Compiled NIB/Econ Work

Happy economy. Includes new work + helpful stuff from the fiscal discipline generic and econ core, now in one place for your convenience

NIB Case Neg

\*\*General Notes

\*\* Practically none of the advantages are specifically based off of the NIB, except tradeoff adv for BQ (literal worst advantage ever) and congestion/state budget scenarios for KM. Alternate Stimulus CP (was it cut?) solves 99% of case impacts.

BQ

Plan text: The United States federal government should substantially invest in the creation of a federal National Infrastructure Bank with the purpose of funding surface transportation infrastructure projects.

Advantages: stimulus (econ !), competitiveness (econ leadership !), RPS (warming), water (disease)

KM

Plan text: The United States federal government should establish and fund a National Infrastructure Bank for transportation infrastructure investment in the United States.

Advantages: congestion (econ leadership !), state budgets, uncertainty, stimulus (econ !, double dip !)

CO

Plan text: The United States federal government should substantially increase investment in its transportation by establishing a foundation, with the authority to form partnerships with private investors, to disperse grants for transportation infrastructure in the United States.

Advantages: stimulus (short term GDP increase), infrastructure (double dip), net savings [econ ! to all]

\*\*Econ Adv

1NC Economy

1. US economy growing – recent reports and data

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

The mainstream consensus has lately been that the economy is slowing. Based on my tracking of federal revenues in real time, I suspect that that view is incorrect. Instead the recent data reflects only normal oscillations within the ongoing slow growth trend. Total federal tax collections, including withholding taxes, are available to us with just a one day lag in the US Treasury’s Daily Treasury Statements, which makes them an excellent analytical resource. Withholding is mostly for compensation, and thus it is a good measure of the economy’s strength. However, it is extremely volatile day to day so I rely more on a monthly moving average of the 10 day total collections, comparing that with the prior year. Smoothing sacrifices a bit of timeliness to get a clearer picture of the trend without losing too much of the edge that the daily data provides. Unfortunately, I have found even the 10 day total data too noisy for meaningful comparison so I’ve had to resort to additional smoothing. As a result the smoothed data is a little slow, so I also look at raw month to date data after mid month. As of July 11, the 4 week average of the 10 day total of withholding taxes is now up 4.0% in nominal and 1.8% in real terms versus the same period in 2011 (adjusted by the monthly BLS data on average weekly employee compensation which in June rose by 2.2% year to year). This indicator has been in the +1% to +3% range since mid May, with most of that time above +2% suggesting that the economy’s current rate of growth is 2-3%, not the 1-1.6% that most Wall Street economists are now forecasting.Last week was the benchmark week for the BLS labor market data. At a growth rate of 1.8% versus last year, non farm payrolls, not seasonally adjusted (NSA)–in other words, actual–would grow from last year’s July level of 131.038 million to approximately 133.4 million. Such a straightforward analysis doesn’t always match the seasonally adjusted headline number because seasonal adjustment factors have a significant variance for the same period in each year. The resulting seasonally adjusted number is therefore somewhat arbitrary, and anything but real. Unfortunately, the markets don’t really care about that when the data is initially released. Traders and algos only care whether the number beat or fell short of equally arbitrary consensus estimates, which in turn depend almost entirely on the seasonal adjustment variance. If the withholding tax growth rate is applied to the SA payrolls data for July 2011, (1.0183 x 131.407 million) the SA number for July would be 133.812 million. That would be an increase of over 720,000 from the current June figure. Wouldn’t that be an August surprise (when released? But we know that’s not going to happen. The growth rate of withholding and the growth rate of jobs will remain at odds. But unless economists are forecasting very strong gains, the July number would beat if it tracks near the withholding data (More employment charts). The full figures for the month are available a day after the end of the month. Here’s what they looked like at the end of June along with my observations at the time. 7/6/12 As of June 29, the last business day of the month, month to date withholding tax receipts for the full month were up by 0.9% over the same period last year but that is misleading because there was one more calendar day in which taxes could be reported last year, as well as one more business day in which more people would have been at work. Looking at collections on a per diem basis, they were up 4.4% this June versus June 2011. On a per workday basis, the gain was 5.7%. This further supports the thesis that the seasonally adjusted jobs data for June was grossly misleading. 6/9/12 As of May 31, month to date withholding tax receipts for the full month were up by 2.1% versus the same period last year, on a nominal basis, not adjusted for inflation. May 31 month to date outlays were up by $24.2 billion pushed up somewhat after a calendar anomaly pushed expenses usually incurred in April into May, contributing to the bogus budget surplus in April. Conversely, the May deficit increase may also be an illusion. 7/6/12 Month to date outlays for the full month as of June 29 were up by $9.7 billion, absorbing nearly all of the revenue gain. The Administration will continue to spend as much as possible to boost its chances of getting rehired. June 15 was quarterly corporate tax collection day. Corporate taxes for the month were 16% ahead of last June’s collections. Some of this is due to improved business conditions, but if corporations are achieving this by cutting labor costs, that would be counterproductive over the long haul. The withholding tax data and raw unadjusted jobs data suggests that businesses were hiring. Excise taxes are due for the quarter at the end of June. This year they were up 5.9% over 2011. The Treasury releases its final monthly budget figures on the 8th business day after the close of the month, so this too is timely data offering a fascinating glimpse into the economy. The Treasury’s monthly statement for June showed a net revenue increase in nominal terms of 4.2% year over year. These are net revenues after refunds. Refunds for June are mostly tied to the prior year. Gross collections are more representative of the current period. Here are the comparisons by category on a net and gross basis. Wage withholding was down 5.5% in June versus June 2011, falsely suggesting a weakening economy. That was completely due to the last business day of the month falling on June 29. Semi weekly and twice monthly withholding for the end of June would be delayed into July. In fact, $23.3 billion in withholding taxes were remitted on July 2. That’s one third of all the withholding taxes previously collected in June. Conversely, July will look like a blockbuster month because of that. We’ll have to keep that in mind when reviewing next month’s statement Social security taxes were up 3.7%, which is really impressive considering the calendar effect. June is a quarterly estimated tax collection month. Self employment tax collections were up 3.2%. Those were due on June 15, so there are no calendar issues involved. That’s a decent indication of the strength of the economy in the second quarter, but it implies nothing about July. Considering inflation, it suggests real growth of around 1-1.5%. The Fed earned and paid the Treasury less than last year as interest rates plunged. The Fed does not mark to market. The surplus it returns to the Treasury is a result of interest income and sales. It made money in May when it closed sales of some of its Maiden Lane holdings. Year to year, revenues had been uptrending slightly suggesting modest economic growth. Meanwhile the deficit, which had been narrowing, grew materially wider in June. It had also widened in May. While revenues are climbing, the Obama administration has spent all of that and then some. It is, after all, election season, time to buy votes with strategic, economy boosting, government spending. This report is an excerpt from the weekly Treasury market update in the Wall Street Examiner Professional Edition. The Report also includes a review, analysis, and forecast of the past week’s and next week’s Treasury auctions, expected supply impacts on the market, analysis of demand via updated charts and discussion of Primary Dealer, foreign central bank, and US commercial bank buying trends, as well us US bond mutual fund flows. Also included are technical analysis of the Treasury bond market, and US dollar.

2. No double-dip recession – countervailing forces check

Foley 12 (Stephen, Associate Business Editor of The Independent, “Stephen Foley: America should avoid a double-dip recession,” 6/2/2012, <http://www.independent.co.uk/news/business/comment/stephen-foley-america-should-avoid-a-doubledip-recession-7811796.html>)

US Outlook There is no positive way to spin the May unemployment numbers released in the US yesterday. Jobs growth has decelerated sharply in the world's largest economy, the Americans lucky enough to be in employment are working fewer hours, and there is no improvement on the immediate horizon. Temporary employment – usually a signal that businesses' demand for labour has increased and that they will likely add permanent jobs in the near future – was down, too. The headline number showed just 69,000 new jobs last month, lower than even the most bearish economist's forecast, and that compared to an April figure that was itself revised downward. The construction industry, which had been kept busier than usual in the mild winter, finally ran out of steam. Cash-strapped localand state governments also reduced their headcount. It all points to a year of sub-par growth, in which that disappointing 1.9 per cent annualised figure for first-quarter GDP is typical of what is to come. The US is not going to be the engine of the global economy this year, it is now clear. China and India are sputtering, too. The kamikaze pilots of the eurozone are still in their austere death spiral. It is not easy to be optimistic. And yet, the US is still very far from recession, and all these economic woes have unleashed powerful countervailing forces. Oil prices have slid, reducing the pocketbook pressure on US drivers, and interest rates are jaw-droppingly low. The gloomy employment figures sent the yield on 10-year Treasuries below 1.5 per cent for the first time in history. Who needs quantitative easing, when you have that level of monetary stimulus? The odds are still that the US economy will right itself without a double-dip recession, but it isn't morning in America yet, and that bodes ill for President Barack Obama's re-election prospects.

3. Empirically proven that investment is slow – no short term economic growth

Maguire et. al 10 (William J. Mallett, Specialist in Transportation Policy; Steven Maguire, Specialist in Public Finance; Kevin R. Kosar, Analyst in American National Government; “National Infrastructure Bank: Overview and Current Legislation,” December 14th, 2011, Congressional Research Service,

http://www.cfr.org/united-states/congressional-research-service-national-infrastructure-bank-overview-current-legislation/p26939)

Although a national infrastructure bank might help accelerate projects over the long term, it is unlikely to be able to provide financial assistance immediately upon enactment. In several infrastructure bank proposals (e.g., S. 652 and S. 936), officials must be nominated by the President and approved by the Senate. The bank will also need time to hire staff, write regulations, send out requests for financing proposals, and complete the necessary tasks that a new organization must accomplish. This period is likely to be measured in years, not months. The example of the TIFIA program may be instructive. TIFIA was enacted in June 1998. TIFIA regulations were published June 2000, and the first TIFIA loans were made the same month.45 However, according to DOT, it was not until FY2010 that demand for TIFIA assistance exceeded its budgetary authority.46

4. Specifically, transportation stimulus too slow to help the economy

[Ybarra](http://reason.org/experts/show/shirley-ybarra) and [Randazzo](http://reason.org/experts/show/anthony-randazzo) 9 (Shirley, Senior Transportation Policy Analyst and Anthony, Director of Economic Research," Transportation Spending Won't Stimulate Economy", 1/27/2009, <http://reason.org/news/printer/transportation-spending-wont-s-1>)

In the midst of a sluggish economy, nearly every state is facing a significant budget crisis. California's 2010 deficit is expected to be $25 billion to $41 billion. New York, New Jersey, Illinois, Ohio, Florida, and many other states expect at least $1 billion each in red ink next year. As state legislatures grapple with these deficits, it is no secret many are counting on money from federal stimulus package to fill their gaps. Transportation is widely viewed as a key component for any stimulus, and the current House proposal doesn't skimp when it comes to roads and transit. However, even with stimulus assistance, a paradigm shift towards private sector participation in transportation funding is needed if states want to solve the underlying problems that caused this mess and avoid additional trouble in the long-term. The House democrats proposed an $825 billion stimulus package two weeks ago that included $550 in spending, of which $40 billion was for infrastructure: $30 billion for highway construction; $10 billion for transit and rail to reduce traffic congestion and gas consumption. The proposed package plans to use existing models for sending the stimulus money to the states. For the states, several of which have construction project backlogs, this has come as welcome news. But this is not good news for taxpayers. At the end of 2008, the Conference of Mayors presented Congress with a list of "ready-to-go" projects. State governors have requested money for highways, bridges, and other transportation infrastructure projects. However, most of projects were less than impressive, and few, if any projects on the list, will solve the transportation issues pressing in congested urban areas. Yet, even if all the projects were good ones (which they are not), "ready-to-go" is a gross over statement for many of the state requests. A Congressional Budget Office (CBO) analysis released on January 26 predicts that just $3 billion of the $30 billion for highways is likely to be spent by the end of fiscal 2009; a total of $10.5 billion will be spent by the end of 2010; and just over half, $16.5 billion, will have been spent by the end of 2011. The report states, "Historically, money appropriated for highways and transit is spent at a slow rate in the first year and has an extremely long 'tail,' in that funds provided in a particular year are frequently spent over a six-to-eight-year period. As a result, when those programs have seen previous significant increases in budgetary resources, outlays have increased more slowly….CBO consulted with transportation officials in nearly half of the states, accounting for roughly two-thirds of annual highway spending. CBO found that many states are anxious to receive additional funding and can probably begin some projects quickly, but that many states are also concerned about how quickly local governments can undertake new projects. In addition, concerns exist about how quickly state and local governments can adjust their contracting procedures to accommodate the significant increase in the amount of funding." State officials will get some relief from a stimulus plan, but it will be far from enough to put their transportation budgets back on track. The simple fact is, even with federal stimulus aid, business as usual will not deliver the infrastructure needs of the 21st century. The proposed road projects were conceived years ago and reflect yesterday's thinking about transportation. Instead of spending on short-term solutions, policy makers should embrace the private sector as a key player in financing transportation construction, operations and maintenance that significantly reduce traffic congestion, improve mobility and modernize our air traffic control system.

5. More stimulus spending causes crowdout – it’ll kill competitiveness and crush the economy

Edwards 11 (Chris, director of tax policy studies at Cato and editor of [www.DownsizingGovernment.org](http://www.downsizinggovernment.org/). He is a top expert on federal and state tax and budget issues. Before joining Cato, Edwards was a senior economist on the congressional Joint Economic Committee, a manager with PricewaterhouseCoopers, and an economist with the Tax Foundation. Edwards has testified to Congress on fiscal issues many times, and his articles on tax and budget policies have appeared in the Washington Post, Wall Street Journal, and other major newspapers, "The Damaging Rise in Federal Spending and Debt", Cato.org, 9/20/11, <http://www.cato.org/publications/congressional-testimony/damaging-rise-federal-spending-debt>)

Federal spending and debt have soared over the past decade. As a share of gross domestic product, spending grew from 18 percent in 2001 to 24 percent in 2011, while debt held by the public jumped from 33 percent to 67 percent. The causes of this expansion include the costs of wars, growing entitlement programs, rising spending on discretionary programs, and the 2009 economic stimulus bill. Projections from the Congressional Budget Office show that without reforms spending and debt will keep on rising for decades to come.1 Under the CBO's "alternative fiscal scenario," spending will grow to about 34 percent of GDP by 2035, as shown in Figure 1, and debt held by the public will increase to at least 187 percent of GDP.2 Hopefully, we will never reach anywhere near those levels of spending and debt. Going down that path would surely trigger major financial crises, as the ongoing debt problems in Europe illustrate. It is also very unlikely that Americans would support such a huge expansion of the government. The results of the 2010 elections suggest that the public has already started to revolt against excessive federal spending and debt. Some policymakers are calling for a "balanced" package of spending cuts and tax increases to reduce federal deficits. But CBO projections show that the long-term debt problem is not a balanced one — it is caused by historic increases in spending, not shortages of revenues. Revenues have fallen in recent years due to the poor economy, but when growth returns, revenues are expected to rise to the normal level of about 18 percent of GDP — even with all current tax cuts in place. It is spending that is expected to far exceed normal levels in the future, and thus spending is behind the huge increases in debt that are projected. America Has a High-Spending and High-Debt Government Some analysts say that America can afford to increase taxes and spending because it is a uniquely small-government country. Alas, that is no longer the case. Data from the Organization for Economic Cooperation and Development (OECD) show that federal, state, and local government spending in the United States this year is a huge 41 percent of GDP. Figure 2 shows that government in the United States used to be about 10 percentage points of GDP smaller than the average government in the OECD. But that size advantage has fallen to just 4 percentage points. A few high-income nations — such as Australia — now have smaller governments and much lower government debt than the United States. Historically, America's strong growth and high living standards were built on our relatively smaller government. The ongoing surge in federal spending is undoing this competitive advantage we had enjoyed in the world economy. CBO projections show that without reforms federal spending will rise by about 10 percentage points of GDP by 2035. If that happens, spending by American governments will be more than half of GDP by that year. That would doom young people to unbearable levels of taxation and a stagnant economy with fewer opportunities. American government debt has also soared to abnormally high levels. Figure 3 shows OECD data for gross government debt as a share of GDP.3 (The data include debt for federal, state, and local governments). In 2011, gross government debt is 101 percent of GDP in the United States, substantially above the OECD average of 78 percent.4 Harmful Effects of Deficit Spending Federal deficit spending has exploded. Even with the recent passage of the Budget Control Act, the deficit is still expected to be about $1 trillion next year. The damage caused by this spending includes: 1. Transferring resources from higher-valued private activities to lower-valued government activities. With government spending already at 41 percent of GDP, new spending will likely have a negative return, which will reduce output. 2. Creating pressure to increase taxes in the future, which would reduce growth. Higher taxes impose "deadweight losses" on the economy of at least $1 for every $2 of added revenues, as discussed below. 3. Increasing federal debt, which creates economic uncertainty and a higher risk of financial crises, as Europe's woes illustrate. Research indicates that economic growth tends to fall as debt rises above about 90 percent of GDP, as discussed below. Economists in the Keynesian tradition dispute the first point. They believe that the demand-side "stimulus" benefits of spending are so important that they outweigh the problems of microeconomic distortions and misallocations caused by federal programs. However, it is very difficult to see any economic boost from the huge deficit spending of recent years. The total Keynesian stimulus in recent years includes not only the 2009 stimulus package of more than $800 billion, but the total amount of federal deficit spending. We've had deficit spending of $459 billion in fiscal 2008, $1.4 trillion in fiscal 2009, $1.3 trillion in fiscal 2010, and $1.3 trillion in fiscal 2011. Despite that huge supposed stimulus, U.S. unemployment remains at high levels and the current recovery has been the slowest since World War II.5 The Obama administration claimed that there are large "multiplier" benefits of federal spending, but the recent spending spree seems to have mainly just suppressed private-sector activities**.**6 Stanford University's John Taylor took a detailed look at GDP data over recent years, and he found little evidence of any benefits from the 2009 stimulus bill.7 Any "sugar high" to the economy from spending increases was apparently small and short-lived. Harvard University's Robert Barro estimates that any small multiplier benefits that the stimulus bill may have had is greatly outweighed by the future damage caused by higher taxes and debt.8 John Taylor recently testified that deficit-spending stimulus actions "have not only been ineffective, they have lowered investment and consumption demand by increasing concerns about the federal debt, another financial crisis, threats of inflation or deflation, higher taxes, or simply more interventions. Most businesses have plenty of cash to invest and create jobs. They're sitting on it because of these concerns."9

