians) asks where the money comes from to stimulate the economy. It comes from us, whether through taxes today or taxes tomorrow. And, the more you take out of the private economy, the less capital is available for businesses to create real jobs. Politicians never seem to see this. Right now the Keynesians are pushing on a string with this idea. Until we clean up all the excess houses, commercial real estate and related debt, no amount of spending or tax cuts will work.  3. Then there is the “quality” issue. Assuming that such infrastructure spending worked, the projects chosen are those favored by government politicians and bureaucrats and we know how well they do competing with the private sector. Need I mention the $535 million government loan guarantee to the soon to be bankrupt Solyndra? These folks shouldn’t be handing out your money; they don’t know what they are doing. As you can see, as with most of these Recovery Act contracts, it is just another way to pay for things the government needs or want. Nothing here will create real jobs, the kind that will be market-based taxpaying  jobs. It’s a waste of your money. 4. Union workers will be employed for these construction projects since they are all federal contracts and that requires union workers. No big issue here; we all understand this is a payoff to the Democratic Party base. 5. Then there is Japan. They spent trillions on fiscal stimulus for much of the same things that are proposed by the Infrastructure Bank. It was all a huge waste of money there and the result was 20 years of sluggishness and the highest debt to GDP of any industrialized nation (225%; we are at 100%). Their economy is still in the doldrums and they stupidly push for even more such stimulus spending. We are going Japanese with all this spending but with a twist: we have inflation and we will have more inflation from quantitative easing and more spending.

### Keynesian defenses of deficit spending are antiquated the capacity of our economy means discipline is the vital internal to confidence and stable interest rates

Summers, Former Sec. of Treasury, 2000

[Lawrence H.,“THE CASE FOR FISCAL DISCIPLINE", May 3 2000 <http://www.ustreas.gov/press/releases/ls605.htm>]

This Keynesian idea, that budget deficits could be used to stimulate demand in an economy producing well short of its capacity, still captures a very important truth about certain economies at certain times. It was surely the right prescription for the economy of the 1930s and, indeed, for Japan's economy of today. And it was the right response to the unused economic capacity in the U.S. economy of the late 1950s and early 1960s.Since my days as an undergraduate, however, experience has shaped our understanding of fiscal policy: First, we now place much greater emphasis on the importance of supply factors for long-term growth, and the danger that by crowding out investment, budget deficits can slow productivity growth and lead to a vicious cycle as higher public borrowing leads to higher interest rates, lower investment and economic growth, and still higher budget deficits. And we have come increasingly to appreciate that in an economy close to full capacity, excessive stimulus can increase inflationary pressures, raise risk premiums, and lead to higher interest rates.

Second, financial markets have become more forward-looking, and more sensitive to changes in the outlook for fiscal policy. As a result, a change in the outlook for the budget is likely to provoke a more aggressive and immediate offsetting response from financial markets. This was powerfully demonstrated by the stimulative impact of deficit reduction in the 1990s, as increased investment demand resulting in a lower cost of capital more than outweighed any demand losses to the economy that resulted from lower government spending.It bears emphasis that these changes in understanding have not taken place in isolation. Globally, there has been a widespread recognition of the importance of fiscal discipline, the benefits of crowding in the private sector rather than crowding it out, and the important role that confidence can play in ensuring the long-term success of economic policies. The idea that fiscal discipline would help an economy expand by promoting confidence and crowding the private sector in rather than out, used to be considered theoretical. In that sense our fiscal policies in 1993 had an experimental element. Today the results of that experiment are in: the link between fiscal discipline and higher growth has been demonstrated.

## AT: Health Care Spending NU

### Health care reform saves 10 trillion in a decade

Crotty, Ph.D., Carnegie-Mellon University, 12

(Crotty, James, “The great austerity war: what caused the US deficit crisis and who should pay to fix it?” Cambridge Journal of Economics, Volume 36, Pages 79-104 Accessed: 6-29-12) ADJ

The only feasible long-run solution to our health care problems is to adopt a system more like those in other relatively rich countries, one that does not allow private insurance companies and pharmaceutical companies to take such a big bite of the health care dollar. A Canadian-style health care system in the USA would save more than $10 trillion over a decade, ending the Medicare–Medicaid crisis. If we adopted a single-payer system based on Medicare, with no other changes, we could save as much as $4 trillion over a decade (Common Dreams, 2011). The fact that the federal government has refused to seriously consider these needed changes is testimony to the political power of large insurance companies, giant drug companies and influential hospital chains.

## AT: credit rating kills econ

#### Credit rating doesn't affect economy- Japan proves

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p.8 ] I.M.R.

Three other points are worth mentioning. First, in early 2011 alarmists had a favorite excuse for the apparent contradiction between their dire warnings of imminent catastrophe and the persistence of low interest rates: the Federal Reserve, they claimed, was keeping rates artificially low by buying debt under its program of “quantitative easing.” Rates would spike, they said, when that program ended in June. They didn’t. Second, the preachers of imminent debt crisis claimed vindication in August 2011, when Standard & Poor’s, the rating agency, downgraded the U.S. government, taking away its AAA status. There were many pronouncements to the effect that “the market has spoken.” But it wasn’t the market that had spoken; it was just a rating agency—an agency that, like its peers, had given AAA ratings to many financial instruments that eventually turned into toxic waste. And the actual market’s reaction to the S&P downgrade was . . . nothing. If anything, U.S. borrowing costs went down. As I mentioned in chapter 8, this came as no surprise to those economists who had studied Japan’s experience: both S&P and its competitor Moody’s downgraded Japan in 2002, at a time when the Japanese economy’s situation resembled that of the United States in 2011, and nothing at all happened.

# \*\*Keynesian v Austerity\*\*

## Austerity Solves

### Austerity promotes rapid economic activity- empirics prove

Boyer, Economist at CEPREMAP and senior researcher for National Center for Scientific Research,11/1/11

(Robert, “The Four Fallacies of Contemporary Austerity Policies: the Lost Keynesian Legacy”, Cambridge Journal of Economics, November 1, 2011, Accessed 6/28/12)pg 298 AHL

In contemporary economic history, are there examples of drastic austerity measures that have actually promoted rapid economic recovery? Recently, various researchers have agreed upon the list of these successful stories: Denmark 1983–86, Ireland 1987–89, Finland 1992–98 and, lastly, Sweden 1993–98 (IMF, 2010; Perotti, 2011). The success of such anticonventional policy seems to rely upon the variable mix of three main mechanisms (Table 1):

- A form of credibility effect is operating because all four cases show signiﬁcant declines in their nominal interest rates. However, this is not only the consequence of the restoration of the credibility of public ﬁnance but also the outcome of successful anti-inﬂationary policies. In the Danish case this mechanism is powerful enough to propel an increase in consumption in spite of public spending cuts and wage austerity: the deceleration of inﬂation was such that real income was maintained and the consumption of durable goods boomed in response to lower interest rates.

- Actually, another form of income policy can be observed in order to ascertain the equivalent of an ‘internal devaluation’ via the moderation of unit production costs. Frequently, wage concessions are traded against personal income tax reductions or lower social contributions paid by ﬁrms: it is not simply a market mechanism but the consequence of a social pact promoting national competitiveness. This social democratic brand of capitalism, which is typical of three of these four countries, is thus crucial in explaining their abilities to implement such policies.

- In the case of Finland and Sweden, a large devaluation promoted a boom in exports that compensated for the contraction of domestic demand. Contrary to the Danish case, slower initial growth was the cost to be paid in order to reap the beneﬁts of a higher growth rate in the medium term. It is clear that this mechanism is available for small economies that may adopt competitive devaluation without fearing retaliation from trade partners. Such an option is not available for medium-sized or large economies and, of course, it cannot be used simultaneously by all these countries. This route is also closed for the member states of the eurozone, which have accepted the irreversibility of their adoption of the common currency.

### Austerity policy works- Germany proves

Boyer, Economist at CEPREMAP and senior researcher for National Center for Scientific Research,11/1/11

(Robert, “The Four Fallacies of Contemporary Austerity Policies: the Lost Keynesian Legacy”, Cambridge Journal of Economics, November 1, 2011, Accessed 6/28/12)pg 300 AHL

Nowadays, these past episodes are only referred to by scholars, whereas the main reference among policymakers for a successful long-term austerity policy is Germany. De facto, a permanent preoccupation of German public authorities has been to keep public ﬁnances under control and their policies have delivered impressive results (Figure 9). These are the outcome of an original mix:

- Contrary to many other member states of the eurozone, the Ministry of Finance in Germany decided to reduce the public deﬁcit by augmenting Value Added Tax during the booming years from 2004 to 2007, according to a rare countercyclical ﬁscal policy. Of course, ﬁscal consolidation is much easier during booms that it is within recessions or depressions (Figure 9C).

- But this decision was only part of a long-term strategy to restore public ﬁnances and the competitiveness of the German manufacturing sector that had deteriorated because of the large costs of reuniﬁcation. As in the Scandinavian expansionary austerity policies, a wage austerity, pursued for more than a decade, has been crucial for implementing an internal devaluation (Figure 9A).

- Consequently, the trade balance has experienced a cumulative trade surplus during the whole period (see Figure 5) and, in spite of the net outﬂow of capital, the external balance has been positive. Thus, the international ﬁnance community—in search of high-quality ﬁnancial instruments—has massively bought German Treasury bonds. Nevertheless, the related low real interest rate has not triggered a consumption boom contrary to that observed in the rest of the eurozone (Figure 9B).

Many analysts have inferred from this new ‘German miracle’ that any other country should emulate the same strategy: long-term wage moderation, welfare reforms including lower compensation for unemployment and countercyclical tax policy should sustain an export-led growth model, based not only on price competition but also on a permanent adaptation to the changing demand of the world economy. This repeats the pre-Keynesian fallacy that ignores that the surpluses of some countries are the strict counterparts of the deﬁcits of others. Clearly, the German strategy has been sustainable only because the European Union and the rest of the world had dynamic domestic demands that created space for German exports (see Figures 5 and 9B). If all European countries were to simultaneously adopt similarly drastic austerity policies, they would only succeed in keeping the level of activity by gaining trade shares at the world level, for example with respect to the USA or Asia . . . a difﬁcult task indeed.

### Indebted countries need to practice austerity measures to prevent adverse effects on economy, empirics prove

Kitromilides, Ph.D. in Economics, 11

(Kitromilides, Yiannis, Ph.D. from University of London in Economics, “Deficit reduction, the age of austerity, and the paradox of insolvency,” Journal of Post Keynesian Economics Volume 33, 2011) ADJ

The second argument in support of the fiscal austerity strategy relates to the cumulative effect of budget deficits on the total public debt as a percentage of GDP. What is the relationship between total debt and economic growth? Is there a level beyond which debt accumulation can have a negative effect on economic growth? In a recent study, Reinhart and Rogoff (2009) claim that once the debt-to-GDP ratio exceeds 90 percent, economic growth is reduced by at least 1 percent. Indebted economies, therefore, need fiscal austerity measures in order to prevent debt accumulation from reaching or exceeding this threshold with its adverse effects on economic growth. In 2009, three eurozone countries exceeded the 90 percent threshold: the total debt-to-GDP ratio was 115.8 in Italy, 115.1 in Greece, and 96.7 in Belgium. Another three eurozone countries had ratios approaching the 90 percent threshold: the debt-toGDP ratio was 77.6 in France, 76.8 in Portugal, and 73.2 in Germany. Outside the eurozone, the United Kingdom had in 2009 a ratio of 68.1 percent.4 In the United States, the equivalent ratio for 2009 was 83.29 projected to rise to 94.27 for 2010.

### Austerity is best under a budget deficit, three reasons

Kitromilides, Ph.D. in Economics, 11

(Kitromilides, Yiannis, Ph.D. from University of London in Economics, “Deficit reduction, the age of austerity, and the paradox of insolvency,” Journal of Post Keynesian Economics Volume 33, 2011) ADJ

Support for the “age of austerity” strategy is based on three major arguments. First, fiscal policy is ineffective, there are no traditional Keynesian multiplier effects, and therefore fiscal stimulus or fiscal contraction has no macroeconomic effects; second, current “wartime” levels of public indebtedness are unsustainable, and they pose a threat to economic growth and price stability; and third, financial markets, like any lender, are anxious and nervous about ballooning fiscal deficits. Because markets can suddenly lose their patience with devastating consequences for the borrowers, governments with big deficits, like individuals with big debts, must implement austerity measures now in order to convince the lenders that they are serious about dealing with their debt problems. Critics of the strategy question the validity of all three arguments. Contrary to the claims of the NCM, fiscal policy can be effective and fiscal multipliers are generally positive; it is an unproven assertion that there are universal, in time and space, thresholds of public indebtedness that reduce, when exceeded, economic growth; and finally, austerity measures that are appropriate in reducing individual indebtedness and preventing individual insolvency are not necessarily appropriate in dealing with problems of national indebtedness. If fiscal policy is ineffective and fiscal multipliers are zero, as claimed by the NCM theoretical framework, then the “paradox of insolvency” is invalid and fiscal austerity can, in fact, achieve deficit reduction because there will be no net deflationary effect. Furthermore, the austerity measures may even have an expansionary effect in the long run if optimistic expectations “inspired” by the measures stimulate private-sector growth sufficiently to neutralize any deflationary effect of “savage” public spending cuts. However, after examining the relevant theoretical arguments and evidence (Arestis, 2009), we do not find this argument plausible and it does not invalidate the general conclusion of this paper that a deficit reduction plan that is appropriate in the case of an individual debt may not be appropriate in dealing with government debt, especially when there is “synchronized” fiscal austerity.

### Austerity good--helps econ--Keynesianism fails-austerity creates economic stability—Estonia proves

Tanner, former director of research of the Georgia Public Policy Foundation and as legislative director for the American Legislative Exchange Council, June 21, 2012

(Michael , Cato.org, former director of research of the Georgia Public Policy Foundation and as legislative director for the American Legislative Exchange Council, “Austerity Works”, 21 June 2012 http://www.cato.org/publications/commentary/austerity-works) ADJ

Twitter-borne tit-for-tat aside, here are the facts: Estonia had been one of the showcases for free-market economic policies and had been growing steadily until the 2008 economic crisis burst a debt-fueled property bubble, shut off credit flows, and curbed export demand, plunging the country into a severe economic downturn. However, instead of increasing government spending in hopes of stimulating the economy, as Krugman has urged, the Estonians rejected Keynesianism in favor of genuine austerity. Among other measures, the Estonian government cut public-sector wages by 10 percent, gradually raised the retirement age from 61 to 65 by 2026, reduced eligibility for health benefits, and liberalized the country's labormarket, making it easier for businesses to hire and fire workers. Estonia did unfortunately enact a small increase in its value-added tax, but it deliberately kept taxes low on businesses, investors, and entrepreneurs, refusing to make changes to its flat 21 percent income tax. In fact, the government has put in place plans to reduce the income tax to 20 percent by 2015. Today, Estonia is actually running a budget surplus. Its national debt is 6 percent of GDP. By comparison, Greece's is 159 percent of GDP. Ours is 102 percent. Economic growth has been a robust 7.6 percent, the best in the EU. And, although the unemployment rate remains too high, at 11.7 percent, that is down from 19 percent during the worst of the recession. It's hard to see how a Krugman-style stimulus would have done much better.

#### Austerity successfully solved three recessions

Weinberger 2011

(david, 11/9/2011, Austerity Successes in Previous Downturns, <http://blog.heritage.org/2011/11/09/austerity-successes-in-previous-downturns/>, 6/25/2012) TAS

The left [continues](http://www.telegraph.co.uk/finance/economics/7987704/Austerity-cutbacks-are-an-economic-disaster-Nobel-Prize-winner-Joseph-Stiglitz-warns.html) [to resist](http://www.nytimes.com/2011/05/23/opinion/23krugman.html) any suggestion of spending cuts right now. In their view, a depressed economy is no time to slash spending; that would only further weaken demand. [The successful austerity policies adopted in response to the downturn of 1920, however, offer a clear rebuttal to this notion](http://blog.heritage.org/2011/10/27/does-austerity-work/). And this is not an isolated instance in the heap of economic history. Similar government restraint and cutbacks marshaled strong recoveries from the depressions of 1837 and 1893.

In 1837, financial panic swept the country. [According to economist Jim Powell](http://books.google.com/books?id=HDLgbQ38v_wC&pg=PA268&lpg=PA268&dq=jim+powell+van+buren+%22to+make+government+cheaper%22&source=bl&ots=slgea9aU07&sig=JA-JJ5sfJGi0wYRd0TVO7k2Vbus&hl=en&ei=C_OuTvvQNIStgwe2nJHsDQ&sa=X&oi=book_result&ct=result&resnum=1&ved=0C), the money supply fell by more than one-third for the next four years, prices fell by 40 percent, and investment fell, too. Nevertheless, output actually increased between 6 percent and 16 percent.

President Martin Van Buren was determined to get government out of the way. He met the depression head on by slashing spending and taxes. Powell points out that “Federal spending was cut from $37.2 million in 1837 to $24.3 million in 1840, and taxes (mainly tariff revenue) went down, too.”

The result? Despite the absence of a central bank (Andrew Jackson had killed it in 1836), the economy came roaring back to prosperity a few years later, from what [some consider a depression worse than any other up until the Great Depression](http://www.theglobalist.com/storyid.aspx?StoryId=7524). John Steele Gordon [adds](http://www.amazon.com/Empire-Wealth-History-American-Economic/dp/0060093625) that federal revenues more than tripled one year into the recovery. Revenues “had been a miserable $8.3 million in 1843, the lowest in decades,” he writes. “But the following year they jumped to $29 million.”

Another instance of successful government restraint was in dealing with the depression of 1893. President Grover Cleveland believed that government should impose as little cost on taxpayers as possible. Consequently, once financial panic hit in 1893, Cleveland refused to spend federal money. He vetoed a $10,000 spending measure to help farmers in Texas. [His veto read](http://books.google.com/books?id=ee3g-To2w28C&pg=PA268&dq=jim+powell+%22frugal+grover+cleveland%22&hl=en&ei=gf-uTs3qEYnVgQeltYH0Dw&sa=X&oi=book_result&ct=result&resnum=1&ved=0CC4Q6AEwAA#v=onepage&q&f=false): “federal aid in such cases encourages the expectation of paternal care on the part of the government and weakens the sturdiness of our national character.” [He vetoed 299 other spending bills](http://books.google.com/books?id=ee3g-To2w28C&pg=PA268&dq=jim+powell+%22frugal+grover+cleveland%22&hl=en&ei=gf-uTs3qEYnVgQeltYH0Dw&sa=X&oi=book_result&ct=result&resnum=1&ved=0CC4Q6AEwAA#v=onepage&q&f=false).

#### Lack of austerity caused great depression

Weinberger 2011

(David, 10/28/2011, myths of austerity failures, <http://blog.heritage.org/2011/10/28/myths-of-austerity-failures/#idc-container>, 6/25/2012) TAS

Evidence shows that “[austerity” during a sharp downturn in 1920](http://blog.heritage.org/2011/10/27/does-austerity-work/) coincided with quick economic recovery and robust growth throughout the rest of the decade. Nevertheless, [there is a belief that the example of President Herbert Hoover](http://www.nytimes.com/2008/12/29/opinion/29krugman.html) from 1929–1933 was a failure of austerity, which pushed the economy into the Great Depression. It was not. Hoover never cut spending or slashed tax rates.