6. Turn – the plan causes outsourcing and wage deflation, which kills the economy

Prestowitz 11 (Clyde, president of the Economic Strategy Institute and writes on the global economy for FP, “Where the jobs went,” 7-11-11 http://prestowitz.foreignpolicy.com/posts/2011/07/11/where\_the\_jobs\_went)

The idea of stimulus incorporated in the standard economic models is that it will create demand for goods and services produced in America and thereby drive investment in new factories and jobs to produce more of those goods and services. The difficulty is that we do n ot want to stimulate a lot more construction or finance (those were the bubbles that collapsed after all), and greater stimulus to create demand for things we largely import does not drive new investment or creation of new jobs in America. It only increases our debt. What is needed is not just demand in the American economy, but demand that results in domestic production and that does not increase domestic or international debt. Think about this in the wake of the recent New York Times article reporting on the new Oakland Bay Bridge being made in and imported from China. Building infrastructure like bridges is a time-honored way of creating demand in the economy that creates jobs. Indeed, just this past weekend President Obama called for creation of an Infrastructure Bank that would enable a dramatic ratcheting up of U.S. investment in critical infrastructure. It's a good idea and one that I, along with others, have long promoted. But if the decision of the state of California to have the main structural elements of the Oakland Bay Bridge made in China is a harbinger of things to come, then an Infrastructure Bank is likely to create more jobs in Asia than in the United States. No doubt former Governor Arnold Schwarzenegger and his cabinet thought they would save about $400 million on steel by buying the bridge in China because Chinese steel production has been heavily subsidized and China's government manages its yuan to be artificially undervalued versus the dollar. But what they didn't consider was that those subsidies tend to make U.S.-based production uncompetitive and not only put American workers out of jobs but exert downward pressure on wages generally while eroding critical investments in equipment and human skills, reducing state, municipal, and federal tax revenues, and contributing to the shrinkage of the national educational base. No one in California took a look at even the whole state picture, let alone the national picture, to determine whether buying a bridge in China was really going to be a net gain for the state (as it turns out, in the past two years the price of Chinese steel has risen much faster than that of U.S. steel so that even the initially projected savings are unlikely to be realized). Even worse, no one at the federal level of the U.S. government has any responsibility for evaluating the net impact of these kinds of deals or for reducing the leakage of stimulus spending abroad and maximizing the domestic production impact of government spending. Until our economists and officials begin to wrestle with the need for the United States not only to stimulate its economy but to do so in ways that will lay the basis for America to increase its wealth-producing capacity and pay its way, they are likely to find themselves in a continuous state of shock.

7. Infrastructure stimulus bad – implementation fails to meet Keynesian criteria – laundry list

De Rugy and Mitchell 11 (Veronique de Rugy, senior research fellow at the Mercatus Center at George Mason University, and Matthew Mitchell, senior research fellow at the Mercatus Center at George Mason University., “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?”, No. 11-36, September 2011, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>)

Perhaps the most important reasons to be skeptical about further stimulus—particularly infrastructure stimulus—have to do with the way it is implemented. As a general rule, the studies that obtain large multipliers do so by assuming that stimulus funds will be distributed just as Keynesian theory says they ought to be. Keynesian economist and former presidential economic advisor Lawrence Summers has offered a widely accepted summary of how—ideally—fiscal stimulus ought to be applied. 18 He argues that fiscal stimulus can be counterproductive if it is not timely, targeted, and temporary.‖ In reality, however, infrastructure spending cannot fulfill these criteria. There is no such thing as a “shovel ready” project: By nature, infrastructure spending fails to be timely. Even when the money is available, it can be months, if not years, before it is spent. This is because infrastructure projects involve planning, bidding, contracting, construction, and evaluation. 19 According to the GAO, as of June 2011, 95 percent of the $45 billion in Department of Transportation infrastructure money had been appropriated, but only 62 percent ($28 billion) had actually been spent. 20 Un-targeted: Effective targeting means that stimulus money should be spent in those areas that have been hardest hit by the recession. The goal is to make the most use of ―idle resources‖ (as Keynesian theory terms them). For instance, depressed areas like Detroit have a considerable number of unemployed resources (people, firms, equipment, etc.). So theoretically, government stimulus should be able to put these idle resources to work. A number of studies, however, have shown that stimulus funding tends not to go to those areas that have been hardest hit by a recession. 21  Even targeted stimulus may fail: Many of the areas that were hardest hit by the recession are in decline because they have been producing goods and services that are not, and will never be, in great demand. Therefore, the overall value added by improving the roads and other infrastructure in these areas is likely to be lower than if the new infrastructure were located in growing areas that might have relatively low unemployment but do have great demand for more roads, schools, and other types of long-term infrastructure. 22  Job poaching, not creating: Unemployment rates among specialists, such as those with the skills to build roads or schools, are often relatively low. Moreover, it is unlikely that an employee specialized in residential-area construction can easily update his or her skills to include building highways. As a result, we can expect that firms receiving stimulus funds will hire their workers away from other construction sites where they were employed rather than from the unemployment lines. This is what economists call ―crowding out.‖ Except that in this case, labor, not capital, is being crowded out. In fact, new data confirm that a plurality of workers hired with ARRA money were poached from other organizations rather than from the unemployment lines. 23 Not temporary: Even in Keynesian models, stimulus is only effective as a short-run measure. In fact, Keynesians also call for surpluses during an upswing. 24 In reality, however, the political process prefers to implement the first Keynesian prescription (deficit-financed spending) but not the second (surpluses to pay off the debt). 25 The inevitable result is a persistent deficit that, year-in, year-out, adds to the national debt. 26 A review of historical stimulus efforts has shown that temporary stimulus spending tends to linger and that two years after an initial stimulus, 95 percent of the spending surge remains. 27  Ratchet-up effect: Evidence from World War II suggests that when spending spikes, as is the case during the current recession, it tends not to return to pre-spike levels. 28 This ―ratchet up‖ in spending is exacerbated when federal spending is channeled through state and local governments, as was the case in ARRA. Data from 50 states over a 13-year period show that temporary grants from the federal government to state and local governments cause the latter to increase their own future taxes by between 33 and 42 cents for every dollar in federal grants received. 29 Cost overruns are the rule rather than the exception: The most comprehensive study of cost overruns examines 20 nations spanning five continents. The authors find that nine out of 10 public works projects come in over budget. 30 Cost overruns dramatically increase infrastructure spending: Overruns routinely range from 50 to 100 percent of the original estimate. 31 For rail, the average cost is 44.7 percent greater than the estimated cost at the time the decision is made. For bridges and tunnels, the equivalent figure is 33.8 percent, and for roads 20.4 percent. 32 On average, U.S. cost-overruns reached $55 billion per year. 33 Even if they lead to localized job growth, these investments are usually inefficient uses of public resources. Inaccurate estimates of demand plague infrastructure projects: A study of 208 projects in 14 nations on five continents shows that 9 out of 10 rail projects overestimate the actual traffic. 34 Moreover, 84 percent of rail-passenger forecasts are wrong by more than 20 percent. Thus, for rail, passenger traffic average 51.4 percent less than estimated traffic. 35 This means that there is a systematic tendency to overestimate rail revenues. For roads, actual vehicle traffic is on average 9.5 percent higher than forecast traffic and 50 percent of road traffic forecasts are wrong by more than 20 percent. 36 In this case, there is a systematic tendency to underestimate the financial and congestion costs of roads. Survival of the un-fittest: Studies have shown that project promoters routinely ignore, hide, or otherwise leave out important project costs and risks to make total costs appear lower. 37 Researchers refer to this as the ―planning fallacy‖ or the ―optimism bias.‖ Scholars have also found that it can be politically rewarding to lie about the costs and benefits of a project. The data show that the political process is more likely to give funding to managers who underestimate the costs and overestimate the benefits. In other words, it is not the best projects that get implemented but the ones that look the best on paper. 38 A rapid increase in stimulus spending makes things worse: There is an inherent tradeoff between speed and efficiency. Policy makers need time to weigh the merits of a project, structure requests for proposals, administer a fair bidding process, select the best firms, competently build the project, and impartially evaluate the results. Quite understandably, economists have found that when funds are spent quickly, they are not spent wisely. 39 In October 2010, President Obama conceded that, in fact, ―There‘s no such thing as shovel-ready projects.‖

8. Predictions of growth from stimulus are wrong – different circumstances mean different multipliers

De Rugy and Mitchell 11 (Veronique de Rugy, senior research fellow at the Mercatus Center at George Mason University, and Matthew Mitchell, senior research fellow at the Mercatus Center at George Mason University., “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?”, No. 11-36, September 2011, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>)

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

\*AT: Congestion

 Congestion Good

Congestion is the only favorable solution to America’s mobility problem demanded by economic and societal factors

Downs 04

(Anthony Downs, Senior Fellow at Brookings Institution, Fall 2004, Keynote address to UCTC’s Annual Student Research Conference at the University of California, Davis, <http://www.uctc.net/access/25/Access%2025%20-%2004%20-%20Traffic%20Congestion%20is%20Here%20to%20Stay.pdf>)

Trafﬁc congestion is not essentially a problem. It’s the solution to our basic mobility problem, which is that too many people want to move at the same times each day. Efficient operation of the economy and our school systems requires that people go to work, go to school, and run errands during about the same hours so they can interact with each other. We cannot alter that basic requirement without crippling our economy and society. This problem marks every major metropolitan area in the world. In the United States, the vast majority of people wanting to move during rush hours use private vehicles, for two reasons. One is that most Americans reside in low-density settlements that public transit cannot serve effectively. Second, for most people private vehicles are more comfortable, faster, more private, more convenient in trip timing, and more ﬂexible than public transit. Therefore, around the world, as household incomes rise, more and more people shift from less expensive public modes to privately owned cars and trucks

 Congestion Inev

Population growth, increased vehicle usage, and sprawl cause congestion

Downs 04

(Anthony Downs, Senior Fellow at Brookings Institution, Fall 2004, Keynote address to UCTC’s Annual Student Research Conference at the University of California, Davis, <http://www.uctc.net/access/25/Access%2025%20-%2004%20-%20Traffic%20Congestion%20is%20Here%20to%20Stay.pdf>)

Why has congestion increased almost everywhere? The most obvious reason is population growth. More people mean more vehicles. But total vehicle mileage has grown much faster than population, in part because a combination of declining real gas prices (corrected for inﬂation) and more miles per gallon caused the real cost of each mile driven to fall 54 percent from 1980 to 2000! That helped raise the percentage of US households owning cars from 86 percent in 1983 to 92 percent in 1995. Furthermore, American road building lagged far behind increases in vehicle travel. Urban lane-miles rose by 37 percent vs. an 80 percent increase in vehicle miles traveled. Another crucial factor contributing to more trafﬁc congestion is the desire of most Americans to live in low-density settlements. Past studies have shown that public transit works best where (1) gross residential densities are above 4,200 persons per square mile, (2) relatively dense housing is clustered close to transit stations or stops, and (3) many jobs are concentrated in relatively compact districts. But in 2000, at least two thirds of all residents of US urbanized areas resided in settlements with densities of under 4,000 persons per square mile. Those densities are too low for public transit to be effective. Hence their residents are compelled to rely on private vehicles for almost all of their travel, including trips during peak hours.

Congestion inevitable- population growth and accumulating wealth

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(Anthony Downs, Senior Fellow at Brookings Institution, Fall 2004, Keynote address to UCTC’s Annual Student Research Conference at the University of California, Davis, <http://www.uctc.net/access/25/Access%2025%20-%2004%20-%20Traffic%20Congestion%20is%20Here%20to%20Stay.pdf>)

Peak-hour trafﬁc congestion in almost all large and growing metropolitan regions around the world is here to stay. Indeed, it is almost certain to get worse during at least the next few decades, mainly because of rising populations and wealth. This will be true no matter what public and private policies are adopted to combat congestion. This outcome should not be regarded as a mark of social failure or wrong policies. In fact, trafﬁc congestion reﬂects economic prosperity. People congregate in large numbers in those places where they most want to be. The conclusion that traffic congestion is inevitable does not mean it must grow unchecked. Several policies described here—especially if used in concert—could effectively slow congestion’s growth. But, aside from disastrous wars or other catastrophes, nothing can eliminate traffic congestion from large metropolitan regions here and around the world. Only serious recessions—which are hardly desirable—can even forestall its increasing. So my advice to trafﬁc-plagued commuters is: relax and get used it. Get a comfortable air-conditioned vehicle with a stereo system, a tape deck and CD player, a hands-free telephone, perhaps even a microwave oven, and commute daily with someone you really like. Learn to make congestion part of your everyday leisure time, because it is going to be your commuting companion for the foreseeable future.

 Mass Transit Doesn’t Solve

Mass transit wouldn’t affect congestion- unpopular and costly

Downs 04

(Anthony Downs, Senior Fellow at Brookings Institution, Fall 2004, Keynote address to UCTC’s Annual Student Research Conference at the University of California, Davis, <http://www.uctc.net/access/25/Access%2025%20-%2004%20-%20Traffic%20Congestion%20is%20Here%20to%20Stay.pdf>)

The third approach is to expand public transit capacity enough to shift so many people from cars to transit that there would be no more excess demand for roads during peak hours. A major reason this approach isn’t feasible is that a very small percentage of commuters today use transit. Even if the nation’s existing transit capacity were increased fourfold and fully utilized, morning peak-hour transit travel would rise only to 11 percent of all morning trips. That would reduce private vehicle trips by only 8.8 percent—hardly enough to end congestion. Moreover, such a quadrupling of transit capacity would be extremely costly.

Mass transit can’t reduce congestion - personal vehicles overwhelm, alternative-route users shift to major roads, transit unused in low-density areas

Downs 4 (Anthony Downs, Senior Fellow at Brookings Institution, Still Stuck In Traffic, 2004, Brookings Institution Press)

Some people believe another alternative to rationing road space that becomes overcrowded during peak hours is providing enough public transit capacity to handle much of the total peak-hour traffic flow. In theory, that could greatly diminish the number of private vehicles trying to move on the roads at the same time, thereby reducing peak-hour congestion. But in the United States, the share of all peak-hour trips made on transit is tiny compared with the share made by privately owned vehicles (POVs) on roads (figure 2-1). Somewhat over one-third of all 1995 weekday trips were POV trips made during peak hours, whereas about 1.5 percent of all daily trips were transit trips made during peak hours.4 Thus, during peak hours, POV trips composed about 96 percent of POV and transit trips combined (which totaled 38.5 percent of all trips). This means twenty-five times as many peak-hour trips arc made in POVs as on transit. Hence, even if expanded transit capacity succeeded in tripling the number of trips made on transit during peak hours in 1995, and thereby replaced a similar number of POV trips, that would have reduced all peak-hour POV trips by only 8.0 percent (1.48 times two as a percentage of 37.1). That would not eliminate peak-hour traffic congestion on most major roadways involved, especially because many of the road users shifting to transit would be replaced by others converging onto those roadways from other times and other routes. The main reason so few peak-hour commuters use public transit is that large parts of the nation have little or no transit service. The forms of public transit dominant in the United States cannot efficiently serve low-density settlements; yet most Americans live in such settlements. Consequently, the nation's transit services are concentrated in a few regions that contain relatively high-density settlements. In 2000, seven metropolitan regions contained 55.7 percent of all public transit com-muters but only 12.5 percent of the nation's total population. Those regions were New York, Chicago, Washington, Boston, Philadelphia, Nassau-Suffolk, and San Francisco.

 New Roads Don’t Solve

Increasing road capacity is impractical and expensive

Downs 04

(Anthony Downs, Senior Fellow at Brookings Institution, Fall 2004, Keynote address to UCTC’s Annual Student Research Conference at the University of California, Davis, <http://www.uctc.net/access/25/Access%2025%20-%2004%20-%20Traffic%20Congestion%20is%20Here%20to%20Stay.pdf>)

The second approach to reducing congestion is to build enough additional road capacity to simultaneously accommodate all drivers who want to travel at peak hours. But this “cure” is totally impractical and prohibitively expensive. We would have to turn much of every metropolitan region into a giant concrete slab, and the resulting huge roads would be grossly underutilized in noncommuting hours. Although there are many occasions when adding more road capacity is a good idea, no large region can afford to build enough to completely eliminate peak-hour congestion.