In fact, [Hoover doubled spending in real terms during his four years in office](http://www.cato.org/pubs/bp/bp122.pdf). When FDR arrived at the White House, [according to Cato economist Steven Horowitz](http://www.cato.org/pubs/bp/bp122.pdf), FDR’s advisors noted that, “‘When we all burst into Washington . . . we found every essential idea [of the New Deal] enacted in the 100-day Congress in the Hoover administra­tion itself.’”

## Austerity Fails

### Austerity policies extreme and inefficient-four fallacies in ideology

Boyer, Economist at CEPREMAP and senior researcher for National Center for Scientific Research,11/1/11

(Robert, “The Four Fallacies of Contemporary Austerity Policies: the Lost Keynesian Legacy”, Cambridge Journal of Economics, November 1, 2011, Accessed 6/28/12) AHL

The present article aims to assess the relevance of such austerity policies given the unfolding of the crisis and the present stage of European integration. The diagnosis upon which they [austerity policies] are based refers to the ﬁrst-generation crises, which were caused by an excessive public deﬁcit that was incompatible with a ﬁxed exchange rate regime (Krugman, 1979). In contrast, the present crisis is the outcome of a private credit-led boom linked either to the piling up of complex and dangerous ﬁnancial innovations (the USA and the UK) or to the unintended consequence of the euro for previously weak currency countries (Greece, Portugal, Ireland and Spain). This is the ﬁrst fallacy pointed out by this article (see Section 2). From a macroeconomic point of view, austerity-generated recovery neglects the notion that strong effective demand effects might trigger a vicious circle of the cumulative loss of output and tax revenue, propelling a further and unintended explosion of the stock of the public debt/Gross Domestic Product (GDP) ratio. Symmetrically, this second fallacy takes for granted that crowding in and competitive mechanisms can quickly stop the downwards adjustments and trigger a vigorous recovery (see Section 3). The third fallacy relates to the belief that macroeconomic conﬁgurations are roughly the same in alldeveloped countries. Hence, the governments of ailing countries should not hesitate to follow the strategy, even if socially and politically costly, that ﬁnally beneﬁted the German economy so much. The diversity of capitalisms (Aoki, 2002) and their regulation modes (Boyer and Saillard, 2001; Amable, 2003) invalidates the ‘one size ﬁts all’ vision that is implicit in contemporary economic policies (see Section 4). Lastly, the growing interdependencies between the member states of the eurozone make problematic the combination of their austerity policies. These growing interdependencies may even reinforce the factors of depression in the absence of a privately engineered recovery that would be associated with the restoration of conﬁdence in the viability and efﬁciency of the eurozone (see Section V). A paradoxical conclusion emerges: is not the international ﬁnance community undermining its own basis and legitimacy by pushing such extreme and inefﬁcient austerity plans?

### Austerity measures can lower investor confidence, appear less credible.

Kitromilides, Ph.D. in Economics, 11

(Kitromilides, Yiannis, Ph.D. from University of London in Economics, “Deficit reduction, the age of austerity, and the paradox of insolvency,” Journal of Post Keynesian Economics Volume 33, 2011) ADJ

This argument, however, can backfire. If the markets form the view that the “age of austerity” strategy is counterproductive, this may strain further rather than calm down market nerves, and change perceptions of what constitutes a “credible” government policy to deal with ballooning deficits. The debt problem and the problem of reforming the international banking and financial system therefore must be tackled together.

### No guarantee to success of austerity policy

Boyer, Economist at CEPREMAP and senior researcher for National Center for Scientific Research,11/1/11

(Robert, “The Four Fallacies of Contemporary Austerity Policies: the Lost Keynesian Legacy”, Cambridge Journal of Economics, November 1, 2011, Accessed 6/28/12)pg 296-297 AHL

Consequently, the arguments in favour of austerity have to be assessed not within an erroneous grand theory reconciling micro and macro, but by more modest and ad hoc analyses that are adequate and empirically grounded. The literature suggests that at least three major mechanisms coexist and interact and that their conjunction determines whether tax hikes and government spending cuts have a positive or negative impact upon economic activity (Figure 8).

-The direct reduction in effective demand is always present since, via the Keynesian multiplier, an austerity policy depresses output and employment. This is usually a shortrun effect, but, in the absence of any other mechanism, adaptive expectations prevail and ﬁrms extrapolate the current level of activity from period to period. The related reduction in investment implies less productive capacity and this could trigger, in the medium term, a cumulative contraction of the tax basis and thus an unintended rise in the public debt/GDP ratio. Lower production and a persisting public deﬁcit might enter into a vicious circle, as observed in Japan during the 1990s and recently in Greece.

- The ﬁrst compensating channel relies upon the reaction of ﬁnancial markets to the government programme: if they consider that there exists competition between private and public ﬁnancing, a reduction in state borrowing induces a lower interest rate according to a reduction in the crowding out effect of public deﬁcits. In addition, this implies that all public spending, even investment, is less productive than is private spending. Thus, the recovery of the private component of effective demand might progressively overcome the negative impact of public spending cuts and/or tax hikes. Nevertheless, it has to be pointed out that this classical effect is far from automatic compared with the Keynesian multiplier. Everything relies on how the international ﬁnancial community reacts to the viability of each national austerity plan. Generally, large uncertainty prevails given the multiplicity and interconnectedness of the economic and social processes that condition the success or failure of the strategies of public authorities.

- The second countervailing mechanism relates to taxation. If a public deﬁcit is lowered through a reduction in public spending, rational actors should anticipate that less taxation will be required in the future and this determines their levels of consumption and savings. This Ricardian equivalence principle assumes that all agents have access to credit in order to intertemporally optimise their consumption patterns in a fundamentally stationary world. This forward-looking decision-making is not necessarily available for agents that are constrained by involuntary unemployment or a lack of access to credit. Thus, according to the distribution of agents between the two groups, either new classical or typically Keynesian effects prevail (Wieland, 2010).

- The third classical channel relates to the role of public austerity measures on domestic competitiveness and external trade balances. Facing a depressed domestic market, ﬁrms may redirect their sales towards the international market, whereas a high income elasticity of import implies their contraction, which will be faster compared with domestic supply during a recession. The impact is still strong when the government reduces civil servants’ remunerations and/or welfare beneﬁts, because this is interpreted as a signal of wage austerity or private sector wage reduction. An improvement in the trade balance may thus progressively compensate for the negative impact of the contraction of the public sector. Of course, this impact is higher for largely open small economies and when the exchange rate reacts to the lower domestic interest rate to make domestic producers more competitive. However, the negative retroaction of the devaluation of the domestic currency upon public debt, when denominated in a foreign currency, introduces a countervailing mechanism.

A major conclusion emerges from this simple survey: there is no general theoretical reason to guarantee the success of any austerity policy. Everything depends on how all these opposite effects interact. In some conﬁgurations, they may even succeed in restoring public ﬁnance credibility, whereas in others they may fail.

### Difficult to reproduce successful austerity policy- Success cases all have unique attributes that are unrealistic and/or difficult to emulate

Boyer, Economist at CEPREMAP and senior researcher for National Center for Scientific Research,11/1/11

(Robert, “The Four Fallacies of Contemporary Austerity Policies: the Lost Keynesian Legacy”, Cambridge Journal of Economics, November 1, 2011, Accessed 6/28/12)pg 298-299 AHL

Consequently, austerity without pain largely belongs to a rare or mythical conﬁguration.

In all other cases, short-run costs have to be paid under the form of lower domestic demand. Actually, the speciﬁc conditions of the Danish expansionary ﬁscal contractions are difﬁcult to reproduce:

- Firstly, given the legacy of the so-called Great Moderation, nominal interest rates are far lower than they were during the 1980s and early 1990s, and the management of the 2008 crisis has still contributed to very low nominal and even negative real interest rates in some countries, such as the USA and the UK. The only exception concerns countries that are suspected to default, but their macroeconomic conﬁgurations today are far from reproducing the virtuous circle of social democratic economies.

-Secondly, with the decentralisation of industrial relations and the wave of deregulation, it is difﬁcult to imagine the repetition of the social pacts that were instrumental in the acceptance by wage earners and citizens of income policies implying wage moderation. Therefore, a rise in unemployment is frequently the only instrument left to induce wage moderation.

- Thirdly, when countries have institutionalised the use of a ﬁxed exchange rate as a nominal anchor, the only path available is internal devaluation, i.e. stronger wage and salary austerity policies than in the past when they could devalue. It is easy to imagine the social and political costs of such a strategy. Instead of the virtuous circle observed in Denmark from 1983 to 1986, a cumulative downward adjustment has been operating since 2008 in Greece, for example.

### Austerity policy dysfunctional for severely hit countries

Boyer, Economist at CEPREMAP and senior researcher for National Center for Scientific Research,11/1/11

(Robert, “The Four Fallacies of Contemporary Austerity Policies: the Lost Keynesian Legacy”, Cambridge Journal of Economics, November 1, 2011, Accessed 6/28/12)pg 305 AHL

It is important to mention that the Greek collapse proves the institutional incompleteness and incoherence of the eurozone. First, the adhesion to the euro is assumed by the Lisbon Treaty to be irreversible and this implies stronger ‘internal devaluation’, namely a greater degree of wage austerity than was previously necessary. Indeed, domestic public opinion might consider that the costs are excessive, the longer the depression period lasts. Second, the members of the eurozone have benefited from the euro via the stabilisation of exchange rates and a convergence of interest rates towards the German ones, but they have lost two policy instruments: monetary policy and the choice of the exchange rate regime to follow (Boyer, 2000B). The Southern European countries that had weak competitiveness and small exporting sectors have been induced to compensate for this deficiency through active public spending policies facilitated by low real interest rates. Unfortunately, the causality cannot be reversed: a long and painful austerity policy is quite adverse to the restoration of a strong productive sector, which would contribute to faster growth and a larger ability to pay back the public debt. To sum up, the austerity policy will not function for the more severely hit countries and, conversely, it is not at all a solution for countries that have to experience a long period of the deleveraging of the private sector, especially in real estate.

Austerity measures can lower investor confidence, appear less credible.

Kitromilides, Ph.D. in Economics, 11

(Kitromilides, Yiannis, Ph.D. from University of London in Economics, “Deficit reduction, the age of austerity, and the paradox of insolvency,” Journal of Post Keynesian Economics Volume 33, 2011) ADJ

This argument, however, can backfire. If the markets form the view that the “age of austerity” strategy is counterproductive, this may strain further rather than calm down market nerves, and change perceptions of what constitutes a “credible” government policy to deal with ballooning deficits. The debt problem and the problem of reforming the international banking and financial system therefore must be tackled together.

### Austerity makes the global recession worse

Crotty, Ph.D., Carnegie-Mellon University, 12

(Crotty, James, “The great austerity war: what caused the US deficit crisis and who should pay to fix it?” Cambridge Journal of Economics, Volume 36, Pages 79-104 Accessed: 6-29-12) ADJ

We have reached what may be a crucial point in the evolution of the political economy of the USA. Rapidly rising deficits at both the federal and state and local government levels, along with prospective long-term financing problems in the Social Security and Medicare programmes, have triggered a one-sided class war. A somewhat disparate right-wing coalition composed of rich households, large corporations, smaller businesses, ideological conservatives (such as the Religious Right and,more recently, the Tea Party) and conservative politicians has demanded that the deficits be eliminated primarily by severe cuts at all levels of government in spending that either supports the poor and the middle class or funds crucial public investment in education, health care, infrastructure and technology. Simultaneously, the coalition has demanded huge tax cuts for wealthy households and businesses. These cuts would ratchet up political and economic pressure to further decimate government social and investment spending by creating even larger deficits. This is an example of the conservative ‘starve-the-beast’ strategy that pushes for sustained regressive tax cuts under any and all fiscal circumstances in order to shrink government spending other than on defence and programmes that enrich corporations. Similar austerity pressures have developed in Europe. The adoption of austerity programmes across the globe threatens to sink economies deeper into recession or even depression, perhaps triggering another global financial crisis. However, I will not focus on this pressing danger of austerity here. The USA needs a serious jobs-creation programme over the next several years, but it obviously cannot be built on the deep cuts in public spending and regressive tax cuts demanded by the right-wing coalition.

### Austerity caused the current debt crisis

Crotty, Ph.D., Carnegie-Mellon University, 12

(Crotty, James, “The great austerity war: what caused the US deficit crisis and who should pay to fix it?” Cambridge Journal of Economics, Volume 36, Pages 79-104 Accessed: 6-29-12) ADJ

Second, the current government debt crisis is the result of right-wing economic policies implemented since President Reagan took office that not only led to a deterioration in economic performance, but generated large budget deficits as well. Our debt-to-GDP ratio was very low before 1980, but, with the exception of the latter part of the Clinton presidency, it has been rising rapidly ever since. Rising deficits create financial market and political pressure to cut government spending on productive investment and shrink the social safety net—cornerstones of the New Deal. At least until now, attempts to slash social spending on programmes such as Social Security and Medicare have not been politically feasible, and military spending has remained bloated. Since tax cuts have not been matched by substantial spending cuts, the result is endless deficits.

### Austerity hurts medial real family income

Crotty, Ph.D., Carnegie-Mellon University, 12

(Crotty, James, “The great austerity war: what caused the US deficit crisis and who should pay to fix it?” Cambridge Journal of Economics, Volume 36, Pages 79-104 Accessed: 6-29-12) ADJ

Figure 1 shows that median real family income more than doubled from 1947 to 1979, but its growth slowed dramatically as the New Deal model began to erode. By 1993 it barely exceeded its 1979 value. Median family income increased by almost 17% in the Clinton expansion, then actually declined by 3% during the presidency of GeorgeW. Bush. In 2010 it was no higher than it had been in 1997. After rising by 2.4% a year in the period from 1950 to 1979, median family income increased by a meagre 0.4% annually in the 1979–2009 period. The rate of change would have been negative if not for the growth in hours worked per family after 1979.

### **Austerity fails—empirics**

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p. ]I.M.R.

Meanwhile, on the European continent, fiscal austerity became all the rage—and the European Central Bank began raising interest rates in early 2011, despite the deeply depressed state of the euro area economy and the absence of any convincing inflationary threat. Nor was the OECD alone in demanding monetary and fiscal tightening even in the face of depression. Other international organizations, like the Basel-based Bank for International Settlements (BIS), joined in; so did influential economists like Chicago’s Raghuram Rajan and influential business voices like Pimco’s Bill Gross. Oh, and in America leading Republicans seized on the various arguments being made for austerity as justifications for their own advocacy of spending cuts and tight money. To be sure, some people and organizations bucked the trend—most notably and gratifyingly, the International Monetary Fund continued to be a voice for what I considered policy sanity. But I think it’s fair to say that in 2010–11 what I, following the blogger Duncan Black, often call Very Serious People—people who express opinions that are regarded as sound by the influential and respectable—moved very strongly to the view that it was time to tighten, despite the absence of anything resembling full recovery from the financial crisis and its aftermath. What was behind this sudden shift in policy fashions? Actually, that’s a question that can be answered in two ways: we can try to look at the substantive arguments that were made on behalf of fiscal austerity and monetary tightening, or we can try to understand the motives of those who were so eager to turn away from the fight against unemployment.

### Austerity is flawed

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p. ] I.M.R.

In this chapter, I’ll try to look at the issue both ways, but I’ll look at the substance first. There is, however, a problem in doing that: if you try to parse the arguments of the Austerians, you find yourself chasing an elusive moving target. On interest rates, in particular, I often felt as if the advocates of higher rates were playing Calvinball—the game in the comic strip Calvin and Hobbes in which the players are constantly making up new rules. The OECD, the BIS, and various economists and financial types seemed quite sure that interest rates needed to go up, but their explanations of just why they needed to go up kept changing. This changeability in turn suggested that the real motives for demanding tightening had little to do with an objective assessment of the economics. It also means that I can’t offer a critique of “the” argument for austerity and higher rates; there were various arguments, not necessarily consistent with one another. Let’s start with the argument that has probably had the most force: fear—specifically, fear that nations that don’t turn their backs on stimulus and move to austerity, even in the face of high unemployment, will find themselves confronting debt crises similar to that of Greece. **The Fear Factor** Austerianism didn’t spring out of nowhere. Even in the months immediately following the fall of Lehman Brothers, some voices denounced the attempts to rescue major economies by engaging in deficit spending and rolling the printing presses. In the heat of the moment, however, these voices were largely drowned out by those calling for urgent expansionary action. By late 2009, though, both financial markets and the world economy had stabilized, so that the perceived urgency of action had declined. And then came the Greek crisis, which anti-Keynesians everywhere seized upon as an example of what would happen to the rest of us if we didn’t follow the straight and narrow path of fiscal rectitude. I’ve already pointed out, in chapter 10, that the Greek debt crisis was sui generis even within Europe, that the other debt crisis countries within the euro area suffered debt crises as a result of the financial crisis, not the other way around. Meanwhile, nations that still have their own currencies have seen no hint of a Greek-style run on their government debt, even when—like the United States, but also Britain and Japan—they too have large debt and deficits. But none of these observations seemed to matter in the policy debate. As the political scientist Henry Farrell puts it in a study of the rise and fall of Keynesian policies in the crisis, “The collapse of market confidence in Greece was interpreted as a parable of the risks of fiscal profligacy. States which got themselves into serious fiscal difficulties risked collapse in market confidence and perhaps indeed utter ruin.” Indeed, it became all the fashion for respectable people to issue apocalyptic warnings about imminent disaster if we didn’t move immediately to cut the deficit. Erskine Bowles, the co-chairman—the *Democratic* co-chairman!—of a panel that was supposed to deliver a plan for long-term deficit reduction, testified to Congress in March 2011, a few months after the panel failed to reach agreement, and warned about a debt crisis any day now: This problem is going to happen, like the former chairman of the Fed said or Moody’s said, this is a problem we’re going to have to face up to. It may be two years, you know, maybe a little less, maybe a little more, but if our bankers over there in Asia begin to believe that we’re not going to be solid on our debt, that we’re not going to be able to meet our obligations, just stop and think for a minute what happens if they just stop buying our debt. What happens to interest rates and what happens to the U.S. economy? The markets will absolutely devastate us if we don’t step up to this problem. The problem is real, the solutions are painful and we have to act. His co-chairman, Alan Simpson, then weighed in with an assertion that it would happen i n *less* than two years. Meanwhile, actual investors seemed not at all worried: interest rates on long-term U.S. bonds were low by historical standards as Bowles and Simpson spoke, and proceeded to fall to record lows over the course of 2011.

#### Austerity fails- wanted outcomes don't happen

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p.10 ] I.M.R.