Efforts to increase road capacity insolvent because networks automatically re-adjust

Downs 4

(Anthony Downs, Senior Fellow at Brookings Institution, Fall 2004, Keynote address to UCTC’s Annual Student Research Conference at the University of California, Davis, <http://www.uctc.net/access/25/Access%2025%20-%2004%20-%20Traffic%20Congestion%20is%20Here%20to%20Stay.pdf>)

The least understood aspect of peak-hour trafﬁc congestion is the Principle of Triple Convergence. It works because trafﬁc ﬂows in any region’s overall transportation networks almost automatically form self-adjusting relationships among different routes, times, and modes. Triple Convergence is the complex process of adaptation through which the various sectors of the metropolitan system adapt to changes in other sectors— speciﬁcally to changes in locations, times, and modes of travel. The Principle of Triple Convergence is best explained by a hypothetical example. Visualize a major commuting freeway so heavily congested each morning that trafﬁc crawls for at least thirty minutes. If that freeway were magically doubled in capacity overnight, the next day trafﬁc would ﬂow rapidly because the same number of drivers would have twice as much road space. But very soon word would get around that this road was uncongested. Drivers who had formerly traveled before or after the peak hour to avoid congestion would shift back into that peak period. Drivers who had been using alternative routes would shift onto this now convenient freeway. Some commuters who had been using transit would start driving on this road during peak periods. Within a short time, this triple convergence upon the expanded road during peak hours would make the road as congested as before its expansion. Experience shows that peak-hour congestion cannot be eliminated for long on a congested road by expanding that road’s capacity if it’s part of a larger transportation network. The Principle of Triple Convergence does not mean that expanding a congested road’s capacity has no beneﬁts. After expansion, the road can carry more vehicles per hour than before, no matter how congested it is, so more people can travel on it at one time. Also, the periods of maximum congestion may be shorter, and congestion on other routes may be less. This principle greatly affects how other congestion remedies to trafﬁc congestion will work in practice. One example is staggered work hours. In theory, if a certain number of workers are able to commute during less crowded parts of the day, it will free up space on congested roads. But once trafﬁc moves faster, other drivers from other routes, other times, and other modes will shift onto the improved roads during peak hours. The same thing will happen if more workers become telecommuters and work at home, or if public transit capacity is expanded on routes paralleling a congested freeway. This is why building light rail systems or subways rarely reduces peak-hour trafﬁc congestion. Such congestion did not decline for long in Portland, where the light rail system doubled in size in the 1990s, or in Dallas, where a new such system opened.

\*AT: Competitiveness

 Competitiveness → Protectionism

Economic competitiveness spurs protectionism

Stavrou 3/28/12 [Protesilaos Stavrou, economic consultant for EU parliament, contributor to one europe and the daily journalist <http://protesilaos.blogactiv.eu/2012/03/28/national-competitiveness-and-the-protectionist-race-to-the-bottom/>]

National competitiveness¶ Even though protectionism exists in quite an apparent way, over the last few years, we have developed a new “compelling” notion, to conceal the fact: national competitiveness, i.e. the idea that countries can be competitive or uncompetitive. For instance Greece is considered uncompetitive while Germany is thought to be competitive. Though this concept could make sense, if taken light-heartedly, as a loose expression for the level of education, or technological research, or entrepreneurship, or internal market rigidities and malignancies, pointing to the need for structural reforms and so on; it remains nonetheless a rather problematic idea. The reason is that in the economic sense nations do not compete with each other – only businesses do.¶ To illustrate the point, Germany is thought to be a very “competitive” economy, yet the German firm in a given industry, say tourism, might be far less competitive than the equivalent Greek, even if Greece as a nation is not “competitive”. Same applies for virtually every singletradable sector on the planet. Nations can only follow two possible courses of action as far as trade is concerned: either cooperate with each other, like the EU in its internal dimension, or hamper each others efforts by means of protectionism. At any rate nations have no “competitiveness” at all, in the strict sense – this notion is in my view a rather misleading abstraction.¶ The reason such a term has become a standard, especially in post-financial crisis economico-political parlance, **has much to do with politics and the subconscious cultivation of “we-they” mentalities**. It is convenient for national politicians to praise the “competitiveness” of their country, while it also serves as a handy tool to justify the existence of protectionist policies by claiming that these contribute to the overall “competitiveness” of the country. In light of this, we recently heard the French President and presidential candidate Nikolas Sarkozy elaborating on yet another perverse proposal: the “Buy European Act” whose purpose will be to encourage consumers (or practically force them) to purchase European products instead of their equivalent international ones.¶ If we as individual European consumers really feel like helping our fellow European producers we can do it by ourselves without some nomenclature coercing us. After all the best way for producers to help themselves is to stand up to international competition by producing cheaper, better and more innovative products that we will buy because they really are good, not because Sarkozy or whoever else thinks it would be good. What regulators really need to be concerned about, is how to help producers reach that point, by removing many of the obstacles they have erected and instead facilitate **and encourage the reallocation of resources from non-tradable to tradable areas.** Narrow-sighted ideas like those of Sarkozy, if brought into law, will return us back to the times we understood international trade as high politics and used it to grind our “enemies” under our heel, eventually fueling an economic war of attrition. Such nonsense will ultimately do much more harm than good to everyone, including European producers.

Infrastruture competitiveness uniquely triggers protectionism – industry subsidization proves

Winslow 4/1/12

[Lance Winslow, Director of “the online think tank”, published economic and political author, April 1 2012 [http://ezinearticles.com/?Are-You-Sure-You-Want-100%-Made-In-America-Parts-On-All-US-Infrastructure-Projects?&id=6975227](http://ezinearticles.com/?Are-You-Sure-You-Want-100%25-Made-In-America-Parts-On-All-US-Infrastructure-Projects?&id=6975227)]

Well, the unions want more high-paying jobs, and the politicians have promised the people that they can deliver jobs to America. And now these same politicians want to do what we are complaining that every other countries doing to us. They want to unbalance trade, create tariffs, and increased protectionism. That just doesn't make sense. Okay so, let's talk about this for a moment because there's a good chance you disagree with me here.¶ Industry Week reiterated a story that has been in the news a bit as of late in an article titled; "Alliance for American Manufacturing: Keep China Out of U.S. Infrastructure Projects," by Paul Handley published on March 27, 2012 which state; "AAM launched its 'Should Be Made in America' campaign as Congress considers a $109 billion, two-year transportation spending bill, which the government hopes will give a boost to the economy and generate more jobs."¶ Yes, I can certainly see the frustration of the average worker in the manufacturing sector which has been totally hammered over the last few decades, still, let's not forget that China and India and other massively fast growing economies and emerging markets have a lot more infrastructure to build up than we do, even as we upgrade our own systems here.¶ If we want to sell stuff to China and India, then we have to be willing to buy those parts that they create which meet our specifications - if they can produce them at a lower price and the same quality part. If we determine that we can only buy US-made parts for all of our infrastructure projects then other nations will reciprocate and bar us from selling them what they need for their infrastructure projects. You see, the United States is very good at engineering and building stuff, it behooves them to use our companies, and that also employs lots of US workers.¶ It's okay to make stringent specifications, and demand the highest level of quality. If other nations can't produce parts that can compete, including the cost of shipping, then we shouldn't feel obligated to buy them. Still, we must also remember that it is the US taxpayer which has to pay for these infrastructure projects, and we need to get the best deal and the best price.¶ If American companies can compete for the same price and quality, then we should definitely buy it here, but they can't we should not subsidize industries or engage in protectionism because that makes our companies weak and unable to compete in global markets. It's akin to corporate welfare, and creating unnecessary wage inflation, not to mention a false economy based on inefficiency. I'm just as much for increasing employment as the next guy, but we don't need to cheat to do it. Indeed I hope you will please consider all this and think on.

Infrastructure spending incentivizes global protectionism – Boxes out developing nations

Khor ’10

[Martin Khor, contributor to the star/asia news network, “watch out for US protectionism abroad” <http://www.chinapost.com.tw/commentary/the-china-post/special-to-the-china-post/2010/09/15/272607/p1/Watch-out.htm>]

KUALA LUMPUR -- With the U.S. economy in bad shape, and a congressional election approaching, various actors in the country seem to be preparing the ground for a bout of protectionism, with developing countries the target.¶ There were two examples of this last week.¶ First, an American trade union filed a legal case with the government accusing China of illegally subsidising exports of clean energy equipment.¶ It wants the U.S. government to take action against China at the World Trade Organisation.¶ Meanwhile, the New York Times published a front page article giving details of how Chinese authorities subsidise producers of solar and wind technology in allegedly unfair ways.¶ This is truly ironic for many reasons.¶ On one hand, developing countries, especially China, are under tremendous pressure to reduce their greenhouse gas emissions. The most important measure advocated is to switch from carbon-intensive coal and oil to renewable clean energy like solar and wind. This pressure is being applied at the global climate negotiations. In addition, the U.S. House of Representatives has passed a Bill that authorizes the President to impose a “border adjustment measure” (with the effect similar to a tariff) on carbon-intensive imports of countries that are deemed not to have taken sufficient action on climate change. Yet, when China takes measures to promote the production of solar panels and wind turbines, it is asked to stop these measures on the ground that they violate WTO rules. The United Steelworkers union has filed a 5,000-page legal case with the U.S. administration accusing China of subsidizing exports of wind turbines, solar panels, nuclear power plants and other clean energy equipment. The union claims that the central and provincial governments have used land grants, low-interest loans and many other measures that allow Chinese companies to gain market share at the expense of jobs in the U.S. The U.S. administration has to decide within 45 days whether to pursue a case against China in the WTO to remove the subsidies. International trade expert Bhagirath Lal Das has pointed out that the WTO's subsidies agreement is biased in favor of developed countries because it allows types of subsidies that they use (especially research and development grants) while forbidding or restricting types of subsidies that developing countries tend to use. Developing countries, because of lack of resources, cannot match the R&D subsidies that the rich countries provide. They can however provide assistance to firms for infrastructure (such as land and utilities) and credit (bank loans at preferential rates) to encourage production. In many developing countries, such subsidized facilities are given, including land and utilities in free trade zones and credit through development banks and to small and medium enterprises. It would be most unfortunate if developed countries, facing high unemployment and other economic woes, were to make scapegoats of developing countries and take them to court in the WTO for using these measures. The New York Times article, while criticizing China's clean-energy subsidies, also reported that the U.S. itself has approved US$10 billion in grants and financing to new companies and another US$10 billion for economic stimulus programs in the clean energy sector, besides investing in infrastructure that benefits industry. Moreover, the U.S. (and European countries) have spent trillions of dollars to rescue their financial institutions and automobile companies. If free enterprise and free trade principles were to apply, these measures should not be allowed. Yet no developing country has taken WTO action against these countries. Another imbalance in the trade rules is that the U.S. and Europe have been allowed to continue their massive agricultural subsidies. These enable their farm products to be sold abroad at artificially low prices, often below production cost, thus displacing the products of local farmers in developing countries. It is thus most unfortunate that some U.S. groups are attacking China's measures promoting clean-energy technology. The developed countries should be encouraging developing countries to develop green technologies instead of placing obstacles. If the WTO rules restrict the measures needed towards climate-friendly technologies, then these rules should be reviewed and reformed to allow developing countries to use them to promote environmental technology. A second case of potential U.S. protection was in last week's economic policy speech by President Barack Obama, that he planned to cut tax incentives given to companies that outsource their work to other countries. “For years, our tax code has actually given billions of dollars in tax breaks that encourage companies to create jobs and profits in other countries,” said Obama. “I want to change that.” “Instead of tax loopholes that incentivise investment in overseas jobs, I'm proposing a more generous, permanent extension of the tax credit that goes to companies for all the research and innovation they do right here in America.” “If we're going to give tax breaks to companies, they should go to companies that create jobs in America — not those that create jobs overseas.” The Indian newspaper The Hindu has voiced concern that this may yet be another protectionist move that will affect the Indian IT industry. Obama's speech follows the recent passing of an executive order by the Ohio state governor to ban outsourcing. Reacting to the order, the Indian IT sector, which gets 60 percent of its export revenue from the U.S., termed the move as discriminatory and said it amounts to a trade barrier. This move in turn follows a controversial legislation that increased fees for visas in the H-1B and L1 categories, which also hit India's IT industry. As politicians court voters in an environment of economic downturn in the U.S., developing countries should be prepared and should try to counter various types of protectionism in trade, investment and fiscal measures.

Grab impacts from the locks aff or somewhere else…

Road building exacerbates congestion

TTI 98

(Texas Transportation Institute, part of the Texas A&M system that conducts studies to solve transportation problems, “An Analysis of Relationship Between Highway Expansion and Congestion in Metropolitan Areas”, November 1998, <http://www.daclarke.org/AltTrans/analysis.html>)

What does this mean for the average person in these metro areas? Clearly, congestion levels are continuing to rise. But these results also show that metro areas that invested heavily in road construction did not end up any better off than those that didn’t. There is substantial evidence that demonstrates that building new roads often increases congestion. A well-established body of research shows that new lanes tend to get filled up with new traffic within a few years, particularly if surrounding routes are also congested. This phenomenon—often called "induced traffic"—occurs when road capacity is expanded near congested routes and drivers flock to the new facility hoping to save time, even if they have to travel a great deal farther to achieve it. Also, the new roadways tend to draw people who would otherwise avoid congested conditions or take alternative modes to their destinations. The result is an overall increase in the total amount of driving and the total number of automobile trips in the region—not just the redistribution of traffic from surrounding areas. This theory has been strongly supported by empirical evidence. Since the 1940s, dozens of traffic studies have found that traffic inducement does indeed occur. New studies continue to support this hypothesis. The most notable of these covers 30 urban counties in California from 1973 to 1990. The authors, UC Berkeley researchers Mark Hansen and Yuanlin Huang, found that at the metropolitan level, every 1% increase in new lane-miles generated a 0.9% increase in traffic in less than five years, which led them to conclude that "With so much induced demand, adding road capacity does little to reduce congestion." In spite of these findings, many transportation agencies still insist that highway construction and road widenings are a viable means of relieving congestion. One such road, a segment of I-287 in northern New Jersey, filled up with traffic (especially trucks) just two years after construction, prompting Princeton University Professor David Bernstein to complain that "It’s as if we hadn’t learned anything in the last 50 years."

Studies say building roads, at best, ineffective at easing congestion

TTI 98

(Texas Transportation Institute, part of the Texas A&M system that conducts studies to solve transportation problems, “An Analysis of Relationship Between Highway Expansion and Congestion in Metropolitan Areas”, November 1998, <http://www.daclarke.org/AltTrans/analysis.html>)

Our analysis of the 15 years of data contained in TTI’s study on congestion in 70 metro areas adds to the growing body of evidence that tells us that highway construction is an ineffective means of managing congestion. In fact, numerous studies indicate that highway construction often generates more traffic, raising congestion levels. Given the enormous costs of roadway construction, our transportation officials need to investigate a broader menu of congestion relief measures that include other transportation modes, new technology, pricing, land use, and other strategies. The federal government has provided ample funding for such efforts through both its targeted CMAQ program and its other flexible funding programs.

Econ High

Leading Indicators show US economy maintaining modest growth

AP 6-21-12 (“Measure of US economy rose 0.3 percent in May, the 7th increase in 8 months”, Washington Post, June 21, 2012, [http://www.washingtonpost.com/business/economy/measure-of-us-economy-rose-03-percent-in-may-the-7th-increase-in-8-months/2012/06/21/gJQAyptmsV\_story.html)//sjl](http://www.washingtonpost.com/business/economy/measure-of-us-economy-rose-03-percent-in-may-the-7th-increase-in-8-months/2012/06/21/gJQAyptmsV_story.html%29//sjl)

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 will recover on its own by the end of 2012

Gnuschke 12(Dr. John E. Gnuschke is Director of the Bureau of Business and Economic Research and the Center for Manpower Studies and Professor of Economics at the University of Memphis. The Bureau and the Center are the applied business, economic, and labor market research divisions of the Fogelman College of Business and Economics.Dr. Gnuschke received his PhD and MA degrees from the University of Missouri at Columbia and his BS from Utah State University, “LOOK FOR A STRONGER ECONOMY IN 2012”, *Business Perspectives 21. 1*, 2012, [Proquest)](http://search.proquest.com.proxy.lib.umich.edu/docview/926976812%29/sjl)

Among the most important charts and graphs in this edition of Business Perspectives are those related to jobs and those related to major local industries - financial, real estate, and transportation based industries including distribution and logistics. Low interest rates set the table for the recovery, but they cannot make the recovery happen. Only the growth of job opportunities and the growth of market drivers like real estate will indicate that the great recession is a thing of the past. The outlook for the economy in 2012 is for a stronger recovery, nearing 2.75 percent growth in GDP, with declining unemployment rates under 8.0 percent nationally by year end combined with renewed signs of strength in most major market sectors. A global economic recovery, combined with high single-digit growth returning to China and an acceptable debt recovery plan in place in Europe, will lead the way to an increasingly bullish 2012. Memphis will respond with modest growth in employment, less than 10,000 net new jobs, but stronger growth than experienced during the last few years. The government and private segments of the local economy will also show signs of new growth as the year progresses.