**The Confidence Fair** I opened this chapter with remarks by Jean-Claude Trichet, the president of the European Central Bank until the fall of 2011, that encapsulate the remarkably optimistic —and remarkably foolish—doctrine that swept the corridors of power in 2010. This doctrine accepted the idea that the direct effect of slashing government spending is to reduce demand, which would, other things being equal, lead to an economic downturn and higher unemployment. But “confidence,” people like Trichet insisted, would more than make up for this direct effect. Early on, I took to calling this doctrine belief in the “confidence fairy,” a coinage that seems to have stuck. But what was this all about? Is it possible that cutting government spending can actually increase demand? Yes, it is. In fact, there are a couple of channels through which spending cuts could in principle lead to higher demand: by reducing interest rates and/or by leading people to expect lower future taxes. Here’s how the interest rate channel would work: investors, impressed by a government’s effort to reduce its budget deficit, would revise down their expectations about future government borrowing and hence about the future level of interest rates. Because long-term interest rates today reflect expectations about future rates, this expectation of lower future borrowing could lead to lower rates right away. And these lower rates could lead to higher investment spending right away. Alternatively, austerity now might impress consumers: they could look at the government’s enthusiasm for cutting and conclude that future taxes wouldn’t be as high as they had been expecting. And their belief in a lower tax burden would make them feel richer and spend more, once again right away. The question, then, wasn’t whether it was possible for austerity to actually expand the economy through these channels; it was whether it was at all plausible to believe that favorable effects through either the interest rate or the expected tax channel would offset the direct depressing effect of lower government spending, particularly under current conditions. To me, and to many other economists, the answer seemed clear: expansionary austerity was highly implausible in general, and especially given the state of the world as it was in 2010 and remains two years later. To repeat, the key point is that to justify statements like that made by Jean-Claude Trichet to *La Repubblica*, it’s not enough for these confidence-related effects to *exist*; they have to be strong enough to more than offset the direct, depressing effects of austerity right now. That was hard to imagine for the interest rate channel, given that rates were already very low at the beginning of 2010 (and are even lower at the time of this writing). As for the effects via expected future taxes, how many people do you know who decide how much they can afford to spend this year by trying to estimate what current fiscal decisions will mean for their taxes five or ten years in the future? Never mind, said the Austerians: we have strong empirical evidence for our claims. And thereby hangs a tale. A decade before the crisis, back in 1998, the Harvard economist Alberto Alesina published a paper titled “Tales of Fiscal Adjustments,” a study of countries that had moved to bring down large budget deficits. In that study he argued for strong confidence effects, so strong that in many cases austerity actually led to economic expansion. It was a striking conclusion, but one that at the time didn’t attract as much interest—or as much critical examination—as one might have expected. In 1998 the general consensus among economists was still that the Fed and other central banks could always do what was necessary to stabilize the economy, so the effects of fiscal policy didn’t seem that important one way or the other. Matters were quite different, of course, by 2010, when the question of more stimulus versus austerity was central to economic policy debates. Advocates of austerity seized on Alesina’s claim, as well as on a new paper, written with Silvia Ardagna, that tried to identify “large changes in fiscal policy” across a large sample of countries and time periods, and claimed to show many examples of expansionary austerity. These claims were further buttressed by an appeal to historical examples. Look at Ireland in the late 1980s, they said, or Canada in the mid-1990s, or several other cases; these were countries that drastically reduced their budget deficits, and their economies boomed rather than slumping. In normal times, the latest academic research plays a very small role in real-world policy debates, which is arguably how it should be—in the heat of the political moment, how many policy makers are truly equipped to evaluate the quality of a professor’s statistical analysis? Better to leave time for the usual process of academic debate and scrutiny to sort out the solid from the spurious. But Alesina/Ardagna was immediately adopted and championed by policy makers and advocates around the world. That was unfortunate, because neither statistical results nor historical examples supposedly demonstrating expansionary austerity in practice held up well at all once people began looking at them closely. How so? There were two key points: the problem of spurious correlation, and the fact that fiscal policy usually isn’t the only game in town, but that it is right now. On the first point, consider the example of the big U.S. move from budget deficit to budget surplus at the end of the 1990s. This move was associated with a booming economy; so was it a demonstration of expansionary austerity? No, it wasn’t: both the boom and the fall in the deficit largely reflected a third factor, the technology boom and bubble, which helped propel the economy forward, but also caused soaring stock prices, which in turn translated into surging tax receipts. The correlation between the reduced deficit and the strong economy did not imply causation. Now, Alesina and Ardagna corrected for one source of spurious correlation, the unemployment rate, but as people studying their paper quickly noticed, that wasn’t enough. Their episodes of both fiscal austerity and fiscal stimulus didn’t correspond at all closely to actual policy events—for example, they didn’t catch either Japan’s big stimulus effort in 1995 or its sharp turn to austerity in 1997. Last year researchers at the IMF tried to deal with this problem by using direct information on policy changes to identify episodes of fiscal austerity. They found that fiscal austerity depresses the economy rather than expanding it.

### Austerity fails—Ireland proves

 SJI Social Justice Ireland is a news based company 6-26-12

( Social Justice Ireland, 6-26-12, “Austerity is not working”, <http://www.socialjustice.ie/content/austerity-not-working>, 6-28-12) I.M.R.

Since 2008 successive Governments have pursued an austerity policy which has included deficit-cutting, lower spending, a reduction in the benefits and public services provided by the State coupled with increases in taxes but not on the corporate sector. This austerity approach is not working. This approach is aimed at reducing Ireland’s borrowing and providing the finance to pay back creditors, thus reducing Ireland’s debt. This debt, however, was not Ireland’s sovereign debt. Rather, it was a debt incurred by banks and financial institutions which was taken on by Ireland’s Government when it agreed to fully reimburse these banks and bondholders who had taken risks, invested recklessly and lost their investments with the collapse of 2008. Budget 2012 marked the seventh fiscal adjustment to the Irish economy since the beginning of the current economic crisis in 2008. Following the increases to taxes and decreases in public expenditure, the total adjustment to date has risen to almost €24.5 billion - equivalent to 15% of GDP which has been directly removed by government from the economy. Of course, the knock-on implications of these adjustments have removed additional economic activity from the economy explaining the large overall drop in GDP since 2007. Based on the plans outlined in November’s Medium Term Fiscal Statement, the Government intends to remove a further €8.6 billion from the economy over three Budgets from 2013-2015. If these plans are implemented, the overall sum of the adjustments from 2008-2015 will total €33 billion - equivalent to 18% of the GDP forecast for 2015. The details are set out in table 1. The implications of these large and harsh adjustments is visible in o the continued extension of the adjustment plan, o the sustained increases in unemployment and o the lack of confidence domestically and internationally in the Irish economy’s recovery. Reflecting this, chart 1 presents the Governments data on the expected composition of economic activity in Ireland in 2012. It shows that all sectors of the economy continue to contract with the exception of exports. As spending cuts and tax increases take effect, households are spending less, investment is falling and it is only export growth (entirely driven by non-domestic demand factors) that is pulling the economy out of recession. An obvious question arises regarding the sustainability of this policy approach. Social Justice Ireland believes that Government needs to adopt policies to stimulate the economy rather than continually run it down. Domestic demand should be given a chance to recover through policies which promote government or European Investment Bank led investment while further building domestic economic confidence through addressing the unemployment crisis via, for example, Social Justice Ireland’s Part-Time Job Opportunities proposal to take 100,000 people off the dole queues.

#### Austerity shown to kill growth

Drum, He a writer for Mother Jones.com, 2012

( Kevin, “Austerity Not Working in Italy Either”, 4-18-12, <http://www.motherjones.com/kevin-drum/2012/04/austerity-not-working-italy-either>, 6-28-12) I.M.R.

A few days ago it was Spain. Now it's Italy. Prime Minister Mario Monti announced a new 3-year economic plan today that — surprise! — shows that [austerity has been bad for Italy's economy:](http://online.wsj.com/article/SB10001424052702303513404577351560527620108.html" \t "_blank) The plan, which must be ratified by Parliament and sent to the European Commission in Brussels by the end of the month, forecasts that Italy's gross domestic product will contract by 1.2% this year, almost three times the forecast in December. ....Yet, Italy's fiscal policy is tightening, Deputy Economy Minister Vittorio Grilli said. Rome will post a **budget surplus of 0.6% of GDP next year in structural, cyclically adjusted terms**....The International Monetary Fund reached a similar conclusion, saying Tuesday that Italy won't balance its budget until 2017, but that next year it will achieve a structural balance—suggesting Italy wouldn't have a fiscal shortfall **if the economy were performing at its full potential.** For those who argue that austerity is choking growth, the underlying rigor isn't something to boast about. No, it's nothing to boast about. After all, lots of countries would have balanced budgets, or something close, if their economies were cranking along at full potential. But that's the whole point: austerity economics is stifling growth, which makes it hard to balance the *actual, real-life* budget. If the answer to that is even further austerity, you can expect even lower growth. But austerity is the plan anyway. Hang on tight.

### Austerity doesn’t work Europe Proves Stimulus is key to growth

Ghelani, an Assistant Producer at CNBC, May 4, 2012

(Rajeshni Naidu, “Spain Downgrade Is Proof Austerity Not Working”, 5-4-12, <http://www.cnbc.com/id/47200362/Spain_Downgrade_Is_Proof_Austerity_Not_Working>, 6-28-12) I.M.R.

Ratings agency Standard & Poor's [**downgrade of Spain's credit rating**](http://www.cnbc.com/id/47195464)Thursday for the second time this year highlights the fact that austerity alone is not enough to tackle the euro zone debt problem. Experts tell CNBC that European leaders need to focus on growth now.

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“Clearly, austerity and growth cannot go hand in hand... I think we need to see European leaders break out of this pure austerity mode and try and do something different in terms of pro-growth policies," Vasu Menon, Vice President, Group Wealth Management, OCBC Bank, told CNBC Asia's "[**Cash Flow**](http://www.cnbc.com/id/17501787/)." Spain's long-term debt was cut to Triple-B plus from A, while its short-term rating was lowered to A-2 from A-1. In January, [**S&P downgraded Spain**](http://www.cnbc.com/id/45989399) along with eight other euro zone countries of their coveted triple-A status. The latest downgrade was prompted by concerns over growing government debt amid a contracting economy. The Bank of Spain said earlier this week that the economy [**probably contracted 0.4 percent**](http://www.cnbc.com/id/47140011) in the first quarter of 2012. Official figures are due April 30. Austerity measures are beginning to impact European economies as they slip into recession, according to Menon. "We can see that it's starting to impact the economies in Europe, not just in the euro zone but in the UK as well — they've implemented austerity measures and look at what happened to them, they're in a recession right now," Menon said. According to Marc Seidner, Managing Director, PIMCO, "If economies can grow then countries can safely delever from heightened debt level, if not, crisis continues." **No Quick-Fix** Analysts agreed that there was no short-term solution in sight and that the European Central Bank would have to keep [**injecting cash into the banking system**](http://www.cnbc.com/id/46568791/). "In Europe, they're basically committed to providing money to throw at the problem forever. They might need to do it for years," Richard Jerram, Chief Economist, Bank of Singapore told CNBC Asia's "[**Squawk Box**](http://www.cnbc.com/id/15838831/)." Menon adds, "If anybody expects any quick solution out of Europe, they're really hoping for too much."

## Keynesian-Stimulus Solves

### Keynesian approach to economic policy avoids errors leading to Great Depression

Boyer, Economist at CEPREMAP and senior researcher for National Center for Scientific Research,11/1/11

(Robert, “The Four Fallacies of Contemporary Austerity Policies: the Lost Keynesian Legacy”, Cambridge Journal of Economics, November 1, 2011, Accessed 6/28/12)pg 284 AHL

The inability to anticipate and then understand the brusque reversal of economic activity initially led to a puzzling silence from mainstream economists. It also signaled a return towards the previously neglected authors whose analyses could make intelligible the economic processes observed during the bubble and its bursting. This ‘bursting’ was called the Minsky moment, when ﬁnancial experts rediscovered that bubbles were endogenous (Davis, 1992) and that, under some circumstances, they could trigger a systemic equivalent to the Great Depression of the 1930s (Minsky, 1975, 1982). Facing the risk of its repetition, Irving Fisher’s debt deﬂation theory was also perceived as a relevant reference in order to understand the joint collapse of the prices of most ﬁnancial assets (Fisher, 1933).

In the realm of economic policies, under the pressure of events and urgency, the central bankers and Ministers of Finance have been reminded not to repeat the errors of the 1930s: expand liquidity even to speculators, let the automatic stabilisers play their role and if these instruments are insufﬁcient, do not hesitate to cut taxes and increase public spending, especially if the interest rate tends towards zero. Some analysts have even announced the comeback of John Maynard Keynes and, thus, the defeat of new classical macroeconomics. However, as soon as the output freefall had been reversed, and the ﬁnancial panic stopped via extended and unprecedented guarantees given to commercial and investment banks, ﬁnancial proﬁts have been booming again. It even turned out to be proﬁtable to buy the Treasury bonds granted to bail out the banks by the equivalent of a purely domestic ‘carry trade’.

### Burst of spending will get US economy back on track

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p. ]

In the middle of 1939 the U.S. economy was past the worst of the Great Depression, but the depression was by no means over. The government was not yet collecting comprehensive data on employment and unemployment, but as best we can tell the unemployment rate as we now define it was over 11 percent. That seemed to many people like a permanent state: the optimism of the early New Deal years had taken a hard blow in 1937, when the economy suffered a second severe recession. Yet within two years the economy was booming, and unemployment was plunging. What happened? The answer is that finally someone began spending enough to get the economy humming again. That “someone” was, of course, the government. The object of that spending was basically destruction rather than construction; as the economists Robert Gordon and Robert Krenn put it, in the summer of 1940 the U.S. economy went to war. Long before Pearl Harbor, military spending soared as America rushed to replace the ships and other armaments sent to Britain as part of the lend-lease program, and as army camps were quickly built to house the millions of new recruits brought in by the draft. As military spending created jobs and family incomes rose, consumer spending also picked up (it would eventually be restrained by rationing, but that came later). As businesses saw their sales growing, they also responded by ramping up spending. And just like that, the Depression was over, and all those “unadaptable and untrained” workers were back on the job. Did it matter that the spending was for defense, not domestic programs? In economic terms, not at all: spending creates demand, whatever it’s for. In political terms, of course, it mattered enormously: all through the Depression influential voices warned about the dangers of excessive government spending, and as a result the job-creation programs of the New Deal were always far too small, given the depth of the slump. What the threat of war did was to finally silence the voices of fiscal conservatism, opening the door for recovery—which is why I joked back in the summer of 2011 that what we really need right now is a fake threat of alien invasion that leads to massive spending on anti-alien defenses. But the essential point is that what we need to get out of this current depression is another burst of government spending. Is it really that simple? Would it really be that easy? Basically, yes. We do need to talk about the role of monetary policy, about implications for government debt, and about what must be done to ensure that the economy doesn’t slide right back into depression when the government spending stops. We need to talk about ways to reduce the overhang of private debt that is arguably at the root of our slump. We also need to talk about international aspects, especially the peculiar trap Europe has created for itself. All of that will be covered later in this book. But the core insight—that what the world needs now is for governments to step up their spending to get us out of this depression—will remain intact. Ending this depression should be, could be, almost incredibly easy. So why aren’t we doing it? To answer that question, we have to look at some economic and, even more important, political history. First, however, let’s talk some more about the crisis of 2008, which plunged us into this depression

### Deficit spending can solve debt, empirics prove-multiple reasons

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p. ]AHL

One of the common arguments against fiscal policy in the current situation—one that sounds sensible—runs like this: “You yourself say that this crisis is the result of too much debt. Now you’re saying that the answer involves running up even more debt. That can’t possibly make sense.” Actually, it does. But to explain why will take both some careful thinking and a look at the historical record. It’s true that people like me believe that the depression we’re in was in large part caused by the buildup of household debt, which set the stage for a Minksy moment in which highly indebted households were forced to slash their spending. How, then, can even more debt be part of the appropriate policy response? The key point is that this argument against deficit spending assumes, implicitly, that debt is debt—that it doesn’t matter who owes the money. Yet that can’t be right; if it were, we wouldn’t have a problem in the first place. After all, to a first approximation debt is money we owe to ourselves; yes, the United States has debt to China and other countries, but as we saw in chapter 3, our net debt to foreigners is relatively small and not at the heart of the problem. Ignoring the foreign component, or looking at the world as a whole, we see that the overall level of debt makes no difference to aggregate net worth —one person’s liability is another person’s asset. It follows that the level of debt matters only if the distribution of net worth matters, if highly indebted players face different constraints from players with low debt. And this means that all debt isn’t created equal, which is why borrowing by some actors now can help cure problems created by excess borrowing by other actors in the past. Think of it this way: when debt is rising, it’s not the economy as a whole borrowing more money. It is, rather, a case of less patient people—people who for whatever reason want to spend sooner rather than later—borrowing from more patient people. The main limit on this kind of borrowing is the concern of those patient lenders about whether they will be repaid, which sets some kind of ceiling on each individual’s ability to borrow. What happened in 2008 was a sudden downward revision of those ceilings. This downward revision has forced the debtors to pay down their debt, rapidly, which means spending much less. And the problem is that the creditors don’t face any equivalent incentive to spend more. Low interest rates help, but because of the severity of the “deleveraging shock,” even a zero interest rate isn’t low enough to get them to fill the hole left by the collapse in debtors’ demand. The result isn’t just a depressed economy: low incomes and low inflation (or even deflation) make it that much harder for the debtors to pay down their debt. What can be done? One answer is to find some way to reduce the real value of the debt. Debt relief could do this; so could inflation, if you can get it, which would do two things: it would make it possible to have a negative real interest rate, and it would in itself erode the outstanding debt. Yes, that would in a way be rewarding debtors for their past excesses, but economics is not a morality play. I’ll have more to say about inflation in the next chapter. Just to go back for a moment to my point that debt is not all the same: yes, debt relief would reduce the assets of the creditors at the same time, and by the same amount, as it reduced the liabilities of the debtors. But the debtors are being forced to cut spending, while the creditors aren’t, so this is a net positive for economywide spending. But what if neither inflation nor sufficient debt relief can, or at any rate will, be delivered? Well, suppose a third party can come in: the government. Suppose that it can borrow for a while, using the borrowed money to buy useful things like rail tunnels under the Hudson, or pay schoolteacher salaries. The true social cost of these things will be very low, because the government will be employing resources that would otherwise be unemployed. And it also makes it easier for the debtors to pay down their debt; if the government maintains its spending long enough, it can bring debtors to the point where they’re no longer being forced into emergency debt reduction and where further deficit spending is no longer required to achieve full employment. Yes, private debt will in part have been replaced by public debt, but the point is that debt will have been shifted away from the players whose debt is doing the economic damage, so that the economy’s problems will have been reduced even if the overall level of debt hasn’t fallen. The bottom line, then, is that the plausible-sounding argument that debt can’t cure debt is just wrong. On the contrary, it can—and the alternative is a prolonged period of economic weakness that actually makes the debt problem harder to resolve. OK, that’s just a hypothetical story. Are there any real-world examples? Indeed there are. Consider what happened during and after World War II. It has always been clear why World War II lifted the U.S. economy out of the Great Depression: military spending solved the problem of inadequate demand, with a vengeance. A harder question is why America didn’t relapse into depression when the war was over. At the time, many people thought it would; famously, Montgomery Ward, once America’s largest retailer, went into decline after the war because its CEO hoarded cash in the belief that the Depression was coming back, and it lost out to rivals who capitalized on the great postwar boom. So why didn’t the Depression come back? A likely answer is that the wartime expansion—along with a fairly substantial amount of inflation during and especially just after the war—greatly reduced the debt burden of households. Workers who earned good wages during the war, while being more or less unable to borrow, came out with much lower debt relative to income, leaving them free to borrow and spend on new houses in the suburbs. The consumer boom took over as the war spending fell back, and in the stronger postwar economy the government could in turn let growth and inflation reduce its debt relative to GDP. In short, the government debt run up to fight the war was, in fact, the solution to a problem brought on by too much private debt. The persuasive-sounding slogan that debt can’t cure a debt problem is just wrong.

### Obama stimulus failed for multiple reasons - Proper stimulus would solve

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p. ]AHL

Let me say right away that I don’t intend to spend much time revisiting the decisions of early 2009, which are water under the bridge at this point. This book is about what to do now, not about placing blame for what was done wrong in the past. Still, I can’t avoid a brief discussion of how the Obama administration, despite being Keynesian in principle, fell vastly short in its immediate response to the crisis. There are two competing theories about why the Obama stimulus was so inadequate. One emphasizes the political limits; according to this theory, Obama got all he could. The other argues that the administration failed to grasp the severity of the crisis, and also failed to appreciate the political fallout from an inadequate plan. My own take is that the politics of adequate stimulus were very hard, but we will never know whether they really prevented an adequate plan, because Obama and his aides never even tried for something big enough to do the job. There’s no doubt that the political environment was very difficult, largely because of the rules of the U.S. Senate, in which 60 votes are normally needed to override a filibuster. Obama seems to have arrived in office expecting bipartisan support for his efforts to rescue the economy; he was completely wrong. From day one, Republicans offered scorched-earth opposition to anything and everything he proposed. In the end, he was able to get his 60 votes by winning over three moderate Republican senators, but they demanded, as the price of their support, that he slash $100 billion in aid to state and local governments from the bill. Many commentators see that demand for a smaller stimulus as a clear demonstration that no bigger bill was possible. I guess I don’t think of it as being all that clear. First of all, there may have been a pound-of-flesh aspect to the behavior of those three senators: they had to make a show of cutting something to prove that they weren’t giving away the store. So you can make a reasonable case that the real limit on stimulus wasn’t $787 billion, that it was $100 billion less than Obama’s plan, whatever it was; if he had asked for more, he wouldn’t have gotten all he asked for, but he would have gotten a bigger effort all the same. Also, there was available an alternative to wooing those three Republicans: Obama could have passed a bigger stimulus by using reconciliation, a parliamentary procedure that bypasses the threat of a filibuster and therefore reduces the number of Senate votes needed to 50 (because in the case of a tie the vice president can cast the deciding vote). In 2010 Democrats would in fact use reconciliation to pass health reform. Nor would this have been an extreme tactic by historical standards: both rounds of Bush tax cuts, in 2001 and 2003, were passed by means of reconciliation, and the 2003 round in fact gained only 50 votes in the Senate, with Dick Cheney casting the decisive vote. There’s another problem with the claim that Obama obtained all he could: he and his administration never made the case that they would have liked a bigger bill. On the contrary, when the bill was before the Senate, the president declared that “broadly speaking, the plan is the right size. It is the right scope.” And to this day administration officials like to claim not that the plan was undersized because of Republican opposition but that at the time nobody realized that a much bigger plan was needed. As late as December 2011, Jay Carney, the White House press secretary, was saying things like this: “There was not a single mainstream, Wall Street, academic economist who knew at the time, in January of 2009, just how deep the economic hole was that we were in.” As we’ve already seen, that was not at all the case. So what did happen? Ryan Lizza of The New Yorker has acquired and made public the memo on economic policy that Larry Summers, who would soon be the administration’s top economist, prepared for President-elect Obama in December 2008. This fifty-seven-page document quite clearly had multiple authors, not all of them on the same page. But there is a telling passage (on page 11) laying out the case against too big a package. Three main points emerge: 1. “An excessive recovery package could spook markets or the public and be counterproductive.” 2. “The economy can only absorb so much ‘priority investment’ over the next two years.” 3. “It is easier to add down the road to insufficient fiscal stimulus than to subtract from excessive fiscal stimulus. We can if necessary take further steps.” Of these, point 1 involves invoking the threat of “bond vigilantes,” of which more in the next chapter; suffice it to say that this fear has proved unjustified. Point 2 was clearly right, but it’s unclear why it precluded more aid to state and local governments. In his remarks just after the ARRA was passed, Joe Stiglitz noted that it provided “a little of federal aid but just not enough. So what we will be doing is we will be laying off teachers and laying off people in the health care sector while we are hiring construction workers. It is a little strange for a design of a stimulus package.” Also, given the likelihood of a prolonged slump, why the two-year limit on the horizon? Finally, point 3, about the ability to go back for more, was totally wrong—and obviously so, at least to me, even at the time. So there was a major political misjudgment on the part of the economic team. For a variety of reasons, then, the Obama administration did the right thing but on a wholly inadequate scale. As we’ll see later, there was a similar shortfall in Europe, for somewhat different reasons.

### Obama's stimulus not correctly enacted, public perception precluded a second stimulus

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p. ]AHL

By December 2008, members of Barack Obama’s transition team were preparing to take over management of the U.S. economy. It was already clear that they faced a very scary prospect. Falling home and stock prices had delivered a body blow to wealth; household net worth fell $13 trillion—an amount roughly equal to a year’s worth of production of goods and services—over the course of 2008. Consumer spending naturally fell off a cliff, and business spending, which was also suffering from the effects of the credit crunch, followed, since there’s no reason to expand a business whose customers have disappeared. So what was to be done? The usual first line of defense against recessions is the Federal Reserve, which normally cuts interest rates when the economy stumbles. But short-term interest rates, which are what the Fed normally controls, were already zero and couldn’t be cut further. That left, as the obvious answer, fiscal stimulus—temporary increases in government spending and/or tax cuts, designed to support overall spending and create jobs. And the Obama administration did in fact design and enact a stimulus bill, the American Recovery and Reinvestment Act. Unfortunately, the bill, clocking in at $787 billion, was far too small for the job. It surely mitigated the recession, but it fell far short of what would have been needed to restore full employment, or even to create a sense of progress. Worse yet, the failure of the stimulus to deliver clear success had the effect, in the minds of voters, of discrediting the whole concept of using government spending to create jobs. So the Obama administration didn’t get a chance for a do-over. Before I get to the reasons why the stimulus was so inadequate, let me respond to two objections people like me often encounter. First is the claim that we’re just making excuses, that this is all an after-the-fact attempt to rationalize the failure of our preferred policy. Second is the declaration that Obama has presided over a huge expansion of government, so it can’t be right to say that he spent too little. The answer to the first claim is that this isn’t after the fact: many economists warned from the beginning that the administration’s proposal was woefully inadequate.

### Unemployment and low economic output in world economy caused by lack of spending by everyone- Babysitting model proves

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012]AHL

Why is unemployment so high, and economic output so low? Because we—where by “we” I mean consumers, businesses, and governments combined—aren’t spending enough. Spending on home construction and consumer goods plunged when the twin housing bubbles in America and Europe burst. Business investment soon followed, because there’s no point in expanding capacity when sales are shrinking, and a lot of government spending has also fallen as local, state, and some national governments have found themselves starved for revenue. Low spending, in turn, means low employment, because businesses won’t produce what they can’t sell, and they won’t hire workers if they don’t need them for production. We are suffering from a severe overall lack of demand. Attitudes toward what I just said vary widely. Some commentators consider it so obvious as not to be worth discussing. Others, however, regard it as nonsense. There are players on the political landscape—important players, with real influence—who don’t believe that it’s possible for the economy as a whole to suffer from inadequate demand. There can be lack of demand for some goods, they say, but there can’t be too little demand across the board. Why? Because, they claim, people have to spend their income on something. This is the fallacy Keynes called “Say’s Law”; it’s also sometimes called the “Treasury view,” a reference not to our Treasury but to His Majesty’s Treasury in the 1930s, an institution that insisted that any government spending would always displace an equal amount of private spending. Just so you know that I’m not describing a straw man, here’s Brian Riedl of the Heritage Foundation (a right-wing think tank) in an early-2009 interview with National Review: The grand Keynesian myth is that you can spend money and thereby increase demand. And it’s a myth because Congress does not have a vault of money to distribute in the economy. Every dollar Congress injects into the economy must first be taxed or borrowed out of the economy. You’re not creating new demand, you’re just transferring it from one group of people to another. Give Riedl some credit: unlike many conservatives, he admits that his argument applies to any source of new spending. That is, he admits that his argument that a government spending program can’t raise employment is also an argument that, say, a boom in business investment can’t raise employment either. And it should apply to falling as well as rising spending. If, say, debt-burdened consumers choose to spend $500 billion less, that money, according to people like Riedl, must be going into banks, which will lend it out, so that businesses or other consumers will spend $500 billion more. If businesses afraid of that socialist in the White House scale back their investment spending, the money they thereby release must be spent by less nervous businesses or consumers. According to Riedl’s logic, overall lack of demand can’t hurt the economy, because it just can’t happen. Obviously I don’t believe this, and in general sensible people don’t. But how do we show that it’s wrong? How can you convince people that it’s wrong? Well, you can try to work through the logic verbally, but my experience is that when you try to have this kind of discussion with a determined anti-Keynesian, you end up caught in word games, with nobody persuaded. You can write down a little mathematical model to illustrate the issues, but this works only with economists, not with normal human beings (and it doesn’t even work with some economists). Or you can tell a true story—which brings me to my favorite economics story: the babysitting co-op. The story was first told in a 1977 article in the Journal of Money, Credit and Banking, written by Joan and Richard Sweeney, who lived through the experience, and titled “Monetary Theory and the Great Capitol Hill Baby Sitting Co-op crisis.” The Sweeneys were members of a babysitting co-op: an association of around 150 young couples, mainly congressional staffers, who saved money on babysitters by looking after each other’s children. The relatively large size of the co-op offered a big advantage, since the odds of finding someone able to do babysitting on a night you wanted to go out were good. But there was a problem: how could the co-op’s founders ensure that each couple did its fair share of babysitting? The co-op’s answer was a scrip system: couples who joined the co-op were issued twenty coupons, each corresponding to one half hour of babysitting time. (Upon leaving the co-op, they were expected to give the same number of coupons back.) Whenever babysitting took place, the babysittees would give the babysitters the appropriate number of coupons. This ensured that over time each couple would do as much babysitting as it received, because coupons surrendered in return for services would have to be replaced. Eventually, however, the co-op got into big trouble. On average, couples would try to keep a reserve of babysitting coupons in their desk drawers, just in case they needed to go out several times in a row. But for reasons not worth getting into, there came a point at which the number of babysitting coupons in circulation was substantially less than the reserve the average couple wanted to keep on hand. So what happened? Couples, nervous about their low reserves of babysitting coupons, were reluctant to go out until they had increased their hoards by babysitting other couples’ children. But precisely because many couples were reluctant to go out, opportunities to earn coupons through babysitting became scarce. This made couponpoor couples even more reluctant to go out, and the volume of babysitting in the co-op fell sharply. In short, the babysitting co-op fell into a depression, which lasted until the economists in the group managed to persuade the board to increase the supply of coupons. What do we learn from this story? If you say “nothing,” because it seems too cute and trivial, shame on you. The Capitol Hill babysitting co-op was a real, if miniature, monetary economy. It lacked many of the features of the enormous system we call the world economy, but it had one feature that is crucial to understanding what has gone wrong with that world economy—a feature that seems, time and again, to be beyond the ability of politicians and policy makers to grasp. What is that feature? It is the fact that your spending is my income, and my spending is your income. Isn’t that obvious? Not to many influential people. For example, it clearly wasn’t obvious to John Boehner, the Speaker of the U.S. House, who opposed President Obama’s economic plans, arguing that since Americans were suffering, it was time for the U.S. government to tighten its belt too. (To the great dismay of liberal economists, Obama ended up echoing that line in his own speeches.) The question Boehner didn’t ask himself was, if ordinary citizens are tightening their belts—spending less—and the government also spends less, who is going to buy American products? Similarly, the point that every individual’s income—and every country’s income, too— is someone else’s spending is clearly not obvious to many German officials, who point to their country’s turnaround between the late 1990s and today as a model for everyone else to follow. The key to that turnaround was a move on Germany’s part from trade deficit to trade surplus—that is, from buying more from abroad than it sold abroad to the reverse. But that was possible only because other countries (mainly in southern Europe) correspondingly moved deep into trade deficit. Now we’re all in trouble, but we can’t all sell more than we buy. Yet the Germans don’t seem to grasp that, perhaps because they don’t want to. And because the babysitting co-op, for all its simplicity and tiny scale, had this crucial, not at all obvious feature that’s also true of the world economy, the co-op’s experiences can serve as “proof of concept” for some important economic ideas. In this case, we learn at least three important lessons. First, we learn that an overall inadequate level of demand is indeed a real possibility. When coupon-short members of the babysitting co-op decided to stop spending coupons on nights out, that decision didn’t lead to any automatic offsetting rise in spending by other co-op members; on the contrary, the reduced availability of babysitting opportunities made everyone spend less. People like Brian Riedl are right that spending must always equal income: the number of babysitting coupons earned in a given week was always equal to the number of coupons spent. But this doesn’t mean that people will always spend enough to make full use of the economy’s productive capacity; it can instead mean that enough capacity stands idle to depress income down to the level of spending. Second, an economy really can be depressed thanks to magneto trouble, that is, thanks to failures of coordination rather than lack of productive capacity. The co-op didn’t get into trouble because its members were bad babysitters, or because high tax rates or too-generous government handouts made them unwilling to take babysitting jobs, or because they were paying the inevitable price for past excesses. It got into trouble for a seemingly trivial reason: the supply of coupons was too low, and this created a “colossal muddle,” as Keynes put it, in which the members of the co-op were, as individuals, trying to do something—add to their hoards of coupons—that they could not, as a group, actually do. This is a crucial insight. The current crisis in the global economy—an economy that’s roughly 40 million times as large as the babysitting co-op—is, for all the differences in scale, very similar in character to the problems of the co-op. Collectively, the world’s residents are trying to buy less stuff than they are capable of producing, to spend less than they earn. That’s possible for an individual, but not for the world as a whole. And the result is the devastation all around us. Let me say a bit more about that, offering a brief and simplified preview of the longer explanation to come. If we look at the state of the world on the eve of the crisis—say, in 2005–07—we see a picture in which some people were cheerfully lending a lot of money to other people, who were cheerfully spending that money. U.S. corporations were lending their excess cash to investment banks, which in turn were using the funds to finance home loans; German banks were lending excess cash to Spanish banks, which were also using the funds to finance home loans; and so on. Some of those loans were used to buy new houses, so that the funds ended up spent on construction. Some of the loans were used to extract money from home equity, which was used to buy consumer goods. And because your spending is my income, there were plenty of sales, and jobs were relatively easy to find. Then the music stopped. Lenders became much more cautious about making new loans; the people who had been borrowing were forced to cut back sharply on their spending. And here’s the problem: nobody else was ready to step up and spend in their place. Suddenly, total spending in the world economy plunged, and because my spending is your income and your spending is my income, incomes and employment plunged too. So can anything be done? That’s where we come to the third lesson from the babysitting co-op: big economic problems can sometimes have simple, easy solutions. The co-op got out of its mess simply by printing up more coupons. This raises the key question: Could we cure the global slump the same way? Would printing more babysitting coupons, aka increasing the money supply, be all that it takes to get Americans back to work? Well, the truth is that printing more babysitting coupons is the way we normally get out of recessions. For the last fifty years the business of ending recessions has basically been the job of the Federal Reserve, which (loosely speaking) controls the quantity of money circulating in the economy; when the economy turns down, the Fed cranks up the printing presses. And until now this has always worked. It worked spectacularly after the severe recession of 1981–82, which the Fed was able to turn within a few months into a rapid economic recovery—“morning in America.” It worked, albeit more slowly and more hesitantly, after the 1990–91 and 2001 recessions. But it didn’t work this time around. I just said that the Fed “loosely speaking” controls the money supply; what it actually controls is the “monetary base,” the sum of currency in circulation and reserves held by banks. Well, the Fed has tripled the size of the monetary base since 2008; yet the economy remains depressed. So is my argument that we’re suffering from inadequate demand wrong? No, it isn’t. In fact, the failure of monetary policy to resolve this crisis was predictable— and predicted. I wrote the original version of my book The Return of Depression Economics, back in 1999, mainly to warn Americans that Japan had already found itself in a position where printing money couldn’t revive its depressed economy, and that the same thing could happen to us. Back then a number of other economists shared my worries. Among them was none other than Ben Bernanke, now the Fed chairman. So what did happen to us? We found ourselves in the unhappy condition known as a “liquidity trap.”

### Spending helps the economy.

Kitromilides, Ph.D. in Economics, 11

(Kitromilides, Yiannis, Ph.D. from University of London in Economics, “Deficit reduction, the age of austerity, and the paradox of insolvency,” Journal of Post Keynesian Economics Volume 33, 2011) ADJ

It was, of course, Keynes (1936) who warned us about the pitfalls of the logical fallacy of composition in formulating macroeconomic policy: what is true for the part is not necessarily true for the whole. The most famous example, of course, is the case of an individual household budget and a government budget: while it is sensible to counsel an individual household faced with economic difficulties, such as unemployment, to “balance” its budget by cutting down spending and living within its means, it is not a sensible advice to a government when the economy as a whole faces unemployment. In fact, the solution to the country’s unemployment problem is the opposite to that of an individual house*Deficit reduction, age of austerity , and parado x of insolvency 527* hold’s. What is needed in a recession is not a balanced, but an unbalanced, public budget. This is the simple Keynesian message in support of deficit spending in a recession, largely ignored by policymakers in the early 1930s and dismissed more recently by the NCM theoretical framework as unimportant. Thankfully, the simple Keynesian message was accepted by the G‑20 governments in 2009, thus possibly preventing a 1930s-style global depression. For a brief moment, faith in the NCM theoretical framework was suspended and the whole world became Keynesian and agreed on a coordinated program of deficit spending and global fiscal expansion.

### Stimulus spending repairs a broken economy, New Deal proves

Crotty, Ph.D., Carnegie-Mellon University, 12

(Crotty, James, “The great austerity war: what caused the US deficit crisis and who should pay to fix it?” Cambridge Journal of Economics, Volume 36, Pages 79-104 Accessed: 6-29-12) ADJ

The out-of-control capitalism of the period led to a financial crisis in late 1929 that eventually became a financial collapse accompanied by a severe depression. This economic disaster generated such serious social and political unrest that the very existence of capitalism in America was called into question. Trade union militancy exploded while communist, socialist and semi-fascistic movements sprung up across the country. The idea that unregulated capitalism posed an extreme danger to the economy and society became the dominant view. FDR and the Democratic Party took control of the government in 1933 and began to implement a series of programmes that became known as the New Deal. They included strict regulation of financial markets, creation of the Social Security programme, support for the rising industrial union movement, large public employment programmes, deficit-financed stimulus spending of various kinds and the beginning of a system of unemployment insurance. The New Deal helped stop the collapse of the economy and restored economic growth, but when the Democrats tightened the budget in 1937 under pressure from antideficit forces, unemployment began to rise again. It took the central planning and huge government spending of World War II to restore full employment and create general prosperity.

### Stimulus increase capital flow and demand for goods

Dau-Schmidt, Willard and Margaret Carr Professor of Labor and Employment Law at Indiana University, 1-1-12(Kenneth, Keynes Was Right!, 1-1-12, <http://www.repository.law.indiana.edu/ilj/vol87/iss1/4/>, 6-28-12)I.M.R.