US economy is growing and resilient – the trucking industry proves

Bloomberg 6-13-12(Anna-Louise Jackson and Anthony Feld, “Truckers As Leading Indicator Show Stable U.S. Economic Growth”, Bloomberg, June 13, 2012, [http://www.bloomberg.com/news/2012-06-14/truckers-as-leading-indicator-show-stable-u-s-economic-growth.html)](http://www.bloomberg.com/news/2012-06-14/truckers-as-leading-indicator-show-stable-u-s-economic-growth.html%29/sjl)

Rising truck shipments show the U.S. economic expansion is intact, even amid concerns that a slowdown in retail sales and Europe’s sovereign-debt crisis could stall growth. Two measures of trucking activity signal the industry remains steady and has even “firmed up” since mid-May, according to Ben Hartford, an analyst in Milwaukee with Robert W. Baird & Co. The data complement anecdotal information from carriers that freight demand ended May on a strong note after more weakness than anticipated earlier in the month, he said. “Trucking trends are reflective of an economic environment that is stable, not deteriorating,” Hartford said. The for-hire truck-tonnage index rose 2.8 percent in April from a year earlier, up from 0.2 percent the prior month, marking 29 months of growth, based on data from the American Trucking Associations. The economy has never contracted without tonnage turning negative first, so the truck figures are a leading indicator, providing the “first signal” of a slump, said Thom Albrecht, an analyst in Richmond, Virginia, with BB&T Capital Markets. His “buy” recommendations include Celadon Group Inc. (CGI), Swift Transportation Co. (SWFT) and Old Dominion Freight Line Inc. (ODFL) Another index that tracks the movement of goods between manufacturers and consumers also is a “good barometer” of the economy, said Jonathan Starks, director of transportation analysis at FTR Associates. FTR’s index of U.S. truck loadings increased 3 percent to 115.9 in April from a year earlier, the highest since 2008, based on data from the Nashville, Indiana- based transportation-forecasting company. Not Stalling April’s improvement suggests the economy is expanding. “It’s not red-hot, but it’s not stalling, either,” Starks said, adding that annual gains above 5 percent would suggest robust activity. Index growth exceeded 5 percent between July 2010 and March 2011, the data show, while gross domestic product expanded an average 2.9 percent year-over-year in the same period. Contacts at trucking companies describe a “seasonally stable demand environment,” Hartford said. Albrecht agreed, saying two carriers characterized activity in early June as “robust”

The Economy is making a slow but steady recovery. The creation of jobs prove

Fox 7/18/12 (“US economy adds 80,000 jobs in another weak month” http://www.foxnews.com/us/2012/07/06/us-employers-add-80000-jobs-as-economy-struggles/ )

WASHINGTON – The American job machine has jammed. Again. The economy added only 80,000 jobs in June, the government said Friday, erasing any doubt that the United States is in a summer slump for the third year in a row. "Let's just agree: This number stinks," said Dan Greenhaus, chief global strategist at the investment firm BTIG. It was the third consecutive month of weak job growth. From April through June, the economy produced an average of just 75,000 jobs a month, the weakest three months since August through October 2010. The unemployment rate stayed at 8.2 percent — a recession-level figure, even though the Great Recession has technically been over for three years. The numbers could hurt President Barack Obama's odds for re-election. Mitt Romney, the presumed Republican nominee, said they showed that Obama, in three and a half years on the job, had not "gotten America working again." "And the president is going to have to stand up and take responsibility for it," Romney said in Wolfeboro, N.H. "This kick in the gut has got to end." Obama, on a two-day bus tour through the contested states of Ohio and Pennsylvania, focused on private companies, which added 84,000 jobs in June, and took a longer view of the economic recovery. "Businesses have created 4.4 million new jobs over the past 28 months, including 500,000 new manufacturing jobs," the president said. "That's a step in the right direction." The Labor Department's report on job creation and unemployment is the most closely watched monthly indicator of the U.S. economy. There are four reports remaining before Election Day, including one on Friday, Nov. 2, four days before Americans vote. No president since World War II has faced re-election with unemployment over 8 percent. It was 7.8 percent when Gerald Ford lost to Jimmy Carter in 1976. Ronald Reagan faced 7.2 percent unemployment in 1984 and trounced Walter Mondale. Patrick Sims, director of research at the consulting firm Hamilton Place Strategies, said that "time has run out" for unemployment to fall below 8 percent by Election Day. That would require an average of about 220,000 jobs a month from July through October — more like the economy's performance from January through March, when it averaged 226,000 per month. Few economic analysts expect anything close to that. "The labor market is treading water," said Heidi Shierholz, an economist at the Economic Policy Institute. She called it an "ongoing, severe crisis for the American work force." The Labor Department report put investors in a sour mood. The Dow Jones industrial average dropped 124 points. Industrial and materials companies, which depend on economic growth, were among the stocks that fell the most. The price of oil fell $2.77 per barrel to $84.45. Money flowed instead into U.S. Treasurys, which investors perceive as safer than stocks when the economy is weakening. The yield on the benchmark 10-year U.S. Treasury note fell to 1.54 percent, from 1.59 percent on Thursday. Investors were already worried about a debt crisis that has gripped Europe for almost three years and recent signals that the powerhouse economy of China is slowing. Earlier this week, the European Central Bank and the central bank of China cut interest rates in hopes of encouraging people and businesses to borrow and spend money. For American investors, however, the jobs report fell into an uncomfortable middle ground. Federal Reserve Chairman Ben Bernanke promised last month that the Federal Reserve would take additional steps to help the economy "if we're not seeing a sustained improvement in the labor market." But some financial analysts said that the Labor Department report, while disappointing, was not weak enough to lock in further action by the Fed at its next meeting July 31 and Aug. 1. The slowdown in job growth has been stark. From December through February, the economy produced an average of 252,000 jobs a month, twice what is needed to keep up with population growth. But the jobs generator started sputtering in March, when job growth slowed to 143,000. At first, economists blamed the weather for warping the numbers. An unusually warm winter allowed construction companies and other employers to hire earlier in the year than usual, effectively stealing jobs from the spring, they said. But weird weather could only explain so much, and the bad news kept coming: The economy added just 68,000 jobs in April and 77,000 in May. Those figures reflect revisions from earlier estimates of 77,000 for April and 69,000 for May. June's dud of a number made it clear that the economy has fallen into the same pattern it followed in 2010 and 2011: It gets off to a relatively fast start, then fades at midyear. Offering some hope, the slowdowns the two previous years lasted just four months each. From June through September 2010, the economy lost an average of 75,000 jobs per month. From May through August 2011, the economy added an average of 80,000 per month. Both years, hiring picked up significantly when the weak stretches ended. To be sure, the United States is still suffering the hangover of a financial crisis and the worst recession since the 1930s. The economy lost 8.8 million jobs during and after the recession. It has regained 3.8 million. The economy isn't growing fast enough to create jobs at a healthy clip. That is primarily because three traditional pistons of the economic engine aren't firing the way they normally do: — Consumer spending since the recession has been weaker than in any other post-World War II recovery, partly because wage increases have been small. In such a weak job market, employers don't need to give big raises. And households are trying to pay off the debt they ran up in the mid-2000s. — Housing has been a dead weight on the economy for six years. Home-building usually powers economic recoveries, but construction spending is barely half what economists consider healthy. — Government, which usually picks up the slack in the job market when the economy is weak, isn't helping this time. Counting federal, state and local jobs, governments have cut 637,000 jobs since 2008. They have cut 49,000 the last three months. In the first three months of this year, it appeared state and local government job losses were coming to an end. "That turned out to be a temporary halt," said Stuart Hoffman, chief economist at PNC Financial. "Apparently, there's no end in sight." The figure of 80,000 jobs came from a Labor Department survey of businesses and government agencies. Another survey, of American households, looks better. It shows the number of employed Americans rose by 381,000 the past three months — 127,000 a month. The household survey can catch the self-employed and those working for very small businesses, who can be missed by the bigger business survey. But over time the two surveys usually tell the same story. The unemployment rate last month was unchanged from May. But a broader measure of weakness in the labor market, the so-called underemployment rate, deteriorated for the second straight month. In June, 14.9 percent of Americans either were unemployed, had been forced to settle for part-time employment, or had given up looking for work and were not counted as unemployed. The rate was 14.8 percent in May and 14.5 percent in April.

Recent reports and data show the US economy is actually growing

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

The mainstream consensus has lately been that the economy is slowing. Based on my tracking of federal revenues in real time, I suspect that that view is incorrect. Instead the recent data reflects only normal oscillations within the ongoing slow growth trend. Total federal tax collections, including withholding taxes, are available to us with just a one day lag in the US Treasury’s Daily Treasury Statements, which makes them an excellent analytical resource. Withholding is mostly for compensation, and thus it is a good measure of the economy’s strength. However, it is extremely volatile day to day so I rely more on a monthly moving average of the 10 day total collections, comparing that with the prior year. Smoothing sacrifices a bit of timeliness to get a clearer picture of the trend without losing too much of the edge that the daily data provides. Unfortunately, I have found even the 10 day total data too noisy for meaningful comparison so I’ve had to resort to additional smoothing. As a result the smoothed data is a little slow, so I also look at raw month to date data after mid month. As of July 11, the 4 week average of the 10 day total of withholding taxes is now up 4.0% in nominal and 1.8% in real terms versus the same period in 2011 (adjusted by the monthly BLS data on average weekly employee compensation which in June rose by 2.2% year to year). This indicator has been in the +1% to +3% range since mid May, with most of that time above +2% suggesting that the economy’s current rate of growth is 2-3%, not the 1-1.6% that most Wall Street economists are now forecasting.Last week was the benchmark week for the BLS labor market data. At a growth rate of 1.8% versus last year, non farm payrolls, not seasonally adjusted (NSA)–in other words, actual–would grow from last year’s July level of 131.038 million to approximately 133.4 million. Such a straightforward analysis doesn’t always match the seasonally adjusted headline number because seasonal adjustment factors have a significant variance for the same period in each year. The resulting seasonally adjusted number is therefore somewhat arbitrary, and anything but real. Unfortunately, the markets don’t really care about that when the data is initially released. Traders and algos only care whether the number beat or fell short of equally arbitrary consensus estimates, which in turn depend almost entirely on the seasonal adjustment variance. If the withholding tax growth rate is applied to the SA payrolls data for July 2011, (1.0183 x 131.407 million) the SA number for July would be 133.812 million. That would be an increase of over 720,000 from the current June figure. Wouldn’t that be an August surprise (when released? But we know that’s not going to happen. The growth rate of withholding and the growth rate of jobs will remain at odds. But unless economists are forecasting very strong gains, the July number would beat if it tracks near the withholding data (More employment charts). The full figures for the month are available a day after the end of the month. Here’s what they looked like at the end of June along with my observations at the time. 7/6/12 As of June 29, the last business day of the month, month to date withholding tax receipts for the full month were up by 0.9% over the same period last year but that is misleading because there was one more calendar day in which taxes could be reported last year, as well as one more business day in which more people would have been at work. Looking at collections on a per diem basis, they were up 4.4% this June versus June 2011. On a per workday basis, the gain was 5.7%. This further supports the thesis that the seasonally adjusted jobs data for June was grossly misleading. 6/9/12 As of May 31, month to date withholding tax receipts for the full month were up by 2.1% versus the same period last year, on a nominal basis, not adjusted for inflation. May 31 month to date outlays were up by $24.2 billion pushed up somewhat after a calendar anomaly pushed expenses usually incurred in April into May, contributing to the bogus budget surplus in April. Conversely, the May deficit increase may also be an illusion. 7/6/12 Month to date outlays for the full month as of June 29 were up by $9.7 billion, absorbing nearly all of the revenue gain. The Administration will continue to spend as much as possible to boost its chances of getting rehired. June 15 was quarterly corporate tax collection day. Corporate taxes for the month were 16% ahead of last June’s collections. Some of this is due to improved business conditions, but if corporations are achieving this by cutting labor costs, that would be counterproductive over the long haul. The withholding tax data and raw unadjusted jobs data suggests that businesses were hiring. Excise taxes are due for the quarter at the end of June. This year they were up 5.9% over 2011. The Treasury releases its final monthly budget figures on the 8th business day after the close of the month, so this too is timely data offering a fascinating glimpse into the economy. The Treasury’s monthly statement for June showed a net revenue increase in nominal terms of 4.2% year over year. These are net revenues after refunds. Refunds for June are mostly tied to the prior year. Gross collections are more representative of the current period. Here are the comparisons by category on a net and gross basis. Wage withholding was down 5.5% in June versus June 2011, falsely suggesting a weakening economy. That was completely due to the last business day of the month falling on June 29. Semi weekly and twice monthly withholding for the end of June would be delayed into July. In fact, $23.3 billion in withholding taxes were remitted on July 2. That’s one third of all the withholding taxes previously collected in June. Conversely, July will look like a blockbuster month because of that. We’ll have to keep that in mind when reviewing next month’s statement Social security taxes were up 3.7%, which is really impressive considering the calendar effect. June is a quarterly estimated tax collection month. Self employment tax collections were up 3.2%. Those were due on June 15, so there are no calendar issues involved. That’s a decent indication of the strength of the economy in the second quarter, but it implies nothing about July. Considering inflation, it suggests real growth of around 1-1.5%. The Fed earned and paid the Treasury less than last year as interest rates plunged. The Fed does not mark to market. The surplus it returns to the Treasury is a result of interest income and sales. It made money in May when it closed sales of some of its Maiden Lane holdings. Year to year, revenues had been uptrending slightly suggesting modest economic growth. Meanwhile the deficit, which had been narrowing, grew materially wider in June. It had also widened in May. While revenues are climbing, the Obama administration has spent all of that and then some. It is, after all, election season, time to buy votes with strategic, economy boosting, government spending. This report is an excerpt from the weekly Treasury market update in the Wall Street Examiner Professional Edition. The Report also includes a review, analysis, and forecast of the past week’s and next week’s Treasury auctions, expected supply impacts on the market, analysis of demand via updated charts and discussion of Primary Dealer, foreign central bank, and US commercial bank buying trends, as well us US bond mutual fund flows. Also included are technical analysis of the Treasury bond market, and US dollar.

Recovery is on track- unemployment decreasing and spending rising

Rushe 6/26/12

Dominic Rushe is the US business correspondent for the Guardian, OECD: US economy is improving but recovery is far from complete- Report suggests economy has 'gained momentum' but says long-term unemployment and income equality must be solved, The Guardian, Tuesday 26 June 2012 11.21 EDT

The US recovery remains on track but "fissures" have begun to appear in the world's largest economy as it struggles with record long-term unemployment and income inequality, according to a report by the Organization for Economic Co-operation and Development. The international economist group is more bullish on the economy than Federal Reserve chairman Ben Bernanke, who recently downgraded his forecasts for the US economy. And the report may prove useful ammunition for the Obama administration as the economy emerges as the key battleground of the 2012 election. The OECD offered support to president Barack Obama's plans to cut tax breaks for America's wealthiest, a plan known as the 'Buffett rule' after its championing by billionaire investor Warren Buffett. Growth in the US will remain moderate this year but the OECD report concludes that America's economic recovery has "gained momentum". Consumer and business spending have risen and unemployment, though still high at 8.2%, has fallen nearly two percentage points from its peak in 2009.

No double-dip coming- Europe’s progress, leading indicators and lower gas prices buffer the economy

Koesterich 6/22/12

Russ is a frequent contributor to financial news media and can regularly be seen on CNBC, Fox Business News and Bloomberg TV. He is the author of two books. Russ is also regularly quoted in print media including the Wall Street Journal, USA Today, MSNBC.com, and MarketWatch. Russ earned a BA in history from Brandeis University, a JD from Boston College and an MBA in capital markets from Columbia University, Don't Expect A Double Dip ... This Year,

<http://seekingalpha.com/article/678771-don-t-expect-a-double-dip-this-year>

For the third summer in a row, the US economy is slowing and Europe is teetering on the brink of an abyss. While renewed fears of a US double dip are reasonable, I believe the United States will not see a recession in 2012 for the following four reasons: 1.) Europe is struggling, but it’s slowly stumbling toward a solution. It’s true that Europe is likely to continue to be a chronic source of stress for the global economy. That said, we have seen some tentative signs of progress in recent weeks. The results of the second Greek election mitigated the risk of a near-term Greek default or exit. And while Spain has yet to articulate a definitive plan to recapitalize its banking system, at least it has acknowledged there’s a problem. 2.) Apparent US weakness can partly be attributed to statistical quirks. The weakness of recent US economic data can be attributed to other factors besides an economic slowdown. Take May’s disappointing non-farm payroll report, for instance. The collapse of the construction industry likely is wreaking havoc with how the jobs data is adjusted for seasonal variations, meaning that winter was probably not as strong as the data indicated, nor spring as weak as the headline numbers suggested. 3.) Leading indicators remain stable. While most economic measures continue to be sluggish, leading economic indicators are still signaling positive growth. Our favorite metric, the Chicago Fed National Activity Index, is stuck at zero, close to its average level over the past few years. This is certainly not indicative of a robust economy, but it’s still consistent with US growth in the 2% range or even slightly better. Other leading indicators also confirm a continuation of the expansion. Lost in din of last month’s non-farm payroll report debacle was the May ISM manufacturing report. While weak, it was by no means a disaster. In particular, the new orders component, which tends to lead economic activity, rose to its best level since the spring of 2011. 4.) Gasoline prices are down. Finally, oil prices have come down. While the consumer still faces a number of headwinds, cheaper gasoline prices are providing some relief for stretched middle-income consumers.

Tax Collections show the economy isn’t slowing

Adler 7/18/12

<http://www.businessinsider.com/federal-tax-revenues-economy-not-slowing-2012-7> Lee Adler is the editor and publisher of The Wall Street Examiner Jul. 18, 2012, 9:10 AM One Crucial Indicator Shows The US Economy Isn't Slowing At All

The mainstream consensus has lately been that the economy is slowing. Based on my tracking of federal revenues in real time, I suspect that that view is incorrect. Instead the recent data reflects only normal oscillations within the ongoing slow growth trend. Total federal tax collections, including withholding taxes, are available to us with just a one day lag in the US Treasury’s Daily Treasury Statements, which makes them an excellent analytical resource. Withholding is mostly for compensation, and thus it is a good measure of the economy’s strength. However, it is extremely volatile day to day so I rely more on a monthly moving average of the 10 day total collections, comparing that with the prior year. Smoothing sacrifices a bit of timeliness to get a clearer picture of the trend without losing too much of the edge that the daily data provides. Unfortunately, I have found even the 10 day total data too noisy for meaningful comparison so I’ve had to resort to additional smoothing. As a result the smoothed data is a little slow, so I also look at raw month to date data after mid month.