Keynes hypothesized that, in order to escape the Great Depression, the government should actively stimulate aggregate demand to increase employment and consumer spending and thus encourage the economy to spiral upward, not downward.10 This should be done, according to Keynes, by expanding the money supply, or by direct government deficit spending to increase demand for goods and investment in capital.11 Although merely adjusting the money supply might be adequate to combat small recessions, Keynes argued that direct government deficit spending would be the most effective tool in combating unemployment when interest rates had dropped to the point that further increases in the money supply did not increase aggregate demand. Keynes referred to this situation as “the liquidity trap” because, at a low enough interest rate, businesses and consumers became indifferent between holding cash (liquidity) and making investments, and thus further increases in the money supply would not increase aggregate demand or employment.12 Franklin Delano Roosevelt adopted Keynes’s theories as a basis for the New Deal and undertook an aggressive policy of deficit spending on infrastructure to employ people and put money in their hands for consumption and improvement of the economy.13 This policy significantly improved the economy, which fully recovered with the massive deficit spending required for World War II.14 As a result of the economic recovery, people had jobs and government coffers were filled, so that in the long run the direct government deficit spending improved both the lives of Americans and the government’s balance sheet.15 We now find ourselves in a very similar predicament in which investment speculation has resulted in the failure of financial institutions and a significant decline in the money supply, aggregate demand, and employment.16 The Federal Reserve has valiantly and appropriately combated the recession by expanding the money supply, but with interest rates to banks basically at zero, interest rates have fallen to the point where there is no more room for purely monetary policy to stimulate the economy.17 Balancing state or the federal budgets at this time would merely repeat the errors of the Hoover administration, decreasing aggregate demand and killing, or even reversing, the recovery.18 Although deficit spending increases future commitments on debt maintenance, well-designed deficit spending now will shorten the recession, improve our children’s and student’s job prospects, increase employment and tax revenues, and lessen the long-run government budget deficit. General tax cuts for businesses and the wealthy—the “job creators” as the Republicans like to call them—would be a very ineffective way to stimulate aggregate demand because not all of these tax cuts would be spent on consumption,19 and much of what was spent on consumption would just be spent on more crap from China—benefiting Chinese workers but not American workers.20 Direct government deficit spending on the infrastructure ensures that that money is spent on jobs in the United States and that the money purchases something that will benefit our children who will be left with any debt load.21 Keynes himself once said, “Ideas shape the course of history.”22 On the vital issue of determining the appropriate policy to increase employment and get us out of the Great Recession, it is imperative that wiser minds like that of Professors Golden and Flanagan prevail.23 Regardless of your normative or political beliefs, balancing the state and federal budgets now will decrease aggregate demand and employment while direct government deficit spending will increase aggregate demand and employment. Although we should not undertake additional government debt lightly, under the current circumstances further fiscal stimulus will shorten the Great Recession and increase the gross domestic product enjoyed by Americans and tax revenues.

# \*\*Economic Sectors\*\*

## Jobs

### **Gov action is necessary to solve the unemployment crisis**

Kervick, PhD in Philosophy from Univ. of Mass, 12

[Dan, “Doing what needs to be done: Facing the Future with Full Employment and a Renewed Public Sector,” New Economic Perspectives, Feb. 2, 2012,http://neweconomicperspectives.org/2012/02/02, accessed 7-2-12]bg

As you read this, millions of Americans who desperately want to work either cannot find employment at all, or cannot find the quantity and quality of work they need to meet their own needs and the needs of their families. This is real suffering. The unemployed are real flesh-and-blood people, not just fractions of percentage points on Labor Department spreadsheets. At the same time, we have tremendous unmet social needs. Any well-informed high school student can point to large, daunting national challenges that we sorely need to address, but that we are not addressing with anything approaching the urgency and commitment that the gravity of the challenges would seem to demand of us. So the availability of unemployed human labor power is extremely high, while the need for applied, energetic human effort is extremely acute. Mainstream textbook economics tells us that these kinds of problems are supposed to solve themselves without the need for active government intervention. The availability of some resource, on the one side, and the need to acquire those resources, on the other, are supposed to meet and court each other in the market. The former comes dressed as supply, and the latter as demand. Supply and demand curves intersect and copulate, give birth to a price and – voila! – the market clears as the satisfied suppliers and demanders perform their happy jig of mutual gratification. Clearly, things are not working out that way, or at least not with the alacrity that the textbook accounts would suggest and that moral decency would require. Here in the US, while those sterile supply and demand curves languish in the logical space of microeconomic theory, the sorry employment scene has settled down into a new normal of persistently high joblessness with no end in sight. Yet much of the national discussion of the problem of unemployment in the United States is bogged down in pedantic side-discussions, commingled with cantankerous ideological stubbornness. The political class addresses the employment crisis with lame half-measures or impotent shrugs on one side of the debate, and with malevolent snickering and scapegoating of the jobless on the other side. Where the politicians rise above their pattern of neglect to put forward actual policies, the solutions offered consist in part of schemes to bribe corporations and their lobbyists into hiring by greasing corporate palms with crony tax giveaways. What seems to be missing in the debate is public consideration of the most obvious solution: A nation faced with both pressing unmet needs for work and a large pool of available unemployed workers, and that also possesses sovereign control over its own currency system, can take on the responsibility of organizing the needed work itself, and then set about directly hiring and training the workers to do that work. We have so far been hindered from taking this obvious step by our fundamentalist ideological mania for free market solutions and private enterprise. This stubborn fixation on private markets and private money is a forlorn ancestral doctrine in America which seems strangely resistant even to the most obvious lessons taught by the catastrophic recent failures of the system of private sector finance. Many Americans are also afflicted by a pathological hatred of the very government of which they themselves are supposed to be the sovereign masters. And where archaic doctrine doesn’t prevail alone, powerful vested interests pick up the slack. Throughout the developed world corporate plutocrats and privileged stakeholders in a failing neoliberal order are working overtime to incapacitate democratic governments, starve them with austerity, and seize political control of their desiccated remains. There is a war going on everywhere between the corporate form of organization based on authoritarian control and elite hierarchy and the democratic form of organization based on shared power, empowered citizenship and the cooperation of equals. Right now, the corporations and plutocrats are winning. The result is systemic failure by democratic societies to grasp and accept their historic responsibilities for active self-governance and bold self-determination. The notion that the private sector mechanisms of free market capitalism are sufficient to meet the emergencies of our time, and to organize and provide all of the work that needs to be done by and for our societies, doesn’t meet the test of either common sense or historical experience. The failing neoliberal world system is beyond wrong: it is a stupid, backward and barbaric system, and the countries who continue practice it inflict needless losses and suffering on their own citizens. So it is time to move on and move forward. We need to revive and renew the public sector, embrace the necessary role of democratic government in setting and achieving large social tasks that the private sector is simply not equipped to handle, and liberate the army of the increasingly desperate unemployed from their indentured dependency on the whims of a dysfunctional and incomplete market system. It is time for the citizens of the world’s democratic countries to make full employment an axiomatic social goal, and to commit the public sectors of their respective countries to the task of providing the work that the private sector cannot or will not provide.

## **Green Economic Measures=Jobs**

### Green measures would generate net job creation

Bowen and Stern, researchers at the Grantham Research Institute on Climate Change and the Environment, 1/22/2010

(Alex and Nicholas, "Environmental Policy and the Economic Downturn", CCCEP Paper 16, January 22, 2010, Accessed: 7/3/12, pg 7)AHL

The assessments of ‘green’ measures also reflect a judgement that spending on the transition to the low-carbon economy is likely to increase the demand for labour at a time of high involuntary unemployment. Kammen et al (2006) pointed out that renewable energy industries appear to be more labour intensive than the existing energy sector, particularly at the initial construction, manufacture and installation stage that is most relevant for a short- term fiscal stimulus. Fankhauser et al (2008) concluded from a review of labour intensity estimates in the literature that a shift from high-carbon to low-carbon activities is likely to lead to net job creation, although there is considerable uncertainty about how labour productivity will evolve and about the impact of induced changes elsewhere in the economy. Roland-Holst (2008) provided evidence from California’s lengthy experience of promoting energy efficiency that it has been effective in generating net job creation, taking into account the jobs created by the diversion of spending from energy to other goods and services. Pollins et al (2009), using an industry input-output table approach and assuming widespread unemployment due to deficiency of aggregate demand, argued that US$ 1 million extra spending on clean energy will generate roughly three times more jobs than the equivalent spent on fossil fuel industries, with a larger proportion of low-skill jobs in the skill mix. These results suggest that a switch to clean energy from fossil fuels is likely to be relatively labour intensive. In the long run, that may reduce measured labour productivity, abstracting from the benefits of avoided climate change, but in the short run the switch should be helpful in reducing historically high unemployment rates.8 From the point of view of the environmental objective of halting human-induced climate change, some of the measures proposed were designed to help tackle market failures, particularly in the provision of R&D, and information about energy saving. But, as Houser et al (2009) wrote, “Green recovery efforts will only make a meaningful dent in US emissions if they complement comprehensive climate policy.” The key element of policy missing in the US case, and indeed worldwide, has been comprehensive pricing of greenhouse gas emissions. This Section argues that the global slowdown does not warrant delaying the introduction of emissions pricing, so it is reassuring that, at the time of writing, several countries, including the USA, are considering implementing cap-and-trade schemes. These would greatly amplify the effectiveness of some of the fiscal initiatives, such as tax credit incentives for investment in low-carbon plant and equipment.

## Construction UQ

### The construction sector will grow in 2012

Business Monitor, June 25, 2012

(Business Monitor Online, “Still On Track For Growth In 2012,” LexisNexis, June 25, 2012, Accessed: 7-2-12) ADJ

The US construction sector is on track to return to growth in 2012. Recent data on construction spending aligns with our long-held view that 2012 would be the year the US construction sector would emerge from recession. Construction spending is up 6.7% in the first four months of the year, whilst milder weather has undoubtedly contributed, the general climate in the industry is more positive. At the same time, construction industry employment was up 1% in the first five months of the year, indicating a sustained recovery is underway. We believe growth will be driven by investments into the energy sector, residential construction and a bottoming out of the non-residential building sector

### The US’s failing construction sector is harming the steel industry and the infrastructure industry.

Metal Bulletin, May 14, 2012

(Metal Bulletin, “US steel industry feeling construction drag; no relief near,” May 14, 2012, LexisNexis, Accessed: 7-2-12) ADJ

The US construction market's slow and unsteady rebound has prevented domestic steel mills from returning to high capacity utilization rates, and there's no relief near on the horizon, steel executives said during the Town Hall Forum at AISTech 2012, the Iron & Steel Technology Conference and Exposition, in Atlanta last week. While certain areas of the steel-consuming economy are back and booming, the construction sector remains a laggard, with serious negative effects on steel producers. "That consumption needs to come back if we're ever going to see our utilization rates get back above 85 to 90 percent," Michael S. Williams, Pittsburgh-based [U.S. Steel Corp.'s](http://www.lexisnexis.com/lnacui2api/search/XMLCrossLinkSearch.do?bct=A&risb=21_T15051770666&returnToId=20_T15051770692&csi=334941&A=0.002718780407732213&sourceCSI=3652&indexTerm=%23CC0001YF9%23&searchTerm=U.S.%20Steel%20Corp.'s%20&indexType=C" \t "_parent) http://www.lexisnexis.com/lnacui2api/images/arrow_blue.gifsenior vice president of North American flat-rolled operations, said. David Sumoski, vice president and general manager of [Nucor Corp.'s](http://www.lexisnexis.com/lnacui2api/search/XMLCrossLinkSearch.do?bct=A&risb=21_T15051770666&returnToId=20_T15051770692&csi=334941&A=0.002718780407732213&sourceCSI=3652&indexTerm=%23CC0001XWB%23&searchTerm=Nucor%20Corp.'s%20&indexType=C" \t "_parent) http://www.lexisnexis.com/lnacui2api/images/arrow_blue.gifMarion, Ohio, steel mill, had harsher words. The building market is "pathetic," he said. "Now, it is improving, but improving from pathetic is still pathetic." The building sector is coming back unevenly across the country, the executives said. "In the U.S. market, we've seen different markets in different situations," according to André B. Gerdau Johannpeter, chief executive officer of Porto Alegre, Brazil-based [Gerdau SA.](http://www.lexisnexis.com/lnacui2api/search/XMLCrossLinkSearch.do?bct=A&risb=21_T15051770666&returnToId=20_T15051770692&csi=334941&A=0.002718780407732213&sourceCSI=3652&indexTerm=%23CC000212E%23&searchTerm=Gerdau%20SA.%20&indexType=C" \t "_parent) http://www.lexisnexis.com/lnacui2api/images/arrow_blue.gifHe said the nonresidential construction was most robust, followed by infrastructural development, which he described as "lagging," and then, finally, by residential construction. And while it might seem like a distant possibility now, Johannpeter said the industry had to be cautious about overheating in the future. "We have to think: Are we going to get back to those levels that were not real or too high at a certain point?" he asked. Meanwhile, U.S. producers have been helped somewhat by an unusually warm winter. "We've seen a little uptick in activity earlier than we would normally from a seasonality standpoint," Williams said. Still, he described the market as "at very low levels" and "anemic." None of the executives said they anticipated a full recovery approaching anytime soon. "While I would say every month is better than the previous month, we're nowhere near 2007 levels of activity and demand,"according to P.S. Venkataramanan, chief executive officer of Luxembourg-based ArcelorMittal SA's Long Carbon North America operations. "The meat of the whole business is the commercial construction. The public spending has been nonexistent. We're not seeing schools, we're not seeing bridges, we're not seeing major projects coming back." The infrastructure spending that the industry needs to see isn't solely limited to civil infrastructure such as roads and bridges, Venkataramanan said, citing electrical infrastructure as a prime example of an area in which the United States hasn't yet invested sufficient resources. In the meantime, the outlook for construction appears to be a a slow and uncertain climb, the panel agreed. "(Construction is) the last to be affected going into a recession, and-as my sales manager reminds me every day-it's the last to come out," Sumoski said.

## Manufacturing UQ

### The manufacturing sector is rebounding.

Mary Bono Mack, Chairman Subcommittee on Commerce, Manufacturing, and Trade, April 19, 2012

(Mary Bono, California, Congressional Record, April 19, 2012, LexisNexis, Accessed: 7-2-12) ADJ

Here's the good news. Historically, manufacturing is the hardest hit during a recession, but the quickest to recover due to pent- up demand for goods. Recent numbers from the Bureau of Labor Statistics provide a glimmer of hope that the U.S. manufacturing sector may indeed be rebounding. Last year, for the second consecutive year, American manufacturers actually added jobs. Prior to that, the manufacturing sector had suffered job losses every year since 1997. What's more, according to a recent report by the Boston Consulting Group, rising wages in China, the rising cost of energy and real estate in China, and the rising cost of transporting goods back to America for consumption are beginning to make the United States a much more attractive option once again for many manufacturers.

## Manufacturing NU

### The manufacturing is in terrible shape, and decline in the manufacturing sector hurts the overall US economy, jobs and multipliers prove

Mary Bono Mack, Chairman Subcommittee on Commerce, Manufacturing, and Trade, April 19, 2012

(Mary Bono, California, Congressional Record, April 19, 2012, LexisNexis, Accessed: 7-2-12) ADJ

Throughout our nation's long history, a growing and robust manufacturing sector has helped to make America great. It's been a driving force in our economy since the Industrial Revolution as generations of hard-working Americans, armed with machines, tools, and a determined work ethic, cranked out everything from airplanes to toasters. But as our nation has moved from the Atomic Age to the Space Age to the Information Age, manufacturing has not kept up, losing nearly six million American jobs since the beginning of the 21st century. Aging, rusting, and abandoned factories litter the U.S. landscape. Today, we stand at an important crossroads. One direction - lined by job-killing regulatory hurdles, a punitive tax code, and indecisive political leadership - will lead ultimately to a further erosion of our manufacturing base and lost prosperity for future generations of Americans. The other direction - where smart policies and smart minds eventually intersect - could lead, instead, to a resurgence in U.S. manufacturing, putting millions of Americans back to work again and breathing new life into the beleaguered middle class. Secretary Bryson, as chairman of this subcommittee, I look forward to working closely with you on this very important issue. Let's make "Made in America" matter again. Let's throw the "start switch" right now. Let's get the widgets moving. Clearly, we don't have any time to waste. Statistics show the manufacturing sector was the hardest hit in terms of job losses during the Great Recession. While manufacturing accounts for just a tenth of our nation's jobs, manufacturing suffered a third of our nation's job losses. What's more, in 2009 - for the first time ever - the number of unemployed Americans actually exceeded the number of Americans employed in the manufacturing sector, a fact that remains true today, despite a slight uptick in recent hiring. So what happened? The United States was the undisputed leader in manufacturing for decades with the world's largest manufacturing economy producing nearly a quarter of all globally manufactured products. But that leadership is now in serious jeopardy, so it's vitally important to consider what's at stake for our nation. According to a report by the National Association of Manufacturers, American manufacturing supports nearly one in six U.S. jobs, which pay, on average, over $75,000 with benefits. Additionally, manufacturing jobs have the highest multiplier in the U.S. economy - every $1 in direct spending produces $1.35 in additional indirect output. Conversely, every manufacturing job eliminated in America results in the loss of two other jobs elsewhere in the economy. So as policymakers, we are facing several critically important questions. First, what is the true state of the manufacturing sector today? Second, what factors are impeding a comeback? And finally, and most importantly, what policies could aid the manufacturing sector's recovery?

## Tech Spurs Growth

#### Diffusion and standardization of new technology contributes to economic growth

Acemoglu, Professor of Economics at MIT, 1/7/2012

(Daron, "Introduction to Economic Growth", Journal of Economic Theory, January 7, 2012, Accessed: 6/28/2012)pg 546-547 AHL

A major topic within the area of economic growth is the study of technology diffusion. It is well recognized that technology differences across nations, industries and firms are the main sources of productivity differences and there has been much advance in models of endogenous innovation and technology. Nevertheless, the forces shaping the diffusion of technology are still poorly understood. Three papers within the symposium investigate various different aspects of the process of technology diffusion. “Investment in vintage capital” by Boyan Jovanovic and Yuri Yatsenko [14] revisits models of vintage capital, originally introduced by Johansen [13], Arrow [4], and Solow [21]. They propose a rich model of investment in different vintages of heterogeneous capital goods, which are combined to produce a unique final good with a constant elasticity of substitution production function. They provide an elegant characterization of equilibrium, determining how the investment is allocated across different vintages. An important result of this paper is that, in contrast to many other models of vintage capital, not all investment goes to the latest vintage. The reason is imperfect substitution between different vintages. The structure of equilibrium has the flavor of staggered adoption of new technologies. In particular, the economy adopts and starts producing with new technologies gradually rather than immediately with all new investment flowing into the latest technology. Moreover, Jovanovic and Yetsenko show that the pattern of adoption resembles the well documented S-shape. The paper “Competing engines of growth: innovation and standardization” by Daron Acemoglu, Gino Gancia and Fabrizio Zilibotti [2] emphasizes another source of slow technology diffusion: the interplay between skill-intensive innovation and the process of standardization.They argue that the process of standardizing new technologies, which enables them to be used by more abundant and cheaper lower skilled workers, is a major part of the growth process in practice. But endogenous standardization is both an engine and a barrier to growth. As standardization takes place rapidly, existing technologies are utilized better, increasing productivity and income per capita. However, the anticipation of standardization discourages innovation because innovators will have shorter life spans during which to profitably use their new technologies. As a result, equilibrium growth is an inverse U-shaped function of the standardization rate and thus the degree of competition. This particular pattern implies that the growth and welfare maximizing rates of standardization are intermediate and thus need to be supported by optimal, but not full, protection of intellectual property rights.

#### Organizations spur economic growth in conjunction with technology

Acemoglu, Professor of Economics at MIT, 1/7/2012

(Daron, "Introduction to Economic Growth", Journal of Economic Theory, January 7, 2012, Accessed: 6/28/2012)pg 546-547 AHL

A new area of research within the theory of economic growth focuses on the role of organizations in economic growth. Two papers within this symposium address various facets of this problem. “Organizing growth” by Luis Garicano and Esteban Rossi-Hansberg [9] provides a new model featuring organizations within the process of economic growth. They construct a tractable framework in which productivity growth results from the interplay between accumulation of knowledge and information in communication technology. Agents accumulate knowledge both to use available technologies and to invent new technologies. The first use of knowledge also necessitates organizations, which is an original aspect of the model considered by Garicano and Rossi-Hansberg. Organizations play the role of coordinating economic activity and facilitating the use of existing technology. Using this framework, the authors conduct a variety of comparative static exercises. They show that information technology, by increasing both innovation and the effectiveness with which this innovation is used, always increases growth.