Fiscal Discipline Now

Fiscal discipline now – budget compromise

Mascaro 7-31-12 Lisa Mascaro LA Times July 31, 2012 Tentative budget agreement reached with Congress, White House

http://articles.latimes.com/2012/jul/31/news/la-pn-tentative-budget-agreement-reached-with-congress-white-house-20120731

WASHINGTON -- Congressional leaders and the White House have reached a tentative budget deal to avert a government shutdown and pay for federal operations into 2013. The six-month stopgap measure would keep the government funded at current levels previously agreed to by Republicans and Democrats -- dashing, for now, the hopes of conservatives who have sought to make steeper spending reductions, including eliminating funding for President Obama’s healthcare law.

Fiscal discipline and consumer confidence now

Mike Dorning, John Detrixhe and Ian Katz, Bloomberg Press, 07/16/’12, [Downgrade Anniversary Shows Investors Gained Buying U.S., <http://www.bloomberg.com/news/2012-07-16/downgrade-anniversary-shows-investors-gained-buying-u-s-.html>] VN

Warren Buffett, the billionaire investor renowned for his focus on company fundamentals, turned out to be prescient in shrugging off the downgrade: “In Omaha, the U.S. is still triple-A,” Buffett said amid the uproar. “In fact, if there were a quadruple-A rating, I’d give the U.S. that.” Photo: Andrew Harrer/Bloomberg Republican presidential candidate Mitt Romney described it as a “meltdown” reminiscent of the economic crises of Jimmy Carter’s presidency. He warned of higher long-term interest rates and damage to foreign investors’ confidence in the U.S. U.S. House Budget Committee Chairman Paul Ryan said the government’s loss of its AAA rating would raise the cost of mortgages and car loans. Mohamed El-Erian, chief executive officer of Pacific Investment Management Co., said over time the standing of the dollar and U.S. financial markets would erode and credit costs rise “for virtually all American borrowers.” They were wrong. Almost a year later, mortgage rates have dropped to record lows, the government’s borrowing costs have eased, the dollar and the benchmark S&P stock index are up, and global investors’ enthusiasm for Treasury debt has strengthened. **“The U.S. Treasury is still the widest, deepest and most actively traded in the world,”** said Jeffrey Caughron, a partner at Baker Group LP in Oklahoma City, which advises community banks on investments of more than $40 billion. “That becomes all the more important when you have signs of weakening global economic growth and continued problems in Europe.” Even in a slow recovery, the U.S. has unparalleled assets in the global market, including the size and resilience of its economy and the dollar’s standing as the world’s reserve currency. Low Treasury yields show that most investors think the U.S. government will meet its obligations, no matter how dysfunctional the political climate becomes in Washington.

Fiscal discipline now

CRFB, Committee for a Responsible Federal Budget, 05/25/’12, [GOOD NEWS ON THE FISCAL CLIFF?, <http://crfb.org/blogs/good-news-fiscal-cliff>] VN

Each day the Fiscal Cliff gets closer and closer, adding more uncertainty to our economic situation. But, as Deutsche Borse Group reports today, there is some cause for hope. With the Congressional Budget Office (CBO) having released a report giving lawmakers an estimate as to what would happen if the all the policies scheduled to happen at year end would occur, there is news that there has been ongoing discussions and negotiations behind the scenes to get the job done - and better yet, to do so by enacting a full, comprehensive fiscal plan. To recap, the fiscal cliff is the expiration of a slew of policies, and the sequestration being activated, with the added bonus of needing to raise the debt ceiling. These policies combined, according to CBO would put the US economy into a double-dip recession for the first half of next year by having growth equal to negative 1.3 percent, but over the full year, would equal a still lackluster 0.5 percent. As we have explained previously, and as CRFB president Maya MacGuineas recently explained, "Instead of going over the fiscal cliff or allowing an ever growing mountain of debt, we should rise to the challenge and enact a comprehensive plan with more targeted and thoughtfully crafted measures."

Discipline now

MNI, Dutch Borse Group (Finance), 05/25/’12, [US BudgetWatch: Hill Braces For End-of-Yr Fiscal Cliff Battle, <https://mninews.deutsche-boerse.com/index.php/us-budgetwatch-hill-braces-end-yr-fiscal-cliff-battle?q=content/us-budgetwatch-hill-braces-end-yr-fiscal-cliff-battle>] VN

"Things are pretty quiet on the surface up here (in Congress), but beneath the surface there is a lot of careful, detailed and intense working occurring on a deficit reduction package, involving people from both parties," Conrad said. Conrad said meetings to assemble, draft, and score a major deficit reduction package are underway, adding that he would like to move forward with the package "as soon as possible. But he added that it's not very likely that such a package could move in Congress before the election. "I think we all know the kind of plan we need to pass and pass very soon. But I can't tell you that there is sufficient support up here to pass it now. The mood must change. But things do change. Events happen. The situation in Europe worsens. We want to be ready if there is an opportunity," Conrad said. Conrad said he is working with lawmakers both within the Senate Budget Committee and in informal groups such as the "Gang of Six" to develop a deficit reduction package. "This is incredibly detailed, difficult work. It takes months and months of careful preparation to be ready with a plan. Some of us are determined to be ready pretty soon with a plan. We hope the political moment comes that allows us to move the package," he said. .

Congress will make a budget deal to avoid the fiscal cliff now

Leon Panetta, Secretary of Defense, 06/02/’12, [Department of Defense Transcript:, <http://www.iiss.org/conferences/the-shangri-la-dialogue/shangri-la-dialogue-2012/speeches/first-plenary-session/qa/>] VN

It’s been set because of the failure of the Super Committee sequester is now supposed to take effect in January. Both Republicans and Democrats recognize that that would be a disaster. Sequester would impose another $500 billion in defense cuts if it we were to go into effect. I know of no Republican, no Democrat who believes that should happen. Having said that, obviously, they have the responsibility then to take action now to de-trigger sequester from taking effect. I believe that they will work to do that. I really do, because I think there isn’t anyone that wants that to happen, so I’m confident that ultimately Republicans and Democrats will find a way to de-trigger that artificial crisis that they put in place. The third point is with regards to the confidence level I have that ultimately Republicans and Democrats will deal with the larger issues that we confront in our economy, particularly with regards to the deficit. In my history in the Congress, I participated in every budget – major budget summit beginning with Reagan, President Reagan, continuing with President Bush. As OMB director for President Clinton developed the budget, the deficit reduction plan that President Clinton put in place. In every one of those – every one of those – it was important for Republicans and Democrats to put everything on the table and to look at every area of spending, not just defense, not just domestic spending, but at entitlements and at revenues. And it was because we put all of those elements together in those packages that we ultimately were able to balance the budget. I know the politics of this is difficult both for Republicans and Democrats, but I ultimately believe that because it is so important to our country and to our economy that ultimately they will find the courage that is required here to be able to develop that kind of approach to deficit reduction.

No sequester – budget proposal

Mieke Eoyang & Matt Bennett (Director of Third Way’s National Security Program, Vice President of Public Affairs and Co-Founder of Third Way, Politico, 7/12, Sequester hovers like a guillotine) <http://www.politico.com/news/stories/0712/78406.html>

The president proposed a budget in February that, taken as a whole, would result in enough savings to avoid sequestration. He has now instructed the DOD not to bother planning for sequestration cuts — noting that they would be damaging and expecting that Congress will reach a real budget deal.

Bipartisan cuts coming

John Shaw (senior reporter for Market News International since 1991 and a vice president since 1998, MNI, 7/12, MNI Washington Bureau <https://mninews.deutsche-boerse.com/index.php/us-hoyerdems-fiscal-cliff-plan-would-boost-jobs-cut-deficit?q=content/us-hoyerdems-fiscal-cliff-plan-would-boost-jobs-cut-deficit>)

WASHINGTON (MNI) - House Minority Whip Steny Hoyer said Tuesday the Democratic plan to avert the coming fiscal cliff by passing a "big, bold, and bipartisan" deficit reduction plan would help boost growth and cut budget deficits. At a briefing, Hoyer said a deficit reduction plan along the lines of the Simpson-Bowles package should be enacted as a replacement to the fiscal cliff. Hoyer praised President Obama's plan to extend Bush era tax cuts only for those families making $250,000 or less. "The President's formulation is correct," Hoyer said. He said failing to pass this package of tax cuts would be "inimical to the economy and a depressant to the growth of the economy." But he added that "the Clinton tax rates got it about right." Hoyer said the coming across-the-board spending cuts, called sequestration, should not be dropped without a replacement deficit reduction package. He hammered Republicans for insisting on attaching conditions to the debt ceiling agreement last year--and now trying to flee from the spending cuts that have been triggered by this process. "They imposed a fiscal discipline but don't want to live with the fiscal discipline. They want to have it both ways," Hoyer said. Hoyer called for a clean congressional vote to pass a debt ceiling increase in the "very near term," but he did not have a recommendation for how much the debt ceiling increase should be. Treasury Secretary Tim Geithner has said that certain cash management moves could delay the need for a debt ceiling increase until next year.

Fiscal discipline now – military cuts

Mackenzie Eaglen, The Hill, 06/26/12, [Deal to stop sequestration will have more defense budget cuts and new tax increases, <http://thehill.com/blogs/congress-blog/economy-a-budget/234939-deal-to-stop-sequestration-will-have-more-defense-budget-cuts-and-new-tax-increases->] VN

As with taxes, Democrats will be pushing on an open door when it comes to pressuring Republicans to give in to additional defense cuts. Already in the Senate, nearly a dozen Republicans have implicitly signed up for as much as $886 billion in defense cuts through their support of the Simpson-Bowles and Gang of Six plans. When it comes time for Congress and the president to strike a final deal this winter, the common expectation will be for defense to “pay its fair share.” Despite contributing more to deficit reduction than any other federal agency, the military will be called on again for further cuts — and Republicans, for the most part, will not take issue.

Fiscal Discipline Now

Emily Koff(Research Associate, The Heritage Foundation, 6/12, Congress Must Address Both Defense Sequestration and Deficit) <http://blog.heritage.org/2012/06/28/congress-must-address-both-defense-sequestration-and-deficits/>

While Congress works to shift automatic spending cuts away from defense, it should also enact spending reduction measures that reduce short- and long-term deficits and debt. While the White House is right to encourage this, its idea of deficit reduction solutions can be boiled down to two flawed policies: tax hikes and stimulus spending. Americans—and the economy—cannot afford tax hikes, and more stimulus spending would be a prescription for continued deficits and further indebtedness. Excessive spending is what got us into this mess, and spending should be the target for getting out of it. The House has already passed reconciliation legislation that addresses the automatic spending cuts. It would impose a cap on fiscal year 2013 discretionary spending that is in line with the House budget resolution. It also would enact entitlement program reforms, yielding savings to replace the automatic cuts. The bill is not perfect: It avoids the sequestration for only one year, and its savings on entitlement programs are a minuscule 1 percent of total entitlement spending over the next decade. It does, however, mark an important accomplishment by the House: to set spending priorities and enact reforms—essentially, to budget. Getting spending under control requires this exact budget discipline. Congress has a horrible penchant for waiting until the last minute to pass urgent legislation. America’s military and the defense industry cannot afford for it to continue this habit, and the longer Congress delays, the more damage it will do.

Infrastructure Stim Bad

Stimulus fails – even if spending helps, infrastructure stimulus programs empirically fail

Utt 11 (Ronald. D. Utt, Herbert and Joyce Morgan Senior Research Fellow at The Heritage Foundation, “The Limited Benefits of a National Infrastructure Bank,” 10-30-11, The Heritage Foundation, hosted @ The Hawaii Reporter, http://www.hawaiireporter.com/?p=41695)

Until recently, federal interest in infrastructure banks has been limited to legislation focusing on the creation and funding of state infrastructure banks, several of which were created in the 1990s and are still in operation. Recently, congressional focus has shifted to a federal infrastructure bank or a related financing facility, and several bills have been introduced in Congress to create such an entity. Added to the many congressional initiatives are the several plans that President Barack Obama has proposed since taking office. What these federal-level proposals all have in common is the goal of attempting to muster a greater volume of financial resources for various types of infrastructure, but beyond that they all differ significantly in how they would operate, who would run them, the volume and source of funds, what they can invest in, and what types of infrastructure would be eligible for support. Some would be limited to just transportation infrastructure; others would allow investments also in water supply and treatment, housing, energy, and environment; and still others would focus on infrastructure with a social welfare intent. Some would be funded by appropriations only, while others would have a mix of appropriations and debt. In some, this debt would be guaranteed by the federal government; in others, it would not. Some would provide loans, loan guarantees, and grants, while others would provide only loans and loan guarantees. Some of the bills have changed significantly from session to session. The White House has offered at least three different proposals, the most recent being the American Infrastructure Financing Authority included in the American Jobs Act proposal. I have read the legislative language (or discussion drafts) that would create these banks and finance facilities and have concluded that there is little added value from any of them beyond what could be achieved by modest alteration in existing transportation programs. What value there is could be more than offset by the problems that could emerge from such entities. The reasons for this skepticism are as follows. The Checkered History of Federal Finance Facilities Beginning in the 1930s, the federal government created a number of bank-like entities and credit insurance facilities, and every one of them has been challenged by serious, if not catastrophic, financial failure that often involved costly taxpayer bailouts. They include the Federal Land Banks, Farm Credit Administration, Federal Housing Administration, Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, Federal Home Loan Banks, and Fannie Mae and Freddie Mac. The latter two are perhaps the most catastrophic of all, with the taxpayer bailout cost totaling about $150 billion so far. In every case, these entities were believed to have been soundly organized and operated, and they provided loans and guarantees and insurance on products or entities that were also believed to be financially sound. Importantly, these loans and investments also provided a reliable stream of income to fund the federal entity, service its debt, and provide it with the necessary reserves and contingency funds. In short, they were all deemed to be commercially viable, as were their clients. Yet they all failed in one way or the other despite the top-notch talent thought to be running them. Could the Bank Avoid These Risks? In this regard, what is noteworthy about the typical infrastructure bank proposals is that all will begin with risks and deficiencies that significantly exceed those confronting the federal finance entities cited above. Fannie Mae, for example, was supposed to be investing only in conforming mortgages, thought by most to be a safe, conservative investment providing a steady stream of interest and principal repayment. In contrast, and with the exception of some well-established toll roads, bridges, and tunnels, most transportation infrastructure earns no revenue and must be supported entirely through taxes or related user fees. Most roads are still “free” to users and likely will remain so, while fares earned on even the best-run transit systems cover none of their debt service and only about half of their operating costs. While a growing share of new transportation capacity underway will be tolled and thus will yield a stream of revenues, “freeways” will likely continue to be the norm. However, even the act of tolling is no assurance that the necessary and sufficient revenues will be there to cover debt service: Over the past decade or so, a number of new toll roads in Virginia, California, South Carolina, and Texas have suffered revenue shortfalls of some significant magnitude. Obviously, a revenue-generating environment of this degree of uncertainty seems likely to impose important challenges to any transportation infrastructure bank attempting to maintain a sound financial footing. Moreover, those banks that would also make grants would lose money on every grant made, effectively losing both interest and principal the minute the grant is made. This has led one critic to observe that “institutions that give away money without requiring repayment are properly called ‘foundations’ not ‘banks.’” [1] Senator James Inhofe, ranking member on the Senate’s Environment and Public Works Committee, likewise 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. [2] Would It Improve Overall Federal Transportation Policy? Senator Inhofe makes a very good point by wondering about what the value added would be of creating another federal transportation program (independent of the current one under some proposals) when you already have one that has been up and running for more than half a century and, for the most part, has served the nation well. More specific to some of the infrastructure bank proposals is the emphasis on loans and loan guarantees as opposed to grants, suggesting that the bank will somehow be paid back—a notion about which, as we have seen, we have reason to be skeptical. Nonetheless, if credit availability is at issue, then a quick review of existing transportation infrastructure federal credit programs reveals that there are plenty of attractive credit programs including the U.S. Department of Transportation (USDOT) Transportation Infrastructure Finance and Innovation loan program (TIFIA), Private Activity Bonds, and State/Municipal/public authority Revenue Bonds. [3] For passenger and freight rail projects, there is also the USDOT’s Rail Rehabilitation and Improvement Financing (RFFI) program. For these concerns, there are questions but not yet any answers. If grants were to be provided by the new bank, how would they be different from—or better than—those already provided through the existing mechanisms in USDOT and the highway program? If current levels of credit availability for existing federal transportation credit programs are deemed to be insufficient by some, why not propose that these existing channels be improved and/or expanded? If spending is thought to be deficient, why not simply provide more grants through the existing mechanism rather than going through the costly and complicated process of setting up and operating a new federal transportation entity, which President Obama’s budget estimates would cost upwards of $270 million to create and staff? [4] In this era of fiscal austerity and yawning budget deficits, wouldn’t there be better uses for this money than a redundant bureaucracy? Are the banks’ independent status, separate board, funding, and approval process designed to circumvent the existing role that state DOTs and governors have in the allocation of transportation resources? Would its independent status and separate board of directors thwart congressional oversight? I don’t think a satisfactory answer has been provided to any of these questions, and certainly none of the existing proposals have addressed them. But they are certainly valid concerns, and Congress should seek answers to them as Members contemplate these many infrastructure bank proposals. Management and Operational Concerns Previous sections have already touched on the management challenges confronting any of these banks. If these banks are allowed to borrow on their own, or if they are funded by a large, one-time appropriation that can be leveraged into more debt and loan guarantees, it seems that Congress and the President would have little say in what they did and how they did it. Indeed, the nation has already experienced a couple of such incidents, and they are commonly referred to as Fannie Mae and Freddie Mac. All of the bills to create infrastructure banks include many pages of exhaustive detail on the prospective management structure, a pseudo-corporate board, and its duties. Degrees of independence vary from one proposal to another, but the greater the independence, the more likely it is that the bank may wander away from the changed priorities of future Congresses and Presidents and instead pursue opportunities that are not necessarily in the public interest. In a democratic society where voters periodically get to pick the people and policies that govern them, it might not be appropriate to have entities supported by taxpayers that are not responsive to the voters. There is also the question of the extent to which some of these infrastructure bank proposals may be designed also to circumvent existing budget controls and spending caps, as well as ongoing oversight. How each of these proposals might be scored is beyond the scope of this testimony, but it is certainly an issue that Congress should carefully review.