## **Tech Innovation Spurs Growth**

#### Combination of innovative ideas integral to sustained growth

Acemoglu, Professor of Economics at MIT, 1/7/2012

(Daron, "Introduction to Economic Growth", Journal of Economic Theory, January 7, 2012, Accessed: 6/28/2012)pg 548 AHL

In “Random walk to innovation: why productivity follows a power low”, Christian Ghiglino [11] turns to another central question in the theory of economic growth: the source of new and more productive ideas. Ghiglino provides a simple search model in which innovators, who have limited information about how new ideas will result from recombinations of existing ideas, search for better ways of producing output. Combining better ideas leads to better ways of using existing resources. Ghiglino shows that, under reasonable assumptions on the search process, this search recombination process leads to new ideas that have a non-degenerate distribution with a “thick” tail, meaning that the distribution contains a significant fraction of ideas with high productivity. In fact, it can be approximated by a power law. This approach has the promise of explaining why the combination of existing ideas can lead to a large supply of new high productivity ideas, and thus be an integral part of the process ensuring sustained growth in the economy.

## Inflation low

# \*Aff Answers\*

## Aff Solves the Impact/Link turns

**(see also the aff files and Keynesian Good for more offense and defense)**

### Jobs key to solving economic recovery

NY Daily News June 9 2012

([http://india.nydailynews.com/business/8509691a813d4afa865a82d96a0239e1/european-situation-threat-to-us-economic-recovery-obama accessed 6/13/2012](http://india.nydailynews.com/business/8509691a813d4afa865a82d96a0239e1/european-situation-threat-to-us-economic-recovery-obama%20accessed%206/13/2012) tm)

The simmering eurozone debt crisis posed a big threat to the US economic recovery, with the region facing the risk of a renewed recession, US President Barack Obama said Friday. Speaking during a press conference, Obama said the European leaders should take further action to strengthen the weak banking sector and soothe market jitters, Xinhua reported. US lawmakers should pass the full American Jobs Act presented by the administration to Congress last September to spur job creation in the US and guard against economic slowdown risks in other parts of the world, he said. The conference came following a weak job report and a string of other economic data showing US economic growth was slowing and the impacts of the escalating eurozone debt crisis had reached US shores, putting pressure on US policy markers to take action. Obama reiterated his confidence in European leaders' capacity to contain the two-year-old crisis, saying that "the decisions required are tough but Europe has the capacity to make them". The US president stressed the importance of fiscal stimulus measures to shore up anemic economic growth on both sides of the Atlantic Ocean, noting that the short-term challenges for the US were to speed up job creation and economic recovery. Over the longer term, even as European countries with large debt burdens carry out necessary fiscal reforms, they still need to promote economic growth and job creation, he noted. "As some countries have discovered, it's a lot harder to rein in deficits and debts if your economy isn't growing," Obama added.

### Government spending is necessary to save the economy

Duncan, chief economist Blackhorse Asset Management former IMF consultant and financial sector specialist for the World Bank, 12

[Richard, The New Depression: The Breakdown of the Paper Money Economy, 2012, ]bg

The latest projections from the Congressional Budget Office suggest the government’s budget deficit will shrink from $1,284 billion in 2011 to $973 billion in 2012, $510 billion in 2013, and $265 billion in 2014. When a government spends less from one year to the next, that reduction in spending acts as a drag on the economy. If those projections materialize, then the $311 billion reduction in the government deficit in 2012 will deduct 2 percent from GDP, the $463 billion reduction in 2013 will deduct 2.8 percent from GDP, and the $245 billion reduction in 2014 will deduct 1.4 percent from GDP. That would create a very difficult economic environment. Consequently, it is likely that the contraction of private sector debt would accelerate, largely because bankruptcies and defaults would increase. In the absence of any additional stimulus of any kind, the contraction in TCMD would set off a downward spiral in the economy. Asset prices would fall and business losses would mount, each exacerbating the other. Unemployment would begin to climb higher. A new round of consumer defaults and corporate bankruptcies would begin. Nonperforming assets would proliferate throughout the financial sector and, so, banks would begin to fail. In the absence of new government intervention—say, on the scale of TARP—a systemic crisis would quickly envelop the banking system and, within a week of the first major bank failure, most of the savings of the country (deposits, money market funds, mutual fund investments) would be destroyed. Credit cards would no longer be accepted. Automatic teller machines would not work. By then the stock market would have fallen by 90 percent or more. Luckily, as humans have evolved with a very strong survival instinct, this scenario of near-term economic suicide is almost certain not to occur. Chapter 8, Disaster Scenarios, describes what should be expected if it does.

### Transportation Infrastructure Investment provides great returns

Rugy, senior research fellow at the Mercatus Center at George Mason University, 11

(Rugy, Veronique, “Road To Nowhere”, Reason, Volume 43, Page 21, December 2011, Accessed: 6-29-12) ADJ

The economist Mark Zandi of Moody's Analytics, one of the most influential stimulus enthusiasts out there, claims that when the government spends $1 on infrastructure, the economy gets back $1.44 in growth. But economists are far from a consensus about the returns on federal spending. Some find large positive multipliers (meaning that every dollar in government spending generates more than a dollar of economic growth), but others find negative multipliers (meaning every dollar in spending hurts the economy). As Eric Leeper, Todd Walker, and Shu-Chum Yang put it in a recent paper for the International Monetary Fund, "Economists have offered an embarrassingly wide range of estimated multipliers."

### Only public investment solves unemployment and economic recession

Gary Burtless, a senior fellow in economic studies at the Brookings Institution and former Labor Department economist, June 13 2012

(US News and World Report, <http://www.usnews.com/opinion/articles/2012/06/13/why-another-recession-could-come-before-full-employment> accessed tm )

Looking at current economic policy, there's a pretty good chance we will have another recession before we will reach full employment again. If we don't have political meltdown in this country, we will eventually get back to full employment. We need the government to make greater purchases of capital goods and bigger investments in public infrastructure and so forth to put a lot of the people to work.

### Investment in infrastructure solves economic growth—short term

Gary Burtless, a senior fellow in economic studies at the Brookings Institution and former Labor Department economist, June 13 2012

(US News and World Report, <http://www.usnews.com/opinion/articles/2012/06/13/why-another-recession-could-come-before-full-employment> accessed tm )

The one that would have the highest short-term payoff is simply to increase government investment spending—investment in roads, in sewer systems, in public buildings, and so forth. At the moment, the country is actually spending less on all those items than it was before the recession began, and that is sort of the opposite of what rational economics would tell a country to do.

Investing in transportation infrastructure is vital; consequences include loss of money for many.

Sledge, Reporter, 11

(Matthew, Staff Writer, 7-27-11, The Huffington Post <http://www.huffingtonpost.com/2011/07/27/transportation-infrastructure-cost_n_911207.html> Accessed: 6-28-2012) ADJ

New tires add up. That's the finding of a report issued Wednesday by the American Society for Civil Engineers, which tallies up the cost of our decaying surface transportation infrastructure, from potholes to rusting bridges to buses that never come. The engineers found that overall, the cost of failing to invest more in the nation's roads and bridges would total $3.1 trillion in lost GDP growth by 2020. For workers, the toll of investing only at current levels would be equally daunting: 877,000 jobs would also be lost. Already, the report found, deficient and deteriorating surface transportation cost us $130 billion in 2010. By and large those costs would not come from the more dramatic failings of America's transportation system -- like the collapse of the I-35W Bridge in Minnesota -- but more mundane or even invisible problems. The minivan that hits a pothole chips away at a family's income. The clogged highway that drains away an extra half hour of a trucker's day also drives up the cost of shipping for businesses. Congestion, the report found, is of particular cause for concern. Already, 40 percent of urban interstates have capacity deficiencies. Currently, that costs us $27 billion a year in lost time and other inefficiencies wasted on the roads. By 2020, that number could grow tenfold, reaching $276 billion a year. The civil engineers are, by their own admission, a biased party -- they stand to gain the most from renewed investment in infrastructure -- but they paint a picture of an infrastructure shortfall that would have ripple effects far and wide through society. Companies, the report estimates, would underperform by $240 billion over the next ten years without additional investment. Exporters, which would have trouble moving goods to market, would send $28 billion in trade less abroad. The cost to families' household budgets, the report suggests, would by $1,060 a year. Underscoring the wider appeal of ASCE's argument, the report received the backing of both labor and business leaders. "Today’s report from the American Society of Civil Engineers further reinforces that the U.S. is missing a huge opportunity to ignite economic growth, improve our global competitiveness, and create jobs," Tom Donohue, president and CEO of the U.S. Chamber of Commerce, said in a release. Richard Trumka, the AFL-CIO president, said in a release that "with a modest increase in investment, we can rebuild a strong economy where business can thrive and workers can afford a place to live, raise a family, take an occasional vacation, pay for their children’s education and have a dignified retirement." The ASCE claims the answer to the transportation problem is simple: Invest more, and quickly. "The problems facing our nation's infrastructure are widely acknowledged and well understood," said Andrew Herrmann, the president-elect of the ASCE.

### Fiscal Discipline-kills jobs and economic growth

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012]AHL

When political discourse pivoted from jobs to deficits—which, as we’ve seen, is pretty much what happened in late 2009, with the Obama administration actually participating in the change of focus—what this translated to was both an end to proposals for further stimulus and an actual move to cut spending. Most notably, state and local governments were forced into large cutbacks as stimulus funds ran out, cutting back on public investment and laying off hundreds of thousands of teachers. And there were demands for much bigger cuts, given the persistence of large budget deficits. Did this make any economic sense? Think about the economic impact of cutting spending by $100 billion when the economy is in a liquidity trap—which means, again, that it remains depressed even though the interest rates the Fed can control are effectively zero, so that the Fed can’t reduce rates further to offset the depressing effect of the spending cuts. Remember, spending equals income, so the decline in government purchases directly reduces GDP by $100 billion. And with lower incomes, people will cut back their own spending, too, leading to further declines in income, and more cutbacks, and so on. OK, brief pause: some people will immediately object that lower government spending means a lower tax burden in the future. So isn’t it possible that the private sector will spend more, not less? Won’t cuts in government spending lead to higher confidence and perhaps even to economic expansion? Well, influential people have made that argument, which has come to be known as the doctrine of “expansionary austerity.” I’ll talk about that doctrine at some length in chapter 11, in particular about how it came to have such a hold on discussion in Europe. But the bottom line is that neither the logic of the doctrine nor the alleged evidence advanced on its behalf has held up at all. Contractionary policies are, in fact, contractionary. So let’s return to the story. Slashing $100 billion in spending while we’re in a liquidity trap will lead to a decline in GDP, both directly via reduced government purchases and indirectly because the weaker economy leads to private cutbacks. A lot of empirical work has been done on these effects since the coming of the crisis (some of it summarized in the postscript to this book), and it suggests that the end result will be a GDP decline of $150 billion or more. This tells us right away that $100 billion in spending cuts won’t actually reduce our future debt by $100 billion, because a weaker economy will yield less revenue (and also lead to higher spending on emergency aid programs, like food stamps and unemployment insurance). In fact, it’s quite possible that the net reduction in debt will be no more than half the headline cut in spending. Still, even that would improve the long-run fiscal picture, right? Not necessarily. The depressed state of our economy isn’t just causing a lot of short-term pain, it’s having a corrosive effect on our long-run prospects. Workers who have been out of a job for a long time may either lose their skills or at least start to be perceived as unemployable. Graduates who can’t find jobs that use what they have learned may be permanently condemned to menial jobs despite their education. In addition, since businesses aren’t expanding capacity, because of a lack of customers, the economy will run into capacity constraints sooner than it should when a real recovery finally does begin. And anything that makes the economy even more depressed will worsen these problems, reducing the economy’s outlook in the long run as well as the short run. Now think about what this means for the fiscal outlook: even if slashing spending reduces future debt, it may also reduce future income, so that the ability to bear the debt we have—as measured, say, by the ratio of debt to GDP—may actually fall. The attempt to improve the fiscal prospect by cutting spending in a depressed economy can end up being counterproductive even in narrow fiscal terms. Nor is this an outlandish possibility: serious researchers at the International Monetary Fund have looked at the evidence, and they suggest that it’s a real possibility. From a policy point of view, it doesn’t really matter whether austerity in a depressed economy literally hurts a country’s fiscal position or merely does very little to help that position. All that we need to know is that the payoff to fiscal cuts in times like these is small, possibly nonexistent, while the costs are large. This is really not a good time to obsess over deficits. Yet even with all I’ve said, there is one rhetorically effective argument that those of us trying to fight the deficit obsession run into all the time—and have to answer.

## Aff-Deficit Spending-Not Cause Econ Decline

### 2008 American collapse due to private credit-led speculative boom-not public deficits

Boyer, Economist at CEPREMAP and senior researcher for National Center for Scientific Research,11/1/11

(Robert, “The Four Fallacies of Contemporary Austerity Policies: the Lost Keynesian Legacy”, Cambridge Journal of Economics, November 1, 2011, Accessed 6/28/12)pg 285-286 AHL

The rationale behind austerity policies cannot be understood without referencing the American crisis. Of course, the USA has shown a long period of trade and public deﬁcits, but these are not the origin of the present turmoil. Actually, the present turmoil derives from the long-term consequences of a cluster of ﬁnancial innovations that aimed to separate credit decisions from their subsequent risks by splitting them into various components (associated with default, variability of interest and exchange rates). This has generated an extreme elasticity of credit supply that has favoured high leverage within the ﬁnancial system and access to mortgage credit for the less afﬂuent proportion of the population. This dissolution of the intrinsic responsibility of the bank within the bilateral relation of credit triggered an explosion of credit that fed the dynamism of effective demand. However, the quality of creditors has simultaneously been deteriorating, and this worsening position was hidden by the complexity and creative nature of fair value accounting (Boyer, 2008). In a sense, the securitisation of subprime loans and related ﬁnancial innovations have converted the poorest fraction of the population into Ponzi speculators that were convinced to bet upon the endless rise of American housing prices. The ﬁnancial system has thus experienced large and easy proﬁts that remained unchallenged until the bubble burst. The boom was bound not only to end (Boyer, 2000A), but also to trigger a melting down of

Wall Street investment banks that ﬁnally reverberated throughout the entire American economy and, subsequently, globally (Figure 1). The overarching cause of the 2008 crisis was thus a private credit-led speculative boom: it was not public deﬁcit generated. Most countries have been affected by the direct and indirect repercussions of the diffusion of toxic derivatives and the collapse of international trade. Some of them even had public budget surpluses because the real-estate boom had been generating high taxes; Spain is a good example of such a pattern (see Figure 9C). Therefore, there remains some doubt about the relevance of typical austerity policies based upon the correction of previous public ﬁnance imbalances.

### Political environment stopped follow up Obama stimulus- deficits are not a problem in a depressed economy

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012]AHL

BY THE FALL OF 2009 it was already obvious that those who had warned that the original stimulus plan was much too small had been right. True, the economy was no longer in free fall. But the decline had been steep, and there were no signs of a recovery fast enough to bring unemployment down at anything more than a glacial pace. This was exactly the kind of situation in which White House aides had originally envisaged going back to Congress for more stimulus. But that didn’t happen. Why not? One reason was that they had misjudged the politics: just as some had feared when the original plan came out, the inadequacy of the first stimulus had discredited the whole notion of stimulus in the minds of most Americans and had emboldened Republicans in their scorched-earth opposition. There was, however, another reason: much of the discussion in Washington had shifted from a focus on unemployment to a focus on debt and deficits. Ominous warnings about the danger of excessive deficits became a staple of political posturing; they were used by people who considered themselves serious to proclaim their seriousness. As the opening quotation makes clear, Obama himself got into this game; his first State of the Union address, in early 2010, proposed spending cuts rather than new stimulus. And by 2011 blood-curdling warnings of disaster unless we dealt with deficits immediately (as opposed to taking longer-term measures that wouldn’t depress the economy further) were heard across the land. The strange thing is that there was and is no evidence to support the shift in focus away from jobs and toward deficits. Where the harm done by lack of jobs is real and terrible, the harm done by deficits to a nation like America in its current situation is, for the most part, hypothetical. The quantifiable burden of debt is much smaller than you would imagine from the rhetoric, and warnings about some kind of debt crisis are based on nothing much at all. In fact, the predictions of deficit hawks have been repeatedly falsified by events, while those who argued that deficits are not a problem in a depressed economy have been consistently right. Furthermore, those who made investment decisions based on the predictions of the deficit alarmists, like Morgan Stanley in 2010 or Pimco in 2011, ended up losing a lot of money. Yet exaggerated fear of deficits retains its hold on our political and policy discourse. I’ll try to explain why later in this chapter. First, however, let me talk about what deficit hawks have said, and what has really happened.

## NU—Economy Decline Now

### Jobs proves economy not doing fine

Peter Roff is a contributing editor at U.S. News & World Report. A former senior political writer for United Press International, he is currently a senior fellow at the Institute for Liberty and at Let Freedom Ring, June 11 2012

(US News and World Report, <http://www.usnews.com/opinion/blogs/peter-roff/2012/06/11/no-president-obama-the-economy-is-not-doing-fine> accessed tm)

Indeed, it really is that simple. For more than three years—40 consecutive months—and despite the promises made during the stimulus debate, U.S. unemployment has been north of 8 percent. The number of people who are counted as "long-term unemployed" has doubled. The private sector is not creating jobs. Demand for goods and services is down, largely because people either cannot afford them or are afraid to make major purchases because they are not confident in their personal economic future. There is a problem out there and the president either can't see it or doesn't want to acknowledge what is clear to almost everyone else.

### Economy slowing—consumer confidence and manufacturing reports

Reuters June 15 2012

(<http://www.nytimes.com/2012/06/16/business/economy/dip-in-manufacturing-could-suggest-stalled-economy.html?ref=economy> accessed tm)

Factory output contracted in May for the second time in three months, the Federal Reserve said on Friday, and families took a dimmer view of their economic prospects in early June, signs that the economy’s recovery is on shaky ground. The new data was the latest in a series of reports portraying a weak economy that have led analysts to cut growth forecasts while raising expectations that the Federal Reserve will offer new stimulus measures. Until recently, manufacturing had been a buttress for the nation’s economy, helping it resist headwinds from Europe’s snowballing [debt crisis](http://topics.nytimes.com/top/reference/timestopics/subjects/e/european_sovereign_debt_crisis/index.html?inline=nyt-classifier). But in May, factory output shrank 0.4 percent, with plants producing fewer cars and less machinery, Federal Reserve data showed. “It’s more convincing evidence that the economy is stuck in low gear,” said Joe Manimbo, a market analyst at Travelex Global Business Payments. Other reports pointed to cooling factory activity in New York State this month, along with a drop in household confidence in the economy. The fall in confidence poses a serious threat to President Obama’s chances of winning re-election in November. It could also lead consumers to cut back on spending, which would reduce economic growth. “Consumers are scared,” said Sharon Stark, managing director at Sterne Agee in Birmingham, Ala. Consumer sentiment fell in early June to a six-month low. A gauge of household confidence in the economy’s future also dropped to its lowest since December.

### Durable good orders and euro crisis eroding economy

Reuters June 15 2012

(<http://www.nytimes.com/2012/06/16/business/economy/dip-in-manufacturing-could-suggest-stalled-economy.html?ref=economy> accessed tm)

The weakening recovery in the United States and a worsening [debt crisis in Europe](http://topics.nytimes.com/top/reference/timestopics/subjects/e/european_sovereign_debt_crisis/index.html?inline=nyt-classifier) have bolstered expectations of a further easing of monetary policy by the Fed, although economists are divided on whether the central bank will act when it meets on Tuesday and Wednesday. Hiring by the nation’s employers has slowed for four consecutive months, while retail sales contracted in May and new applications for jobless benefits have risen in five of the last six weeks. Within the Fed’s report on U.S. industry in May, the softness in the factory sector was widespread. Output for durable goods dropped 0.5 percent as auto production slid 1.5 percent. Production of nondurables fell 0.2 percent.

Record low banking confidence proves US economy is failing.

24/7 Wall Street, June 27, 2012

(24/7 Wall Street, “Confidence in Banks Plummets, June 27, 2012, Accessed: 7-2-12) ADJ

As the largest banks in the United States prepare living wills for the government in the event that any of them should become financially nonviable, Americans continue to lose their trust in banks. According to a new poll by Gallup: These bleak perceptions of the nation s banks are consistent with ongoing banking issues worldwide, including the continuing crisis in Europe, particularly regarding European banks. It is also consistent with the major J.P. Morgan trading loss and Moody s recent downgrade of large global banks, including some banks in the United States. As a result: Americans confidence in U.S. banks is now at a record-low 21%, down slightly from 23% in the past two years and one percentage point below the 22% found in 2009. The percentage of Americans saying they have a great deal or quite a lot of confidence in U.S. banks is now about half the pre-recession level of 41%, recorded in June 2007.

Unemployment proves economy is failing, hurts consumer confidence.

24/7 Wall Street, June 25, 2012

(24/7 Wall Street, “Why Unemployment Could Rise This Year,” LexisNexis, June 25, 2012, Accessed: 7-2-12) ADJ

The number of jobs the economy has added in each of the past four months has been weaker than expected. May unemployment numbers show that only 69,000 jobs were added. The national unemployment rate is 8.2%. Unemployment may well increase in most months over the balance of 2012. Many of the circumstances that helped turn the jobs market around over the past year and a half have vanished. Also, some of the positive trends recently have turned negative. One trend that has continued to be a drag on the overall national job numbers, and will continue for another year or more, is the drop in the number of public employees. Many states and municipalities have not found solid footing financially. Tax revenue for many of these places has not recovered from the recession. And job cuts could move to the federal level, if the austerity measures debated by Congress and the Administration become a substantial part of the plans to balance the budget. Another trend undermining employment at what could be called the federal level is the jobless rate among Gulf War veterans. Bureau of Labor Statistics data show that for 2011: Young male veterans (those ages 18 to 24) who served during Gulf War era II had an unemployment rate of 29.1 percent in 2011, higher than that of young male nonveterans (17.6 percent). As more and more soldiers return to the United States, this figure is bound to rise. The most likely culprit for an increase in unemployment is the most obvious one. The American economy has been undermined by the dual effect of a drop in gross domestic product in Europe, which has hurt and will continue to hurt U.S. exports, and a drop in consumer confidence. The export problem will cause a decline in profits for many domestic firms, which often leads to job cuts. Consumer confidence will erode as Americans look around them at the dimming prospects for a recovery and cut their own spending due to fear about their economic futures. The fate of individual and company tax cuts for next year is uncertain, and it is almost July. Many Americans expect the future of those cuts will remain undetermined until after the election. There is no reason to count on an extension. That means much of the population has begun to prepare for a larger tax bite. For the first time in ages, the balance of things that should help the employment situation has shifted in a negative direction. That will continue for the foreseeable future.

### The US is in a recession.

The Political Wire, June 27, 2012

(The Political Wire, “Has the next recession already begun?,” June 27, 2012, John Hussman, a former professor of economics and international finance at the [University of Michigan](http://en.wikipedia.org/wiki/University_of_Michigan), LexisNexis, Accessed: 7-2-12) ADJ

John Hussman makes the case that the U.S. economy has entered a recession that will later be marked as having started here and now. Very often, the first real-time negative GDP print occurs about two quarters after the recession actually begins. It is only later that the data are revised to show an earlier downturn. For that reason, it s important to pay attention to the joint action of numerous economic data points, rather than selecting any specific indicator as an acid test. We can’t rule out further attempts at monetary heroism from the Fed It s true that in 2010 and 2011, one or two quarters of support for GDP growth was enough to push off emerging economic weakness for a while. At present, the economic headwinds are much more serious, particularly given European strains. So aside from the hope for transitory speculative benefits, it s not at all clear that further quantitative easing would be effective in halting a U.S. recession that, by our estimates, has already begun.

### In depression now—multiple factors

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012, p. 15-17]AHL

Amid all the excuses you hear for not taking action to end this depression, one refrain is repeated constantly by apologists for inaction: we need, they say, to focus on the long run, not the short run. This is wrong on multiple levels, as we’ll see later in this book. Among other things, it involves an intellectual abdication, a refusal to accept responsibility for understanding the current depression; it’s tempting and easy to wave all this unpleasantness away and talk airily about the long run, but that’s taking the lazy, cowardly way out. John Maynard Keynes was making exactly this point when he wrote one of his most famous passages: “This long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the sea is flat again.” Focusing only on the long run means ignoring the vast suffering the current depression is inflicting, the lives it is ruining irreparably as you read this. But that’s not all. Our short-run problems— if you can call a slump now in its fifth year “short-run”— are hurting our long-run prospects too, through multiple channels. I’ve already mentioned a couple of those channels. One is the corrosive effect of long-term unemployment: if workers who have been jobless for extended periods come to be seen as unemployable, that’s a long-term reduction in the economy’s effective workforce, and hence in its productive capacity. The plight of college graduates forced to take jobs that don’t use their skills is somewhat similar: as time goes by, they may find themselves demoted, at least in the eyes of potential employers, to the status of low-skilled workers, which will mean that their education goes to waste. A second way in which the slump undermines our future is through low business investment. Businesses aren’t spending much on expanding their capacity; in fact, manufacturing capacity has fallen about 5 percent since the start of the Great Recession, as companies have scrapped older capacity and not installed new capacity to replace it. A lot of mythology surrounds low business investment— It’s uncertainty! It’s fear of that socialist in the White House!— but there’s no actual mystery: investment is low because businesses aren’t selling enough to use the capacity they already have. The problem is that if and when the economy finally does recover, it will bump up against capacity limits and production bottlenecks much sooner than it would have if the persistent slump hadn’t given businesses every reason to stop investing in the future. Last but not least, the way the economic crisis has been (mis) handled means that public programs that serve the future are being savaged. Educating the young is crucial for the twenty-first century— so say all the politicians and pundits. Yet the ongoing slump, by creating a fiscal crisis for state and local governments, has led to the laying off of some 300,000 schoolteachers. The same fiscal crisis has led state and local governments to postpone or cancel investments in transportation and water infrastructure, like the desperately needed second rail tunnel under the Hudson River, the high-speed rail projects canceled in Wisconsin, Ohio, and Florida, the light-rail projects canceled in a number of cities, and so on. Adjusted for inflation, public investment has fallen sharply since the slump began. Again, this means that if and when the economy finally does recover, we’ll run into bottlenecks and shortages far too soon. How much should these sacrifices of the future worry us? The International Monetary Fund has studied the aftermath of past financial crises in a number of countries, and its findings are deeply disturbing: not only do such crises inflict severe short-run damage; they seem to take a huge long-term toll as well, with growth and employment shifted more or less permanently onto a lower track. And here’s the thing: the evidence suggests that effective action to limit the depth and duration of the slump after a financial crisis reduces this long-run damage too— which means, conversely, that failing to take such action, which is what we’re doing now, also means accepting a diminished, embittered future.

## Fisc/Dicip-No Brink

### US debt levels not actually very high- most debt belongs to itself and its citizens

Krugman, Nobel Prize Economics and Professor of Economics and Int. Affairs Princeton, 12

[Paul, End This Depression Now, 2012]AHL

U.S. debt levels are high but not that high by historical standards. Source: International Monetary Fund. But what about Italy, Spain, Greece, and Ireland? As we’ll see, none of them are as deep in debt as Britain was for much of the twentieth century, or as Japan is now, yet they definitely are facing an attack from bond vigilantes. What’s the difference? The answer, which will need a lot more explanation, is that it matters enormously whether you borrow in your own currency or in someone else’s. Britain, America, and Japan all borrow in their respective currencies, the pound, the dollar, and the yen. Italy, Spain, Greece, and Ireland, by contrast, don’t even have their own currencies at this point, and their debts are in euros—which, it turns out, makes them highly vulnerable to panic attacks. Much more about that later.

## Spending Link N/U

Spending expected to increase

Bandow, former special assistant to President Reagan and as a senior policy analyst in the office of the president, 12

(Bandow, Doug, Cato.org, “Slash Federal Spending: GAO Details Waste, Inefficiency And Duplication (Again)”, Forbes, , <http://www.cato.org/publications/commentary/slash-federal-spending-gao-details-waste-inefficiency-duplication-again>) ADJ

The biggest outlays are Social Security, Medicare, Medicaid, and the Pentagon. Future spending on the first three programs is destined to explode in coming years because of demography (an aging population) and health care cost inflation (ObamaCare exacerbates the problem of third party payment). Yet anyone who suggests even slowing expenditure growth in any of the four risks instant demonization. The fifth largest category is interest, and will continue to increase as Uncle Sam spends more on other programs, requiring additional borrowing. This outlay also could explode if investors grow less confident in the U.S. economy. Within the decade Uncle Sam could be spending more on interest payments than on the military today. Legislators prefer to focus on so-called domestic discretionary spending, which makes up less than a fifth of current outlays. Even here Congresses and presidents remain reluctant to make serious cuts. Rather than slaughter the herds of sacred cows which populate Washington D.C., legislators prefer to borrow to preserve the most incompetent bureaucracies and unnecessary programs.

### Current budget plans have huge spending increases

Tanner, former director of research of the Georgia Public Policy Foundation and as legislative director for the American Legislative Exchange Council, 11

(Tanner, Michael , Cato.org, former director of research of the Georgia Public Policy Foundation and as legislative director for the American Legislative Exchange Council, “Some Austerity,” 27 July 11 <http://www.cato.org/publications/commentary/some-austerity>) ADJ

The Reid plan would theoretically cut spending by $2.7 trillion over ten years. Even if that were true, it would still allow our national debt to increase by some $10 trillion over the next decade. But, of course, the $2.7 trillion figure is mostly fiction. About $1 trillion of the savings would come from the eventual end of the wars in Iraq and Afghanistan, savings that were going to occur anyway. Senator Reid might just as well have added another $1 trillion in savings by not invading Pakistan. Another $400 billion comes not from cuts but from assuming reduced interest payments. And, of course, there are $40 billion in unspecified "program-integrity savings," meaning the "waste, fraud, and abuse" that is the last refuge of every phony budget cutter. The plan rejects any changes to Medicare and Social Security, despite the fact that the unfunded liabilities from those two programs could run as high as $110 trillion. But those liabilities generally fall outside the ten-year budget window, so Reid — unlike our children and grandchildren — doesn't have to worry about them. [U]nder both the Reid and Boehner plans, actual federal spending will continue to rise. That leaves about $1.2 trillion in discretionary and defense spending reductions over the next ten years. Let's put that in perspective. This year the federal government will spend $3.8 trillion. Our deficit is roughly $1.6 trillion. Our national debt exceeds $14.3 trillion, not counting unfunded entitlement liabilities. We are talking about raising the debt ceiling to $16.9 trillion. This month alone the federal government will borrow $134 billion. Reid's cuts would average roughly $120 billion per year.

## Consumer spending NU

The US economy is declining due to loss of consumer spending and jobs.

Samuelson, June 25, 2012

(Robert, columnist, “Why the economy flounders”, The Washington Post, LexisNexis, Accessed: 7-2-12) ADJ

Take the United States. The U.S. economic model was consumer-led growth. From the early 1980s until the mid-2000s, what propelled the economy was rising wealth - stocks, bonds, real estate - that encouraged households to spend and borrow more. Feeling richer, people traded up for better cars, homes and vacations. Everyone could afford or aspire to "luxury." Businesses responded by investing in more malls, restaurants, hotels, factories and start-ups. Of course, this is now ancient history. The popping of the credit bubble depressed home values, stocks and jobs. Recently, the Federal Reserve reported that the net worth of the median U.S. household - the one exactly in the middle - [fell 39 percent](http://www.federalreserve.gov/pubs/bulletin/2012/PDF/scf12.pdf" \t "_blank) from 2007 to 2010 to $77,300, a level that, when adjusted for inflation, equaled the early 1990s. (Net worth is the difference between what someone owns and owes.) Feeling and being poorer, Americans have cut back. Their buying is muted. They're trying to repay debt and rebuild wealth. A new study from the National Bureau of Economic Research found that declines in household balance sheets - that is, wealth - caused almost [two-thirds of the 6.2 million jobs lost](http://www.nber.org/digest/jun12/w17830.html" \t "_blank) from March 2007 to March 2009. To grow faster, the U.S. economy can't rely on large gains in consumer purchases. What's to replace it? There are three possibilities: higher exports, more business investment and higher government spending. Weak economies elsewhere hinder exports. Businesses won't invest unless there's stronger demand. And more reliance on government means bigger budget deficits, a policy that inspires powerful political resistance. It turns out that, once your economic model goes bust, it's not easy to build a new one. The obstacles are at once economic, social and political.

### **Economy is facing a collapse due to consumer confidence collapse and unemployment**

CNN, June 30, 2012

(CNN, “Storm Warning, U.S. Economy On The Brink; Heading Over A Cliff; The Blame Game; Europe's Crisis, America's Problem; Cheap Money, Blessing Or Curse,” LexisNexis, June 30, 2012, Accessed: 7-2-12) ADJ

An economic storm is headed our way. The next president likely can't help you. Your Congress refuses to act. But I'm not running for office. I'm just here to give you the truth. Welcome to YOUR MONEY. I'm Ali Velshi. For the last several weeks I've been warning of a coming economic storm, possibly another recession in the United States. Some of you don't believe me. You've accused me of fear mongering. And you are rightly demanding proof. That's fair. So here you go. You probably know that more than any other developed nation, the U.S. economy is driven by its citizens and on how confident they feel about their future. This week we learned that the measure of consumer confidence fell for the fourth month in a row to its lowest levels since January. You may disagree with why it's down. But, again, the customer who in this case is the American consumer is always right when it comes to the economy. Why? Because if Americans are worried about the economy, they delay making important purchases and a perceived economic slowdown can easily become a reality. OK, so it's happening, but why? Well, probably the biggest reason is this, jobs. Twenty straight months of job growth, yes. But over the last five months, look at that trend, roughly corresponding to the drop in consumer confidence, hiring in America has slowed. A week from now we'll have the job creation numbers for June to see where this trend is going. But until we have a strong jobs recovery, Americans are going to hold back and that is going to hamper a wider recovery. Frankly, there is good and real reason to be nervous. It's that economic storm I warned you about. A crisis in Europe that's causing its citizens to seek shelter, you don't buy things, particularly expensive important things from America when you're seeking economic shelter. In China and India, the fastest growing economies in the world, fewer people are making their way into prosperity and into this global economy because the west is buying fewer of their goods and services. That's the storm out there that's headed to our shores, but there's one brewing right here at home. I don't want to mix metaphors. The U.S. storm is actually a cliff, a fiscal cliff. That is the expiration of some tax cuts, some of which you'll know as the Bush tax cuts and some other benefits on midnight on December 31st if Congress does nothing. I don't know about you, but I am pretty concerned about what this all adds up to. If you're not, that's good for America because you'll keep spending and if I'm wrong, then I'm wrong. I'll wear that. But I'm not running for office. My job is to arm you with the truth about what is happening in this economy. People's futures are at stake and now more than ever you need to be informed.

### Low consumer confidence proves economy is failing.

Christopher, June 27, 2012

(Chris, “US Consumer Confidence Falls Further”, HIS Global Insight, LexisNexis, Accessed: 7-2-2012) ADJ

As expected by IHS Global Insight, the United States Conference Board's consumer confidence index fell for the fourth month in a row to reach 62.0 in June. The labour index (percentage of respondents who think jobs are plentiful minus the percentage of respondents who think jobs are hard to get) fell to -33.7, the lowest level since January. After being significantly more upbeat at the beginning of the year, Americans are now more pessimistic about the future path of the US economy, despite falling pump prices. Consumer confidence is digging deeper into recession territory as many Americans see their job prospects dim, their household net worth take a beating, and the European debt crises send jitters through the equity markets.

# \*Aff Impact Debate\*

## AT: Prolif

### No impact to Middle East prolif—long timeframe, multiple status quo policies solve

Bergenas, Research Associate with the Managing Across Boundaries Program at the Stimson Center, previously held positions with the James Martin Center for Nonproliferation Studies and Oxfam America, August 31, 2010

Johan, Foreign Affairs, “The Nuclear Domino Myth,” August 31, http://www.foreignaffairs.com/articles/66738/johan-bergenas/the-nuclear-domino-myth, last accessed 96.10 [RG]

The fruit of these efforts to prevent rapid and widespread nuclear proliferation, then, is the very reason a nuclear domino effect remains a myth. In the Middle East, there are no signs that the nuclear dominos will fall anytime soon. Although many governments believe that Iran could be one to three years away from developing a nuclear bomb, all other Middle Eastern countries (besides Israel) are at least 10 to 15 years away from reaching such a capability.

This time frame gives Washington ample opportunity to establish or reaffirm security pacts with countries that might be tempted to develop their own nuclear weapons programs in reaction to a potential Iranian bomb. In fact, that work has already begun. In July 2009, U.S. Secretary of State Hillary Clinton spoke of the possibility of the United States extending a "defense umbrella" over the Gulf region and shoring up those countries' military capabilities if Iran goes nuclear.

More generally, the United States is trying to reinforce a culture of nonproliferation in the Middle East. In late 2009, Washington concluded an agreement with the United Arab Emirates to forego the enrichment and reprocessing of nuclear fuel -- crucial steps in the development of nuclear weapons. (In return, the United Arab Emirates will receive help developing a civilian nuclear-energy program.) Similar overtures are being made to both Saudi Arabia and Jordan, states that are pursuing civilian nuclear-power programs to diversify their energy supplies.

Another achievement came during the 2010 Nuclear Nonproliferation Treaty Review Conference, when the United States endorsed the convening of a regional meeting on establishing a nuclear-weapon-free zone in the Middle East. The summit is due to be held in 2012 and, although Israel's nuclear weapons complicate matters, could serve as another step toward cementing a nonproliferation culture in the region.

These are major accomplishments in preventing proliferation in the Middle East, and they contradict the worst-case scenarios about a nuclear Iran. Yet they have done little to reassure those who expect a chain reaction of proliferating states.