Infrastructure is costly and inefficient

The Economist, 2/12/2012, “America’s Subterranean Malaise”, <http://www.economist.com/blogs/gulliver/2012/02/infrastructure?fsrc=scn%2Ftw%2Fte%2Fbl%2Famericanssubterraneanmalaise>

SALON‘s Will Doig had a nice piece last week riffing off a common theme: why does it take so long and cost so much for America to complete infrastructure projects when China seems to complete them in mere months for a fraction of the cost? On Dec. 31, the Chinese capital opened a new subway line and greatly expanded two others. This year it plans to open four more. A total of eight new lines are under construction. The city started expanding the system in the run-up to the 2008 Olympics, and has kept pushing forward ever since. In 2001 it had 33 miles of track. Today it has 231.Meanwhile, when you hear the completion dates for big U.S. transit projects you often have to calculate your age to figure out if you’ll still be alive. Los Angeles’s Westside subway extension is set to be finished in 2036. Just five years ago, New York’s Second Avenue Subway was supposed to be done by 2020, a goal that seems laughable now. The sub-headline of Mr Doig’s story promises suggestions for dealing with this problem, but the actual article focuses more on explaining why infrastructure projects take so much longer in America than they do in China. Bureaucracy, lack of money, politics and potential interference with existing infrastructure are the most convincing explanations he offers, although mismanagement and America’s deeper concern for things like private property rights and working conditions surely play a role, too. The Atlantic’s David Lepeska has some related thoughts on why New York’s Second Avenue subway line, which won’t be completed for years, is costing $1.7 billion per kilometre. He notes that such high-priced transport is not endemic in America: Washington, DC’s Silver Line is considerably cheaper per kilometre (partly because much of it is being built above ground) and light-rail projects in Minneapolis and Denver were comparative bargains. Slate’s Matt Yglesias, meanwhile, argues that Mr Doig and others who compare New York’s subway costs with China’s are missing the point. “The real issue Americans should be pondering is why our big infrastructure projects are so much slower and more costly than comparable projects in Europe or Japan,” he writes. After all, “even expensive projects in big, old, rich cities like London and Amsterdam come in far cheaper than a New York subway project.” This is indeed the right question to be asking, but the answers don’t come easily. American politicians often blame labour unions, but these are generally stronger in Europe than in the US. Benjamin Kabak, a blogger whom Mr Lepeska recommends, offers some theories. Alon Levy, a blogger whom we’ve linked to before, has a particularly interesting idea: he thinks the business culture and organisational structure of New York’s Metropolitan Transit Authority could be part of the problem. Mr Levy says the MTA’s in-house team managing infrastructure projects is probably too small and the agency could be too reliant on outside consultants.

Transportation infrastructure causes fiscal crises

William Coyne is a Land Use Advocate for the Environment Colorado Research and Policy Center, December 2003, “The Fiscal Cost of Sprawl”, <http://www.impactfees.com/publications%20pdf/fiscalcostofsprawl12_03.pdf>

THE high cost of providing and maintaining infrastructure for sprawling development hurts taxpayers and contributes to the fiscal crises facing many Colorado local governments. Sprawling development does not generate enough tax revenue to cover the costs it incurs on local municipalities to provide new infrastructure and public services. Local governments and their taxpayers end up footing the bill to provide public services to sprawling developments. Research by Colorado State University found that in Colorado, “dispersed rural residential development costs county governments and schools $1.65 in service expenditures for every dollar of tax revenue generated.” Additionally, the cost to provide public infrastructure and services for a specific population in new sprawling development is higher than to service that same population in a smart growth or infill development. Sprawling and “leapfrog” developments (those built far away from the current urban area) tend to be dispersed across the land, requiring longer public roads and water and sewer lines to provide service. Such developments also impose higher costs on police and fire departments and schools. Research from around Colorado demonstrates the high fiscal cost of sprawl relative to compact development: • Research conducted by the Denver Regional Council of Governments (DRCOG) in the planning process for the Metro Vision 2020 update found that sprawling development would cost Denver-area governments $4.3 billion more in infrastructure costs than compact smart growth through 2020. • DRCOG found that a 12-square-mile expansion of the Urban Growth Boundary around Denver to accommodate additional sprawling growth would cost taxpayers $293 million dollars, $30 million of which would be subsidized by the region as a whole. • University of Colorado at Denver researchers determined that future sprawling development in Delta, Mesa, Montrose, and Ouray Counties would cost taxpayers and local governments $80 million more than smart growth development between 2000 and 2025. • New research from the Center for Colorado Policy Studies at the University of Colorado at Colorado Springs points to infill development and increased residential densities as important factors contributing to the substantial savings in infrastructure costs in Colorado Springs between 1980 and 2000. • A Federal Transit Administration report conducted by the Transit Cooperative Research Program estimates that smart growth would save the Denver-Boulder-Greeley area $4 billion in road and highway construction over 25 years—a savings of 21 percent. The costs of building and servicing infrastructure for new sprawling development is ultimately subsidized by the whole community. Local government generally bills the cost of new services and infrastructure on an average basis, rather than an incremental basis. That is, new costs are spread evenly among all taxpayers rather than charged only to those who generate the costs. This is, in effect, a subsidy from the whole community to new development. Existing residents, who were sufficiently served by the established infrastructure, must pay a share of the costly new infrastructure required to meet the expected demand of newcomers.

Federal spending on transportation is wasteful and requires constant federally funded maintenance

Barry Bosworth is a Senior Fellow in Economic Studies for the Brookings Institution and Sveta Milusheva is a Research Assistant at the Brookings Institution, October 2011, “Innovations in U.S. Infrastructure Financing: An Evaluation”, <http://www.brookings.edu/~/media/research/files/papers/2011/10/20%20infrastructure%20financing%20bosworth%20milusheva/1020_infrastructure_financing_bosworth_milusheva.pdf>

Their data are limited to public sector investments in transportation and water infrastructure, and do not include estimates of the stock of capital. The share of total public capital investments covered by the CBO data has fallen from about 45 percent in 1960 to 30 percent in 2007. The most important forms of excluded public capital are equipment, buildings, and power; but the CBO definition is closer to the definition of infrastructure used in most research studies. The CBO analysis illustrates two important aspects of infrastructure expenditures. First O&M represents more than half of the total spending on infrastructure, and in some areas, such as mass transit and aviation, the proportion is two-thirds or greater. Infrastructure systems involve much greater costs than just the initial investment to build them. They involve major commitments to future operating and repair costs that need to be funded on an ongoing basis. The inclusion of O&M thus highlights a fundamental problem of infrastructure in the United States: the failure to maintain the investments on a timely and efficient basis. There is an underlying bias in the funding of infrastructure in that ‘free money’ (federal grants) is available for new capital investments, but state and local governments must finance the vast bulk of their own O&M costs. Not surprisingly, the result is excess investments in facilities that local governments are not prepared to maintain. In those cases where federal funding is available for maintenance, the amounts are limited and beset by perverse incentives. O&M has represented only 8 percent of total federal grants since 2000. There is a federal program for bridge repair, the Highway Bridge Program (HPB), but priority is given to states with the worst rating of bridge conditions–hardly an incentive for timely maintenance.

Prefer our link evidence - needs assessments of infrastructure projects are skewed – causing huge cost overruns

Claudia Copeland is a Specialist in Resources and Environmental Policy, Linda Levine is a Specialist in Labor Economics, and William J. Mallett is a Specialist in Transportation Policy, 9/21/11, Congressional Research Service, <http://www.fas.org/sgp/crs/misc/R42018.pdf>

Traditionally, setting priorities for infrastructure spending is based on a combination of factors. Estimates of funding needs are one factor that is commonly used as a measure of the dimension of a problem and to support spending on some activities relative to others, as in: funding needs for X are much greater than for Y, therefore, society should spend more heavily on X. One widely cited estimate of the nation’s infrastructure needs is presented in the finding of the American Society of Civil Engineers (ASCE) that the condition of the nation’s infrastructure merits a letter grade of “D.” According to ASCE, five-year funding needs total $2.2 trillion, while the “gap” between estimated investment needs and estimated spending is $1.8 trillion. ASCE reported the condition of a dozen categories of infrastructure, including roads (“Poor road conditions cost U.S. motorists $67 billion a year in repairs and operating costs—$333 per motorist”), dams (“The gap between dams needing repair and those actually repaired is growing significantly”), wastewater (“Aging, underdesigned, or inadequately maintained systems discharge billions of gallons of untreated wastewater into U.S. surface waters each year”), and schools (“No comprehensive, authoritative nationwide data on the condition of America’s school buildings has been collected in a decade. The National Education Association’s best estimate to bring the nation’s schools into good repair is $322 billion.”). 46 However, assessing “need” is complicated by differences in purpose, criteria, and timing, among other issues. In the infrastructure context, funding needs estimates try to identify the level of investment that is required to meet a defined level of quality or service. Essentially, this depiction of need is an engineering concept. It differs from economists’ conception that the appropriate level of new infrastructure investment, or the optimal stock of public capital (infrastructure) for society, is determined by calculating the amount of infrastructure for which social marginal benefits just equal marginal costs. The last comprehensive national infrastructure needs assessment was conducted by the National Council on Public Works Improvement that was created by the Public Works Improvement Act of 1984 (P.L. 98-501). The Council reported in 1988 that government outlays for public works capital totaled about $45 billion in 1985 and that a commitment to improve the nation’s infrastructure “could require an increase of up to 100 percent in the amount of capital the nation invests each year.” 47 This estimate of future needs by the Council may have been imprecise because of the inherent difficulties of needs assessments, something its report discusses in detail. 48 It is worth highlighting a few of these key difficulties as a cautionary note when attempting to interpret infrastructure needs assessments. One of the major difficulties in any needs assessment is defining what constitutes a “need,” a relative concept that is likely to generate a good deal of disagreement. For this reason, some needs assessments are anchored to a benchmark, such as current provision in terms of physical condition and/or performance. This current level of provision may be judged to be too high by some and too low by others, but nonetheless it provides a basis for comparison as future spending needs can be estimated in terms of maintaining or improving the current condition and performance of the infrastructure system. Needs estimates in highway and public transit are calculated in this way by the U.S. Department of Transportation (DOT). The Environmental Protection Agency (EPA) similarly estimates total U.S. funding needs for wastewater treatment facilities. EPA defines a “need” as the unfunded capital costs of projects that address a water quality or water quality-related public health problem existing as of January 1, 2008, or expected to occur within the next 20 years. 49 In some cases, estimates are intended to identify needs for categories of projects that are eligible for assistance under various federal programs. By being defined in that manner, assessments based solely on funding eligibility may not take into consideration needs for non-eligible categories, such as replacement of aging infrastructure or projects to enhance security. Some federal agencies estimate the funding necessary to bring the current infrastructure system to a state of good repair. The resulting funding estimate is sometimes referred to as the infrastructure “backlog.” Again, among other problems, such as inventorying the current condition of infrastructure and calculating repair costs, the needs estimate is affected by judgments about what constitutes a state of good repair. It is worth noting, too, that needs assessment are often conducted by organizations with a vested interest in the outcome. This is most obviously a concern when a needs assessment is conducted by an advocacy group, but may also occur with government agencies. A second major difficulty with needs assessments is estimating future conditions, especially consumer demand for services that infrastructure provides. To begin with, estimating demand is difficult because it is based on a host of assumptions such as the rate of population and economic growth. Typically, the longer the time period over which conditions are forecast, the harder it is to accurately predict them. Particularly hard to predict, and, thus, the effect they have on infrastructure needs, are structural changes in the economy and technological change. In addition, however, consumer demand can vary enormously depending on how a service is financed and priced, as well as other public policy decisions including regulation and conservation. For example, highway infrastructure is primarily financed by fuels and other taxes that provide a vague signal or no signal at all about the total cost of driving, particularly the external costs such as the fuel and time wasted in congested conditions. Highway tolls, on the other hand, particularly those that fluctuate in line with congestion, provide a direct price signal for a trip on a certain facility at a certain time of the day. Pricing highway infrastructure in this way has been found to reduce travel demand, thereby affecting infrastructure need. 50 Consumer demand can sometimes be met without infrastructure spending. For example, water supply needs can be reduced by employing water conservation methods. Finally, it is worth mentioning that the need for public funding to supply infrastructure, including federal support, may often be an open question because the roles of the public and private sector can and do shift over time. Even within the public sector, the roles of federal, state, and local governments change and these shifting intergovernmental relationships may even affect the assessments of infrastructure needs.

Transportation infrastructure spending is wasteful – lack of funds and dozens of supplemental costs

Wall Street Journal, April 2012, “Why Your Highway Has Potholes”, <http://online.wsj.com/article/SB10001424052702303815404577333631864470566.html?mod=WSJ_Opinion_LEADTop>

Nothing shows off the worst of Congress like a highway bill. And this year's scramble for cash is worse than ever because the 18.4 cent a gallon gasoline tax will raise $70 billion less than the $263 billion Congress wants to spend over the next five years. Let the mayhem ensue. The Senate has passed a two-year $109 billion bill sponsored by Barbara Boxer of California that bails out the highway trust fund with general revenues, including some $12 billion for such nonessentials as the National Endowment for the Oceans and the Land and Water Conservation Fund. The bill requires little or no reform. The prevailing Senate view is the more concrete that gets poured, the more jobs back home. So more "shovel-ready" nonstimulus. House Republicans oppose the Senate version amid a $1.3 trillion deficit and have their own bill to give states more flexibility—though still not enough—on how to spend transportation dollars. Congress had to pass a temporary 90-day extension of highway funding through June 30 because the two sides can't agree. What's missing is any new thinking. Clear evidence of inefficient transportation spending comes from a new Treasury study estimating that traffic gridlock costs motorists more than $100 billion a year in delays and wasted gas. In cities like Los Angeles, commuters waste the equivalent of two extra weeks every year in traffic jams. This congestion could be alleviated by building more highway lanes where they are most needed and using market-based pricing—such as tolls—for using roads during peak travel times. That makes too much sense for Washington. In a typical year only about 65 cents of every gas tax dollar is spent on roads and highways. The rest is intercepted by the public transit lobby and Congressional earmarkers. Then there are the union wages that pad the cost of all federal projects. The New York Times reported in 2010 that 8,074 Metropolitan Transportation Authority employees made $100,000 or more in 2009 even as the system loses money. Transit is the biggest drain. Only in New York, San Francisco and Washington, D.C. does public transit account for more than 5% of commuter trips. Even with a recent 2.3% gain in bus and rail use due to high gas prices, public transit still accounts for a mere 2% of all inner-city trips and closer to 1% outside of New York. Enlarge Image Getty Images Since 1982 government mass-transit subsidies have totaled $750 billion (in today's dollars), yet the share of travelers using transit has fallen by nearly one-third, according to Heritage Foundation transportation expert Wendell Cox. Federal data indicate that in 2010 in most major cities more people walked to work or telecommuted than used public transit. Brookings Institution economist Cliff Winston finds that "the cost of building rail systems is notorious for exceeding expectations, while ridership levels tend to be much lower than anticipated." He calculates that the only major U.S. rail system in which the benefits outweigh the government subsidies is San Francisco's BART, and no others are close to break-even. One reason roads are shortchanged is that liberals believe too many Americans drive cars. Transportation Secretary Ray LaHood has been pushing a strange "livability" agenda, which he defines as "being able to take your kids to school, go to work, see a doctor, drop by the grocery or post office, go out to dinner and a movie, and play with your kids in a park, all without having to get in your car." This is the mind of the central planner at work, imagining that Americans all want to live in his little utopia. The current scheme also creates giant inequities. Politically powerful cities get a big chunk of the money, while many Western and Southern states get less back than they pay in. But why should people in Akron, Ohio or Casper, Wyoming have to pay gas taxes to finance the New York subway or light rail in Denver? One reason there is so much overspending on inefficient urban transit is that federal matching dollars require residents in other states to foot up to half the bill. The best solution would be to return all the gas tax money to the states, roughly in proportion to the money each pays in. This would allow states and localities to determine which roads and transit projects they really need—and are willing to pay for. California could decide for itself if it wants more roads, whether it can afford high-speed rail, and whether it wants to use congestion-pricing on crowded roads. The House Transportation Committee has found that getting a permit for a new road costs twice as much, and takes three times as long, when federal money is included than when financed with private or local dollars. Less federal control would also allow states to lure billions of dollars of private financing for new roads, which experts like Mr. Winston believe is the next big thing in transportation financing but is now generally prohibited. One of the worst features of Ms. Boxer's Senate bill is that she would exacerbate the funding shortage by adding new penalties if states leverage private dollars to build new toll roads and bridges. The Senate's highway-fund bailout will only perpetuate the spending misallocation that has contributed to traffic nightmares. It will also run up the deficit. If Congress really wants to enhance the livability of cities and suburbs, it will pass a highway bill that builds more roads.

Infrastructure is expensive and wasteful

Dr. Jean Paul Rodrigue works at the Department of Global Studies & Georgaphy at Hofstra University in New York, 1998,
The Geography of Transport Systems, “The Financing of Transportation Infrastructure”, <http://people.hofstra.edu/geotrans/eng/ch7en/appl7en/ch7a2en.html>

Facing the growing inability of governments to manage and fund transport infrastructure, the last decades has seen deregulation and more active private participation. Many factors have placed pressures on public officials to consider the privatization of transport infrastructure, including terminals:

Fiscal problems. The level of government expenses in a variety of social welfare practices is a growing burden on public finances, leaving limited options but divesture. Current fiscal trends clearly underline that all levels of governments have limited if any margin and that accumulated deficits have led to unsustainable debt levels. The matter becomes how public entities default on their commitments. Since transport infrastructures are assets of substantial value, they are commonly a target for privatization. This is also known as “monetization” where a government seeks a large lump sum by selling or leasing an infrastructure for budgetary relief.

High operating costs. Mainly due to managerial and labor costs issues, the operating costs of public transport infrastructure, including maintenance, tend to be higher than their private counterparts. Private interests tend to have a better control of technical and financial risks, are able to meet construction and operational guidelines as well as providing a higher quality of services to users. If publicly owned, any operating deficits must be covered by public funds, namely through cross-subsidies. Otherwise, users would be paying a higher cost than a privately managed system. This does not provide much incentives for publicly operated transport systems to improve their operating costs as inefficiencies are essentially subsidized by public funds. High operating costs are thus a significant incentive to privatize.

Cross-subsidies. Several transport infrastructures are subsidized by revenues from other streams since their operating costs cannot be compensated by existing revenue. For instance, public transport systems are subsidized in part by revenues coming from fuel taxes or tolls. Privatization can thus be a strategy to end cross-subsidizing by taping private capital markets instead of relying on public debt. The subsidies can either be reallocated to fund other projects (or pay existing debt) or removed altogether, thus reducing taxation levels.

Equalization. Since public investments are often a political process facing pressures from different constituents to receive their “fair share”, many investments come with “strings attached” in terms of budget allocation. An infrastructure investment in one region must often be compensated with a comparable investment in another region or project, even if this investment may not be necessary. This tends to significantly increase the general cost of public infrastructure investments, particularly if equalization creates non-revenue generating projects. Thus, privatization removes the equalization process for capital allocation as private enterprises are less bound to such a forced and often wasteful redistribution.

No Double Dip

No double dip recession – their ev is just fear and political pandering

Ledbetter 12 (James Ledbetter is the op-ed editor of Reuters. He is the author, most recently, of "Unwarranted Influence: Dwight D. Eisenhower and the Military-Industrial Complex," published in January 2011, “Let’s stop talking about a ‘double-dip’ recession,” APRIL 17, 2012, Reuters’ The Great Debate, <http://blogs.reuters.com/great-debate/2012/04/17/lets-stop-talking-about-a-double-dip-recession/>

Barely a day goes by without some expert publicly worrying whether or not the U.S. economy will fall into a “double-dip” recession. In a CNBC interview last September , investor George Soros said he thought the U.S. was already in one. Earlier this month, the former chief global strategist for Morgan Stanley cited an academic study to argue that “after every financial crisis there’s a long period of much slower growth and in almost every case you get a double dip.” Granted, this is a minority view; most economists are predicting sustained modest growth for the near future. Which makes sense, because while few are thrilled with the pace of comeback, the U.S. economy has grown for 11 consecutive quarters, beginning in mid-2009 . But given that the recovery is approaching its third birthday, how far away from the Great Recession do we need to get before another downturn would be considered not a “second dip” but simply a separate recession instead? For all its ubiquity, there is no uniform definition of what a “double-dip” recession is; even the origins of the term are hazy. One analyst wrote in a 2010 research note that the term dates from about 1994 , when there was concern about sliding back into the 1991 recession. But Safire’s Political Dictionary traces the term to a 1975 BusinessWeek article, attributing it to an unidentified economist in the Ford administration. (Tellingly, the “double dip” the government feared back then did not actually materialize.) Much of what is meant by “double-dip” recession is intuitively clear: It’s what happens when a recovery is so feeble that, soon enough, an economy sinks back into contraction. It’s the “soon enough” part that no one can agree on. Investopedia defines double dip as “when gross domestic product growth slides back to negative after a quarter or two of positive growth.” If that were the case, fear of a double dip would long ago have subsided. Of course, an imprecise term need not be useless. There can be good conceptual and historical reasons for associating an economic downturn with one that preceded it. Many Americans naturally think of the Great Depression as a single, sustained economic horror that began with the stock crash of 1929 and didn’t end until the U.S. entered World War Two at the end of 1941. Technically, that’s not true; the U.S. economy actually began growing in 1933 and continued to grow until 1937, when a second dip hit. But the economy had shrunk so severely in the first dip that it never got back to its pre-’29 level by the time it began contracting again – which redeems the popular fusion of two recessions separated by a weak recovery into one Great Depression. Some economists have claimed, more contentiously , that nearly back-to-back recessions in 1980 and 1981-82 qualified as first and second dips. But that’s not what’s happened this time around. According to the Bureau of Economic Analysis (BEA), the American economy bottomed out in the Great Recession in the second quarter of 2009, when GDP sank to $13.85 trillion, a shrinkage of about 3.9 percent from the then-all-time high a year before of $14.42 trillion. Since then, we’ve far surpassed that previous high-water mark, with current GDP at $15.32 trillion. One way to think about this: The distance between where we are now and the previous high of 2008 is greater than the distance between that 2008 peak and the 2009 trough. Even using what BEA calls “chained 2005 dollars” (in other words, accounting for inflation), current GDP is higher now than it has ever been. Why, then, do we keep hearing about a double dip, instead of a new recession? Part of the reason seems to be psychological, a sense that weaknesses that were manifest in the Great Recession – slow job growth, too much reliance on Federal Reserve activity – have not been fully addressed. As Alan Levenson, chief economist for T. Rowe Price, told me: “A turnaround always looks like a struggle. Each time we live through a slowdown, we feel like the economy can never grow again.” The fear of a double dip is also a potent political weapon. On the right, commentators and politicians seek to stoke fear about a renewed economic downturn as a way of “proving” that Barack Obama’s economic policies have failed; the argument is: “No, he didn’t create the economic crisis, but he made it worse.” On the left, it’s useful to remind Americans of the past economic crisis as a way of repudiating Republican economic policy; the argument is: “We’d better not go down that road again.” In both cases, appealing to fear hits harder because our economic pain still seems so close – not some as-yet-unknown future downturn.

The economy is growing – no double dip coming

Jones 12 (Forrest Jones is writer @ MoneyNews, “JPMorgan CEO Dimon: Threat of Double-Dip Recession Has Faded,” 3-29-12, <http://www.moneynews.com/StreetTalk/JPMorgan-Double-Dip-Recession/2012/03/29/id/434180>)

The threat of a double-dip recession is a thing of the past, and even the ailing housing sector is starting to turn around support the overall economy, says Jamie Dimon, CEO of JPMorgan Chase. The economy is poised to continue growing, and banks are planning for more growth, and not for a return to recession. "No one can forecast the economy with certainty," Dimon tells CNBC, "but most of us in business [have] got growth plans that have nothing to do with the actual state of the economy." Housing is starting to pick up even as prices bounce along the bottom, a sign the only direction from here is up. "I believe we’re very close to the inflection point. People look at prices that are still coming down but all the other signs are flashing green," Dimon says. The U.S. economy is growing and the economy continues to add jobs albeit at a pace deemed sluggish by the government. The Federal Reserve has said economic conditions warranting today's low interest rates of near zero percent will likely stick around through 2014, although for Dimon, that policy probably reflects the Fed's goal of seeing the labor market strengthen, in line with its mandate, and not due to an overly weak economy. "I think they want to see 300,000 to 400,000 jobs a month for six months before they declare victory" and raise rates, Dimon says.

AT: STIMULUS

\*Stimulus Fails / Defense

General

Stimulus is failing, slowing growth proves – transparency key

Barro 11 (Robert Barro is a professor of economics at Harvard University and a senior fellow at the Hoover Institution, “How to Really Save the Economy,” The New York Times Sunday Review, 9-10-11, <http://www.nytimes.com/2011/09/11/opinion/sunday/how-to-really-save-the-economy.html?pagewanted=all>)

THE United States is in the third year of a grand experiment by the Obama administration to revive the economy through enormous borrowing and spending by the government, with the Federal Reserve playing a supporting role by keeping interest rates at record lows. How is the experiment going? By the looks of it, not well. The economy is growing much more slowly than in a typical recovery, housing prices remain depressed and the stock market has been in a slump — all troubling indicators that another recession may be on the way. Most worrisome is the anemic state of the labor market, underscored by the zero growth in the latest jobs report. The poor results should not surprise us given the macroeconomic policies the government has pursued. I agree that the recession warranted fiscal deficits in 2008-10, but the vast increase of public debt since 2007 and the uncertainty about the country’s long-run fiscal path mean that we no longer have the luxury of combating the weak economy with more deficits. Today’s priority has to be austerity, not stimulus, and it will not work to announce a new $450 billion jobs plan while promising vaguely to pay for it with fiscal restraint over the next 10 years, as Mr. Obama did in his address to Congress on Thursday. Given the low level of government credibility, fiscal discipline has to start now to be taken seriously. But we have to do even more: I propose a consumption tax, an idea that offends many conservatives, and elimination of the corporate income tax, a proposal that outrages many liberals. These difficult steps would be far more effective than the president’s failed experiment. The administration’s $800 billion stimulus program raised government demand for goods and services and was also intended to stimulate consumer demand. These interventions are usually described as Keynesian, but as John Maynard Keynes understood in his 1936 masterwork, “The General Theory of Employment, Interest and Money” (the first economics book I read), the main driver of business cycles is investment. As is typical, the main decline in G.D.P. during the recession showed up in the form of reduced investment by businesses and households. What drives investment? Stable expectations of a sound economic environment, including the long-run path of tax rates, regulations and so on. And employment is akin to investment in that hiring decisions take into account the long-run economic climate. The lesson is that effective incentives for investment and employment require permanence and transparency. Measures that are transient or uncertain will be ineffective. And yet these are precisely the kinds of policies the Obama administration has pursued: temporarily cutting the payroll tax rate, maintaining the marginal income-tax rates from the George W. Bush era while vowing to raise them in the future, holding off on clean-air regulations while promising to implement them later and enacting an ambitious overhaul of Wall Street regulations while leaving lots of rules undefined and ambiguous.

Infrastructure stimulus fails – can’t be implemented – empirics, overruns, & can’t spend enough to solve

De Rugy and Mitchell 11 (Veronique de Rugy, senior research fellow at the Mercatus Center at George Mason University, and Matthew Mitchell, senior research fellow at the Mercatus Center at George Mason University., “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?”, No. 11-36, September 2011, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>)

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.

This is a seriously great card

De Rugy 10 (Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University, “Stimulus: Still Not Working!”, 11-16-10, <http://reason.org/news/show/stimulus-still-not-working>)

Stimulus spending is like morphine. It might feel good in the short term for the beneficiaries of the money, but it doesn’t help repair the economy. And it causes more damage if it gets in the way of a proper recovery. When the American Recovery and Reinvestment Act was signed on February 13, 2009, it became the biggest spending bill in the history of the country. Its original cost of $787 billion was divided into three main pieces: $288 billion in tax benefits such as a refundable tax credit; $272 billion in contracts, grants, and loans (the shovel-ready projects); and $302 billion in entitlements such as food stamps and unemployment insurance.The checks felt good for the Americans who received them. And the contractors who got those grants and contracts were happy to have the work. But the idea behind the stimulus was that this money would not just be a subsidy to those in need; it would revive the economy through a multiplier effect. The unemployed worker, for instance, would cash his unemployment check and spend it at the grocery store. The store owner would in turn spend the money on supplies, and so on, triggering a growth in the economy that goes beyond the original investment and jumpstarts the hiring process. White House economists used forecasting models that assumed each dollar of spending would trigger between $1.50 and $2.50 of growth. As a result, President Barack Obama announced that his plan would grow the economy by more than 3 percent and “create or save” 3.5 million jobs over the next two years, mostly in the private sector. These models also forecasted that without the spending, the unemployment rate would increase from 7 percent to 8.8 percent. Since then the U.S. economy has shed another 2.5 million jobs and the unemployment rate has climbed to 9.6 percent. Figure 1 shows the monthly unemployment rate, as measured by the Bureau of Labor Statistics, since the adoption of the act, alongside the cumulative grant, contract, and loan spending as reported by the recipients on recovery.gov. The stimulus isn’t working because it is based on faulty economics. Using historical spending data, the Harvard economist Robert Barro and recent Harvard graduate Charles Redlick have shown that in the best case scenario, a dollar of government spending produces much less than a dollar in economic growth—between 40 and 70 cents. They also found that if the government spends $1 and raises taxes to pay for it, the economy will shrink by $1.10. In other words, greater spending financed by tax increases hurts the economy. Even if the tax is applied in the future, taxpayers today adjust their consumption and business owners refrain from hiring based on the expectation of future tax increases, which worsen the economy today. There are other reasons the stimulus bill has hurt rather than helped the economy. Four of every five jobs reported “created or saved” are government jobs. That’s far from the 90 percent private sector jobs the administration promised. Also, the Department of Education claims it has “created or saved” at least seven jobs for every job “created or saved” by any other agency. In other words, federal stimulus funds have been used to keep teachers on state payrolls. By subsidizing public sector employment, the federal government is getting in the way of addressing the issue of overspending in the states. These injections of cash may provide a short-term boost, but they don’t increase economic growth permanently. When the money goes away, the jobs go away too, and so will the artificial GDP growth. In spite of such evidence, the administration keeps touting the success of stimulus. Speaking at the National Press Club in September, outgoing Council of Economic Advisors Chair Christina Romer crowed that “the Recovery Act has played a large role in the turnaround in GDP and employment,” citing as evidence an estimate she prepared before Obama’s inauguration that a stimulus package “would raise real GDP by about 3.5 percent and employment by about 3.5 million jobs, relative to what would otherwise have occurred.” The Congressional Budget Office, she claimed, agreed that the stimulus “has already raised employment by approximately two to three million jobs relative to what it otherwise would have been.” But no such improvements have actually taken place. Romer was acting the part of weatherman repeating last week’s sunny forecast while ignoring the downpour outside. The only measurable evidence that these millions of jobs exist comes from models—including the CBO’s—that predict that these jobs will exist. Since some of those same models predicted the Recovery Act would cap unemployment at 8 percent, they do not belong in a discussion about the Act’s effectiveness. Some stimulus advocates do admit that the spending package hasn’t worked. But that doesn’t mean they’ve turned their backs on the stimulus concept. In an August blog post, for example, New York Times columnist Paul Krugman argued that the “stimulus wasn’t nearly big enough to restore full employment—as I warned from the beginning. And it was set up to fade out in the second half of 2010.” This argument is nonsense. As Megan McArdle of The Atlantic wrote in August, “If we assume that stimulus benefits increase linearly, that means we would have needed a stimulus of, on the low end, $2.5 trillion. On the high end, it would have been in the $4–5 trillion range. I’m going to go out on a limb and say that even if Republicans had simply magically disappeared, the government still would not have been able to borrow and spend $2.5 trillion in any reasonably short time frame, much less $4–5 trillion. The political support for that level of government expansion simply wasn’t there among Democrats, much less their constituents.” Unless you believe that federal spending magically conjures up purchasing power (or that morphine heals bones), the total GDP will remain unchanged, because the federal government has to borrow the stimulus money from either domestic or foreign sources. This borrowing in turn reduces other areas of demand. Stimulus spending does not increase total demand. It merely reshuffles it, leaving the economy just as weak as before—if not weaker, since it also increases the national debt. By trying to ease the pain, the administration may well have made the patient worse.

Further stimulus only deepens debt – implementing to Keynesian standards is impossible

De Rugy and Mitchell 11 (Veronique de Rugy, senior research fellow at the Mercatus Center at George Mason University, and Matthew Mitchell, senior research fellow at the Mercatus Center at George Mason University., “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?”, No. 11-36, September 2011, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>)

In sum, there are strong reasons to suspect that stimulus is not likely to be implemented as Keynesian theoreticians say it ought to be. This means that even by Keynesians standards, the newest round of stimulus is likely to fail. Tellingly, the political economy problems that plague the implementation of stimulus were actually significant enough to make Lord Keynes himself a skeptic. Toward the end of his life, he wrote: Organized public works, at home and abroad, may be the right cure for a chronic tendency to a deficiency of effective demand. But they are not capable of sufficiently rapid organization (and above all cannot be reversed or undone at a later date), to be the most serviceable instrument for the prevention of the trade cycle. 41 Given the experience with recent stimulus packages, Keynes‘s observations appear to be remarkably prescient. Unfortunately, modern-day Keynesians appear not to have paid heed. Conclusion Economists have long recognized the value of infrastructure. Roads, bridges, airports, canals, and other projects are the conduits through which goods are exchanged. In many circumstances, private firms can and should be allowed to provide this infrastructure. But in other cases, there may be a role for public provision at the local level. 42 But whatever its merits, infrastructure spending is not likely to provide much of a stimulus. As a short-term measure, more deficit-financed infrastructure spending is a risky bet. At best, it is likely to be ineffective; at worst it will be counterproductive. One long-term impact of further stimulus is certain: it would leave the United States deeper in debt at time when we can ill afford it.