## AT: Primacy

### Latent power and alliances resulting from challengers rise ensure that US will remain hegemon

Wohlforth, Professor of Government at Dartmouth College and Chair of the Department of Government, 2007

(Spring 2007, William, "Unipolar stability: the rules of power analysis," Harvard International Review 29.1, p.44, Academic OneFile) SM

US military forces are stretched thin, its budget and trade deficits are high, and the country continues to finance its profligate ways by borrowing from abroad--notably from the Chinese government. These developments have prompted many analysts to warn that the United States suffers from "imperial overstretch." And if US power is overstretched now, the argument goes, unipolarity can hardly be sustainable for long. The problem with this argument is that it fails to distinguish between actual and latent power. One must be careful to take into account both the level of resources that can be mobilized and the degree to which a government actually tries to mobilize them. And how much a government asks of its public is partly a function of the severity of the challenges that it faces. Indeed, one can never know for sure what a state is capable of until it has been seriously challenged. Yale historian Paul Kennedy coined the term "imperial overstretch" to describe the situation in which a state's actual and latent capabilities cannot possibly match its foreign policy commitments. This situation should be contrasted with what might be termed "self-inflicted overstretch"--a situation in which a state lacks the sufficient resources to meet its current foreign policy commitments in the short term, but has untapped latent power and readily available policy choices that it can use to draw on this power. This is arguably the situation that the United States is in today. But the US government has not attempted to extract more resources from its population to meet its foreign policy commitments. Instead, it has moved strongly in the opposite direction by slashing personal and corporate tax rates. Although it is fighting wars in Afghanistan and Iraq and claims to be fighting a global "war" on terrorism, the United States is not acting like a country under intense international pressure. Aside from the volunteer servicemen and women and their families, US citizens have not been asked to make sacrifices for the sake of national prosperity and security. The country could clearly devote a greater proportion of its economy to military spending: today it spends only about 4 percent of its GDP on the military, as compared to 7 to 14 percent during the peak years of the Cold War. It could also spend its military budget more efficiently, shifting resources from expensive weapons systems to boots on the ground. Even more radically, it could reinstitute military conscription, shifting resources from pay and benefits to training and equipping more soldiers. On the economic front, it could raise taxes in a number of ways, notably on fossil fuels, to put its fiscal house back in order. No one knows for sure what would happen if a US president undertook such drastic measures, but there is nothing in economics, political science, or history to suggest that such policies would be any less likely to succeed than China is to continue to grow rapidly for decades. Most of those who study US politics would argue that the likelihood and potential success of such power-generating policies depends on public support, which is a function of the public's perception of a threat. And as unnerving as terrorism is, there is nothing like the threat of another hostile power rising up in opposition to the United States for mobilizing public support. With latent power in the picture, it becomes clear that unipolarity might have more built-in self-reinforcing mechanisms than many analysts realize. It is often noted that the rise of a peer competitor to the United States might be thwarted by the counterbalancing actions of neighboring powers. For example, China's rise might push India and Japan closer to the United States--indeed, this has already happened to some extent. There is also the strong possibility that a peer rival that comes to be seen as a threat would create strong incentives for the United States to end its self-inflicted overstretch and tap potentially large wellsprings of latent power.

## At: Competitiveness

### Transportation infrastructure key to competitiveness

Donohue, President and CEO U.S. Chamber of Commerce, 11

(Thomas, Committee on Senate Environment and Public Works, EBSCO Host, February 16, 2011, Accessed: 6-29-12) ADJ

Quality transportation infrastructure unleashes competitive advantage by leading to lower production costs making U.S. businesses more efficient, making the United States a desirable location for new and existing businesses, and also making U.S.- produced goods and services more competitive in the global economy. However, deteriorating infrastructure in the United States may actually be contributing to increased costs and decreased efficiency for American businesses (Cambridge Systematics, 2008). The consequences of an underperforming system are hundreds of billions of dollars annually in wasted fuel, lost productivity, avoidable public health costs, and delayed shipments of manufacturing inputs, consumer goods and other items critical to the underlying growth of our businesses. Without smart investment the U.S. infrastructure American businesses will to lose ground to major international competitors. Recognizing the benefits of well-developed infrastructure, both less-developed and emerging market competitor countries are preparing their transportation systems to move away from producing low-wage goods to producing the types of products that require the specialization of labor that transportation infrastructure makes possible (Praxis Strategy Group and Kotkin, 2010).

Increased investment in transportation infrastructure would have a list of beneficial effects, including better GDP, jobs, less accidents, environment, competitiveness, and business success.

Donohue, president and CEO of U.S. Chamber of Commerce, 11

(Thomas, The Christian Science Monitor, September 8, 2011, LexisNexis, Accessed: 6-29-2012) ADJ

Recent research by the US Chamber of Commerce discovered that underperforming transport infrastructure cost the US economy nearly $2 trillion in lost gross domestic product in 2008 and 2009. The chamber's Transportation Performance Index showed that America's transit system is not keeping up with growing demands and is failing to meet the needs of the business community and consumers. Most important, the research proved for the first time that there is a direct relationship between transportation infrastructure performance and GDP. The index findings also showed that if America invests wisely in infrastructure, it can become more reliable, predictable, and safe. By improving underperforming transport infrastructure, the United States could unlock nearly $1 trillion in economic potential. Making investments that tackle immediate challenges, like congestion, and that account for growing demand into the future, America would boost productivity and economic growth in the long run and support millions of jobs in the near term. Investment in infrastructure would also improve quality of life by reducing highway fatalities and accidents and easing traffic congestion that costs the public $115 billion a year in lost time and wasted fuel - $808 out of the pocket of every motorist. Such an investment would also allow the country to better protect the environment while increasing mobility. If America fails to adequately invest in transportation infrastructure, by 2020 it will lose $897 billion in economic growth. Businesses will see their transportation costs rise by $430 billion, and the average American household income will drop by more than $7,000. US exports will decline by $28 billion. Meanwhile, global competitors will surge past us with superior infrastructure that will attract jobs, businesses, and capital. So how can the US get its infrastructure to go from insufficient and declining to safe, competitive, and productive? An obvious place to start is for Congress to pass core bills for surface transportation, aviation, and water programs - at current funding levels. Congress must move forward with multiyear reauthorizations to restore the nation's highways; modernize air traffic control and improve airports; and maintain American ports, harbors, dams, and levees.Doing so would enable communities to plan projects, hire employees, and prevent devastating layoffs of existing workers. Reauthorizing the Federal Aviation Administration alone would help keep 70,000 workers on the job.

## AT: Environment

### No impact to the environment—adaptation

Ecosystems, sponsored by the National Institute of Environmental Health Sciences, 2002

(Ecosystems, <http://peer.tamu.edu/curriculum_modules/ecosystems/Hazards/global_warming.htm>, 2002, as)

Dinosaurs used to live in the Northwestern part of the U.S. where it now gets very cold in the winter. Dinosaurs were cold-blooded reptiles. What does that tell you? A good part of Texas was once underneath the ocean. What does that tell you? In short, we know from studying the earth's history that there have been Ice Ages and global warming periods long before humans existed. Scientists do not know why these major climate changes have occurred, but there are some possibilities: Explosions on the sun ("sun spots") Volcanic eruptions on a massive scale Changes in earth orbit Changes in earth's orientation toward the sun Explosions caused by large meteors hitting the earth As the world evolves, changes in the earth's environment affect the climate in various ways. For example, explosions on the sun generate even more heat than the sun normally gives off and some of this heat makes it to the earth causing rising temperatures. Volcanic eruptions on Earth can cause temperatures to decrease, because the smoke and gases given off can act like an umbrella shade and prevent sunlight from passing through the atmosphere. Any slight change in the earth's orbit could cause the earth to move closer or farther away from the sun. This could radically change temperatures, because the earth would be closer or farther away from its principle source of heat.

## AT: Climate

### No Impact—Climate change doesn’t cause extreme weather

Craig Idso, founder and chairman of the board of the Center for the Study of Carbon Dioxide and Global Change and S. Fred Singer, emeritus professor of environmental science at the University of Virginia, 09

(NIPCC, “Climate Change Reconsidered”, 2009, <http://www.nipccreport.org/reports/2009/pdf/CCR2009FullReport.pdf>, Zheng, GVK)

The Intergovernmental Panel on Climate Change (IPCC) claims, in Section 3.8 of the report of Working Group I to the Fourth Assessment Report, that global warming will cause (or already is causing) more extreme weather: droughts, floods, tropical cyclones, storms, and more (IPCC, 2007-I). Chapter 5 of the present report presented extensive evidence that solar variability, not CO2 concentrations in the air or rising global temperatures (regardless of their cause) is responsible for trends in many of these weather variables. In this chapter we ask if there is evidence that the twentieth century, which the IPCC claims was the warmest century in a millennium, experienced more severe weather than was experienced in previous, cooler periods. We find no support for the IPCC’s predictions. In fact, we find more evidence to support the opposite prediction: that weather would be less extreme in a warmer world.

The IPCC’s claim that anthropogenic greenhouse gas emissions have been responsible for the warming detected in the twentieth century is based on what Loehle (2004) calls “the standard assumption in climate research, including the IPCC reports,” that “over a century time interval there is not likely to be any recognizable trend to global temperatures (Risbey et al., 2000), and thus the null model for climate signal detection is a flat temperature trend with some autocorrelated noise,” so that “any warming trends in excess of that expected from normal climatic variability are then assumed to be due to anthropogenic effects.” If, however, there are significant underlying climate trends or cycles—or both—either known or unknown, that assumption is clearly invalid. Loehle used a pair of 3,000-year proxy climate records with minimal dating errors to characterize the pattern of climate change over the past three millennia simply as a function of time, with no attempt to make the models functions of solar activity or any other physical variable. The first of the two temperature series is the sea surface temperature (SST) record of the Sargasso Sea, derived by Keigwin (1996) from a study of the oxygen isotope ratios of foraminifera and other organisms contained in a sediment core retrieved from a deep-ocean drilling site on the Bermuda Rise. This record provides SST data for about every 67th year from 1125 BC to 1975 AD. The second temperature series is the ground surface temperature record derived by Holmgren et al. (1999, 2001) from studies of color variations of stalagmites found in a cave in South Africa, which variations are caused by changes in the concentrations of humic materials entering the region’s ground water that have been reliably correlated with regional nearsurface air temperature. Why does Loehle use these two specific records? He says “most other long-term records have large dating errors, are based on tree rings, which are not reliable for this purpose (Broecker, 2001), or are too short for estimating long-term cyclic components of climate.” Also, in a repudiation of the approach employed by Mann et al. (1998, 1999) and Mann and Jones (2003), he reports that “synthetic series consisting of hemispheric or global mean temperatures are not suitable for such an analysis because of the inconsistent timescales in the various data sets,” noting further, as a result of his own testing, that “when dating errors are present in a series, and several series are combined, the result is a smearing of the signal.” But can only two temperature series reveal the pattern of global temperature change? According to Loehle, “a comparison of the Sargasso and South Africa series shows some remarkable similarities of pattern, especially considering the distance separating the two locations,” and he says that this fact “suggests that the **climate signal reflects some global pattern rather than** being a regional signal only.” He also notes that a comparison of the mean record with the South Africa and Sargasso series from which it was derived “shows excellent agreement,” and that “the patterns match closely,” concluding that “this would not be the case if the two series were independent or random.” Loehle fit seven different time-series models to the two temperature series and to the average of the two series, using no data from the twentieth century. In all seven cases, he reports that good to excellent fits were obtained. As an example, the three-cycle model he fit to the averaged temperature series had a simple correlation of 0.58 and an 83 percent correspondence of peaks when evaluated by a moving window count. Comparing the forward projections of the seven models through the twentieth century leads directly to the most important conclusions of Loehle’s paper. He notes, first of all, that six of the models “show a warming trend over the 20th century similar in timing and magnitude to the Northern Hemisphere instrumental series,” and that “one of the models passes right through the 20th century data.” These results suggest, in his words, “that 20th century warming trends are plausibly a continuation of past climate patterns” and, therefore, that “anywhere from a major portion to all of the warming of the 20th century could plausibly result from natural causes.”

## Impact t/o Interdependence Solves War

### **Economic interdependence prevents wars**

Zenko, Fellow in the Center for Preventive Action at the Council on Foreign Relations, and Cohen, Fellow at the Century Foundation, 12

[Micah and Michael, “Clear and Present Safety: The United States is More Secure Than Washington Thinks,” Foreign Affairs, Vol. 91, Iss. 2, Mar/Apr 2012]

Economic bonds among states are also accelerating, even in the face of a sustained global economic downturn. Today, 153 countries belong to the World Trade Organization and are bound by its dispute-resolution mechanisms. Thanks to lowered trade barriers, exports now make up more than 30 percent of gross world product, a proportion that has tripled in the past 40 years. The United States has seen its exports to the world's fastest-growing economies increase by approximately 500 percent over the past decade. Currency flows have exploded as well, with $4 trillion moving around the world in foreign exchange markets every day. Remittances, an essential instrument for reducing poverty in developing countries, have more than tripled in the past decade, to more than $440 billion each year. Partly as a result of these trends, poverty is on the decline: in 1981, half the people living in the developing world survived on less than $1.25 a day; today, that figure is about one-sixth. Like democratization, economic development occasionally brings with it significant costs. In particular, economic liberalization can strain the social safety net that supports a society's most vulnerable populations and can exacerbate inequalities. Still, from the perspective of the United States, increasing economic interdependence is a net positive because trade and foreign direct investment between countries generally correlate with long-term economic growth and a reduced likelihood of war.

## Impact t/o Stabilizers

### Automatic stabilizers will absorb 1/3rd of the economic shock

Dolls, researcher for IZA (research institute that specializes in the labor market), et al 11/2/11

(Mathis, Journal of Public Economics, "Automatic stabilizers and economic crisis: US vs. Europe", November 2, 2011, Accessed: 7/2/12, pg 279)AHL

We show that our extensions to previous research are important for the comparison between the US and Europe as they help to identify the forces driving differences in automatic stabilizers. Our analysis leads to the following main results. In the case of an income shock, approximately 38% of the shock would be absorbed by automatic stabilizers in the EU. For the US, we find a value of 32%. To some extent this result qualifies the widespread view that automatic stabilizers in Europe are much higher than in the US, at least as far as proportional macro shocks on household income are concerned. When looking at the personal income tax only, the values for the US are even higher than the EU average. Within the EU, there is considerable heterogeneity, and results for overall stabilization of disposable income range from a value of 25% for Estonia to 56% for Denmark. In general, automatic stabilizers in Eastern and Southern European countries are considerably lower than in Continental and Northern European countries. In the case of the idiosyncratic unemployment shock, the stabilization gap between the EU and the US is larger. EU automatic stabilizers absorb 47% of the shock whereas the stabilization effect in the US is only 34%. Again, there is considerable heterogeneity within the EU. Compared to conventional macro estimates for the size of automatic stabilization, the EU–US stabilization gap we find is smaller in case of the proportional income shock, whereas it is of similar magnitude for the asymmetric unemployment shock.

### Automatic stabilizers mitigate the impact of shocks-2 factors to gauge efficiency

Dolls, researcher for IZA (research institute that specializes in the labor market), et al 11/2/11

(Mathis, Journal of Public Economics, "Automatic stabilizers and economic crisis: US vs. Europe", November 2, 2011, Accessed: 7/2/12, pg 280-281)AHL

The extent to which automatic stabilizers mitigate the impact of income shocks on household demand essentially depends on two factors. First, the tax and transfer system determines the way in which a given shock to gross income translates into a change in disposable income. For instance, in the presence of a proportional income tax with a tax rate of 40%, a shock on gross income of one hundred Euros leads to a decline in disposable income of 60 Euros. In this case, the tax absorbs 40% of the shock to gross income. A progressive tax, in turn, would have a stronger stabilizing effect. The second factor is the link between current disposable income and current demand for goods and services. If the income shock is perceived as transitory and current demand depends on some concept of permanent income, and if households can borrow or use accumulated savings, their demand will not change. In this case, the impact of automatic stabilizers on current demand would be equal to zero. Things are different, though, if some households are liquidity constrained or acting as “rule-of-thumb” consumers (Campbell and Mankiw, 1989). In this case, their current expenditures do depend on disposable income so that automatic stabilizers play a role.

## Impact t/o-Econ Resilient

### US and global economy is resilient

Behravesh, chief global economist and executive vice president for Global Insight, 6

(Nariman, most accurate economist tracked by USA Today and, Newsweek, “The Great Shock Absorber; Good macroeconomic policies and improved microeconomic flexibility have strengthened the global economy's 'immune system.'” 10-15-2006, www.newsweek.com/id/47483)

The U.S. and global economies were able to withstand three body blows in 2005--one of the worst tsunamis on record (which struck at the very end of 2004), one of the worst hurricanes on record and the highest energy prices after Hurricane Katrina--without missing a beat. This resilience was especially remarkable in the case of the United States, which since 2000 has been able to shrug off the biggest stock-market drop since the 1930s, a major terrorist attack, corporate scandals and war. Does this mean that recessions are a relic of the past? No, but recent events do suggest that the global economy's "immune system" is now strong enough to absorb shocks that 25 years ago would probably have triggered a downturn. In fact, over the past two decades, recessions have not disappeared, but have become considerably milder in many parts of the world. What explains this enhanced recession resistance? The answer: a combination of good macroeconomic policies and improved microeconomic flexibility. Since the mid-1980s, central banks worldwide have had great success in taming inflation. This has meant that long-term interest rates are at levels not seen in more than 40 years. A low-inflation and low-interest-rate environment is especially conducive to sustained, robust growth. Moreover, central bankers have avoided some of the policy mistakes of the earlier oil shocks (in the mid-1970s and early 1980s), during which they typically did too much too late, and exacerbated the ensuing recessions. Even more important, in recent years the Fed has been particularly adept at crisis management, aggressively cutting interest rates in response to stock-market crashes, terrorist attacks and weakness in the economy. The benign inflationary picture has also benefited from increasing competitive pressures, both worldwide (thanks to globalization and the rise of Asia as a manufacturing juggernaut) and domestically (thanks to technology and deregulation). Since the late 1970s, the United States, the United Kingdom and a handful of other countries have been especially aggressive in deregulating their financial and industrial sectors. This has greatly increased the flexibility of their economies and reduced their vulnerability to inflationary shocks. Looking ahead, what all this means is that a global or U.S. recession will likely be avoided in 2006, and probably in 2007 as well. Whether the current expansion will be able to break the record set in the 1990s for longevity will depend on the ability of central banks to keep the inflation dragon at bay and to avoid policy mistakes. The prospects look good. Inflation is likely to remain a low-level threat for some time, and Ben Bernanke, the incoming chairman of the Federal Reserve Board, spent much of his academic career studying the past mistakes of the Fed and has vowed not to repeat them. At the same time, no single shock will likely be big enough to derail the expansion. What if oil prices rise to $80 or $90 a barrel? Most estimates suggest that growth would be cut by about 1 percent--not good, but no recession. What if U.S. house prices fall by 5 percent in 2006 (an extreme assumption, given that house prices haven't fallen nationally in any given year during the past four decades)? Economic growth would slow by about 0.5 percent to 1 percent. What about another terrorist attack? Here the scenarios can be pretty scary, but an attack on the order of 9/11 or the Madrid or London bombings would probably have an even smaller impact on overall GDP growth.

### Economic decline doesn’t cause war

**Ferguson, Professor of History, 6**

(Niall, Professor of History – Harvard University, Foreign Affairs, 85(5), September / October, Lexis)

Nor can economic crises explain the bloodshed. What may be the most familiar causal chain in modern historiography links the Great Depression to the rise of fascism and the outbreak of World War II. But that simple story leaves too much out. Nazi Germany started the war in Europe only after its economy had recovered. Not all the countries affected by the Great Depression were taken over by fascist regimes, nor did all such regimes start wars of aggression. In fact, **no** general **relationship between economics and conflict is discernible** for the century as a whole. Some wars came after periods of growth, others were the causes rather than the consequences of economic catastrophe, and some **severe economic crises were not followed by wars**.