Keynesian theory is wrong—multiplier effect is small, investment causes crowding-out, and studies show negative correlation between spending and growth

Stratmann and Okolski 10 (Thomas Stratmann, a scholar at the Mercatus Center and a professor of economics at George Mason University, And Gabriel Lucjan Okolski, Presidential Management Fellow in the Department of Transportation, “Does Government Spending Affect Economic Growth?”, 6/10/10, MERCATUS CENTER AT GEORGE MASON UNIVERSITY, http://mercatus.org/publication/does-government-spending-affect-economic-growth)

THE CONSEQUENCES OF UNPRODUCTIVE SPENDING AND THE MULTIPLIER EFFECT Proponents of government spending often point to the fiscal multiplier as a way that spending can fuel growth. The multiplier is a factor by which some measure of economy-wide output (such as GDP) increases in response to a given amount of government spending. According to the multiplier theory, an initial burst of government spending trickles through the economy and is re-spent over and over again, thus growing the economy. A multiplier of 1.0 implies that if government created a project that hired 100 people, it would put exactly 100 (100 x 1.0) people into the workforce. A multiplier larger than 1 implies more employment, and a number smaller than 1 implies a net job loss. In its 2009 assessment of the job effects of the stimulus plan, the incoming Obama administration used a multiplier estimate of approximately 1.5 for government spending for most quarters. This would mean that for every dollar of government stimulus spending, GDP would increase by one and a half dollars.8 In practice, however, unproductive government spending is likely to have a smaller multiplier effect. In a September 2009 National Bureau of Economic Research (NBER) paper, Harvard economists Robert Barro and Charles Redlick estimated that the multiplier from government defense spending reaches 1.0 at high levels of unemployment but is less than 1.0 at lower unemployment rates. Non-defense spending may have an even smaller multiplier effect.9 Another recent study corroborates this finding. NBER economist Valerie A. Ramey estimates a spending multiplier range from 0.6 to 1.1.10 Barro and Ramey's multiplier figures, far lower than the Obama administration estimates, indicate that government spending may actually decrease economic growth, possibly due to inefficient use of money. CROWDING OUT PRIVATE SPENDING AND EMPIRICAL EVIDENCE Taxes finance government spending; therefore, an increase in government spending increases the tax burden on citizens—either now or in the future—which leads to a reduction in private spending and investment. This effect is known as "crowding out." In addition to crowding out private spending, government outlays may also crowd out interest-sensitive investment.11 Government spending reduces savings in the economy, thus increasing interest rates. This can lead to less investment in areas such as home building and productive capacity, which includes the facilities and infrastructure used to contribute to the economy's output. An NBER paper that analyzes a panel of OECD countries found that government spending also has a strong negative correlation with business investment.12 Conversely, when governments cut spending, there is a surge in private investment. Robert Barro discusses some of the major papers on this topic that find a negative correlation between government spending and GDP growth.13 Additionally, in a study of 76 countries, the University of Vienna's Dennis C. Mueller and George Mason University's Thomas Stratmann found a statistically significant negative correlation between government size and economic growth.14 Though a large portion of the literature finds no positive correlation between government spending and economic growth, some empirical studies have. For example, a 1993 paper by economists William Easterly and Sergio Rebelo looked at empirical data from approximately 100 countries from 1970-1988 and found a positive correlation between general government investment and GDP growth.15 This lack of consensus in the empirical findings indicates the inherent difficulties with measuring such correlations in a complex economy. However, despite the lack of empirical consensus, the theoretical literature indicates that government spending is unlikely to be as productive for economic growth as simply leaving the money in the private sector.

Massive stimulus fails—empirics prove

Stratmann and Okolski 10 Thomas Stratmann, a scholar at the Mercatus Center and a professor of economics at George Mason University, And Gabriel Lucjan Okolski, Presidential Management Fellow in the Department of Transportation, 6/10/10, “Does Government Spending Affect Economic Growth?” MERCATUS CENTER AT GEORGE MASON UNIVERSITY, http://mercatus.org/publication/does-government-spending-affect-economic-growth

Government spending, even in a time of crisis, is not an automatic boon for an economy's growth. A body of empirical evidence shows that, in practice, government outlays designed to stimulate the economy may fall short of that goal. Such findings have serious consequences as the United States embarks on a massive government spending initiative. Before it approves any additional spending to boost growth, the government should use the best peer-reviewed literature to estimate whether such spending is likely to stimulate growth and report how much uncertainty surrounds those estimates. These analyses should be made available to the public for comment prior to enacting this kind of legislation.

Spending policy fails to produce Keynesian stimulus

Filger 10 Sheldon Filger, political writer, 2/21/10, “A Keynesian Leap Off the Financial Cliff,” Global Economic Crisis, http://www.globaleconomiccrisis.com/blog/archives/956

Though John Maynard Keynes is portrayed as a deficit-loving interventionist, in reality he was not. What is left out of the description of his theory in regards to counter-cyclical fiscal policy is that Keynes also believed that in times of relative prosperity sovereigns should create budget surpluses. He belief was that booms and busts were an integral characteristic of modern capitalism, and that the accumulation of reserves during times of plenty would enable governments to engage in temporary deficit spending to combat a severe recession, without creating the long-term danger of exploding national debt to GDP ratios. This is an aspect of Keynes’s views on fiscal policy that has been conveniently forgotten by the modern interpreters of Keynesian economics. Since World War II, the U.S. has seldom run balanced budgets. If generally accepted accounting principles were applied to official U.S. federal government budget reports, which require taking into account future liabilities for Social Security and Medicare, then during this period the United States has always run large fiscal deficits, even during times of relative economic prosperity. What this means in reality is that the conditions laid out by John Maynard Keynes for allowing a sovereign to engage in deficit spending during a recession, namely building budget surpluses during periods of economic expansion, have never been adhered to. During the Great Depression, the U.S. government did engage in substantial deficit spending within the framework of the New Deal, but with a ratio to GDP far lower than what is currently occurring on President Obama’s watch. This fiscal policy was engaged in with a cumulative national debt to GDP ratio nowhere near the current level, and with a large base of domestic savers prepared to buy U.S. government debt, in contrast with the present day reliance on foreign buyers of U.S. Treasury Bills. If John Maynard Keynes were alive today, I suspect he would be horrified at the manner in which his economic theories have been distorted, and the likely outcome of such fiscal profligacy.

Stimulus fails – austerity hasn’t been implemented correctly

Richard Salsman (Richard Salsman is president and chief market strategist of [InterMarket Forecasting, Inc.](http://www.intermarketforecasting.com/), a research and forecasting firm, 6/12, Forbes <http://www.forbes.com/sites/richardsalsman/2012/06/26/fiscal-austerity-and-economic-prosperity-pt-iii-why-government-spending-retards-growth/>)

As fiscal policy, government “stimulus” schemes have a good reputation, but undeservedly so. Invariably they only undermine and delay recoveries. “The economy,” remember, is what remains today of our private system of production; it can’t be “stimulated” by government taking more of its precious resources (savings) through borrowing, and then spending the proceeds on those who don’t work (i.e., don’t produce wealth) or on those who exhibit a greater “propensity to consume” (i.e., to destroy wealth). In contrast, fiscal “austerity” plans tend to have a bad reputation, but also undeservedly. Invariably such plans entail additional taxation of the private sector but no real restraints on government spending. Austerity programs, in truth, are perfectly compatible with renewed prosperity, if by “austerity” is meant not additional tax burdens laid on a struggling, ailing economy but material reductions in the size, scope and cost of government.

Stimulus fails – perception and rational mistakes

Cochrane 10 (John H. Cochrane, Myron S. Scholes Professor of Finance University of Chicago Booth School of Business, “Fiscal Stimulus, RIP” 11-9-10, http://faculty.chicagobooth.edu/john.cochrane/research/papers/stimulus\_rip.html)

Before we spend a trillion dollars or so, it’s important to understand how it’s supposed to work. Spending supported by taxes pretty obviously won’t work: If the government taxes A by $1 and gives the money to B, B can spend $1 more. But A spends $1 less and we are not collectively any better off2. “Stimulus” supposes that if the government borrows $1 from A and gives it to B we get a fundamentally different result, and we all are $1.50 better off. But here’s the catch: to borrow today, the government must raise taxes tomorrow to repay that debt. If we borrow $1 from A, but tell him his taxes will be $1 higher (with interest) tomorrow, he reduces spending exactly as if we had taxed him today! If we tell both A and B that C (“the rich”) will pay the taxes, C will spend $1 less today. Worse, C will work less hard, hire a bunch of lawyers, lobby for loopholes, or move to Switzerland. A will hire a lobbyist to get more stimulus. All this is wasted effort, so we’re worse off than before! The question for the “multiplier” is not whether it is greater than one, it’s how on earth it can be greater than zero? (Conversely, so far my arguments for the ineffectiveness of spending apply equally to tax cuts. But tax cuts can cut rates, which improves incentives.) These statements are a theorem not a theory. I’m explaining (in very simple terms) Robert Barro’s (1974) famous “Ricardian Equivalence” theorem. “Theorem” means that if a bunch of assumptions, then borrowing has exactly the same effect as taxing. That doesn’t mean it’s true of the world, but it means that if you want to defend stimulus, you have to tell us which of the “ifs” you disagree with. That discipline changes everything. Thoughtful stimulus advocates respond. Well, maybe people don’t notice future taxes. Does the man or woman on the street really understand that more spending today means more taxes tomorrow? That’s an interesting position, but at this point, most of the battle is lost. Stimulus is no longer an “always and everywhere” law, it’s at best a “if people don’t notice that deficits today mean taxes tomorrow” idea. This qualification has deep implications. First, it means that a “stimulus” policy can only work by fooling people. Is wise policy really predicated on fooling people? Also, people are unlikely to be fooled over and over again. If that’s how stimulus works, you can’t use it too often. Second, it means that stimulus will work sometimes and not other times. Are American voters right now really unaware that larger deficits mean higher future taxes? Or is the zeitgeist of the moment exactly the opposite: Americans are positively aghast at the future taxes they think they’ll be paying? If you think people can be “irrational” they can be irrational in both directions. They can pay too much attention to future taxes corresponding to current deficits, and stimulus can have a negative effect! When I compare tea party rhetoric to the actual reforms needed to cure America’s deficits, I think there’s a good chance we’re in this range. Third, if this is the reason that stimulus works, then the current policy attempt, consisting of stimulus now, but strong promises to address the deficit in the future, can have no effect whatsoever. If you think stimulus works by fooling people to ignore future tax hikes or spending cuts, then loudly announcing such tax hikes and spending cuts must undermine stimulus! Augustinian policy, “give me chastity, but not yet,” will not work. Casanova is needed. Well, maybe some other Barro assumption is wrong. Yes, there are many. (“Liquidity constraints” are a common complaint, keeping people from acting based on their estimation of the future.) But if you take any of them seriously, the case for stimulus becomes similarly circumscribed. Each specifies a channel, a “friction,” something fundamentally wrong with the economy that matters some times more or less than others, that restricts what kinds of stimulus will work, and that can be independently checked. And in many cases, these “frictions” that falsify Barro’s theorem suggest much better direct remedies, rather than exploitation by fiscal stimulus. Relaxing Barro’s assumptions can also lead to negative multipliers. For example, Barro assumed perfectly-efficient “lump-sum” taxes. In fact, we have proportional taxes with lots of loopholes. In the real economy, raising tax rates is an inefficient process, as is spending money. Recognizing this fact leads to my guess of a negative multiplier. So the biggest impact of Barro’s theorem is not whether it is “right” or “wrong” as a description of the world. The biggest impact is that, if you are at all intellectually honest, it forces you to deal with why it is wrong. Many proponents do not do this; they just cite one assumption they don’t like, on the basis of intuition rather than real evidence, and go back to simplistic always-and-everywhere mulitipliers. There is a deeper problem with stimulus. Even if nobody notices future taxes, A was going to do something with the money. Suppose, for example, A was a small business owner, and he was going to buy a forklift3. The government borrows the money instead, and gives it to B who buys a car. Now the composition of spending has changed towards more “consumption.” But does the economy really care if B buys a car rather than A buying a forklift? Barro’s theorem gives conditions in which nothing changes, including the split between consumption and investment. But his real point is deeper: Borrowing does not alter the “intertemporal budget constraint,” society’s overall wealth. These two stories capture the central logical errors of Keynesian economics, and central advance of “equilibrium” or “inetertemporal” thinking that destroyed it and revolutionized macroeconomics in the 1970s. Some other big names in this effort are Friedman (1957), Lucas (1975), with Sargent (1979), Kydland, Prescott (1982). They pointed out two big mistakes in Keynesian economics: First, Keynesian economics treats each moment in time in isolation. People’s consumption depends on their current income, not their future prospects. Investment decisions depend on current sales and interest rates, not whether companies expect future sales to be any good. Modern macroeconomics extends across time. It recognizes that what people expect of the future is central to how they behave now. Now, maybe people don’t “perfectly” or “rationally” evaluate the future. But that’s a far cry from saying they don’t consider the future at all! And budget constraints – the fact that debt today must be paid off – are independent of your feelings. Second, the “plans” of Keynesian economics4 ; how much we suppose people want to consume, invest, etc.; don’t automatically add up to their income, unlike the “demands” of regular economics that must do so. Keynesian economics ignores budget realities at each moment in time as well as the “intertemporal budget constraint” emphasized by Barro. For these and other reasons, Keynesian ISLM models have not been taught in any serious graduate school since at least 1980, except as interesting fallacies or history of thought. I include my own graduate education at very liberal Berkeley starting in 1979. Even sympathetic textbooks, like David Romer’s Advanced Macroeconomics, cannot bring themselves to integrate Keynesian thinking into modern macro. The “new Keynesian” economics, epitomized by Mike Woodford’s Interest and Prices has nothing to do with standard Keynesian thinking5 . Not a single policy simulation from a Keynesian model has appeared in any respectable academic journal since 1980. Not one. The whole business was simply discredited as being logically incoherent 30 years ago.

Stimulus fails

Uhlig and Drautzburg (Chairman and Professor of Department of Economics of the University of Chicago. PhD candidate in Economics at the University of Chicago) 2011 (Harald and Thorsten “Financing fiscal stimulus” <http://www.voxeu.org/article/financing-fiscal-stimulus> )

Raising output in the crisis need not increase the welfare of everyone to stabilise GDP in response to a crisis. With this caveat in mind, consider how output effects should be measured. It is instructive to examine the components of the stimulus bill, which are plotted in Figure 1 as a percentage of GDP. Two features stand out. First, the expenditure is split unevenly over time. Second, only about a quarter of the stimulus is spent on government consumption. To address the first feature of the data, spending and its output effect have to be aggregated over time. A natural choice is to discount costs and benefits by the discount rate the government faces on its debt. The ratio of the resulting present discounted values of the output effect relative to the cost of the stimulus is called the long-run multiplier. This statistic states how much GDP rises for each dollar spent on the ARRA. Figure 1. Components of the American Recovery and Reinvestment Act, in % of 2008 GDP To do justice to the different components of government spending, we proceed by extending standard macro models as they do not distinguish government consumption from government investment, and allow no role for distortionary taxes and transfer payments. Which model to use? A natural point of departure for the analysis of fiscal policy in the recent financial crisis is the medium-scale macro models, such as Smets and Wouters (2007), that are commonly used in the analysis of monetary policy. In such a model, the financial crisis can be modelled as either an exogenously fixed nominal interest rate or as an endogenously generated binding lower bound. Addressing the fiscal stimulus properly requires, however, a more detailed government sector, which is where our extensions come in. Starting with the largest component of the stimulus plan, transfer payments play no role in these monetary macro models. Ricardian equivalence holds, meaning that issuing more debt to finance transfers today in exchange for a reduction in future transfers is irrelevant. Financing increased transfers today with distortionary taxes tomorrow would already break this equivalence. It would, however, not be in the spirit of the actual stimulus, which was meant to stimulate private sector consumption. A work-around is to introduce heterogeneous households, some of which consume their current period income and do not save, possibly because they are very impatient. While government consumption is standard in monetary macro models, government investment is not. It does matter, however, and comprises between 3-4% of GDP. An intuitive way to model government capital is analogous to public infrastructure: it increases private sector productivity, but is subject to congestion. The government may then choose an optimal amount of investment to equate the discounted social marginal product of government capital to the cost. We can then consider how exogenous increases to government investment affect the economy. Going back to the observation that in practice raising revenue for the government is costly, distortionary taxation should also be incorporated into the extended model. We follow Uhlig (2010), who considers distortionary taxes on consumption, hours worked, and capital. The government can issue debt, but eventually has to raise enough taxes to pay back the debt. In our baseline scenario, labour tax rates are adjusted. Such an extended model features many parameters, only some of which are easily calibrated. Following the common practice in monetary macro models, we estimate a linearised version of the model using Bayesian techniques as a natural way to parameterise the model. In what follows, the results of this exercise, based on US post-war data up to the 4th quarter of 2008, are summarised.

Government spending is the worst stimulus – most comprehensive studies

David R. Henderson, PhD. in economics, research fellow with the Hoover Institution and an associate professor of economics at the Graduate School of Business and Public Policy at the Naval Postgraduate School, previously the senior economist for energy policy with President Reagan’s Council of Economic Advisers,’10 (The Hoover Institution, December 1st 2010, “Good on Taxes, Bad on Trade,” http://www.hoover.org/publications/policy-review/article/58036)

Start with the positives. The strongest chapter, by far, is the one titled, “Why You Can’t Stimulate Your Way to Prosperity.” This case against using increases in government spending as a countercyclical policy to end a recession is a nice blend of economic and political analysis. Hubbard and Navarro point out what has long been an argument against such policies: the often long lag between when a law increases spending and when the spending actually occurs. But they go further and draw on some more-recent researchby Harvard economists Alberto Alesina and Silvia Ardagnathat has justifiably received much attention. Alesina and Ardagna, examining fiscal stimulus in 21 countries, found that the most successful ones relied “almost entirely on cuts in business and income taxes” and that the least successful relied on increased government spending.

#### **Keynesian spending hurts the economy**

Peter Suderman, senior editor of Reason magazine 11-18-2011 <http://www.opposingviews.com/i/money/recession/cbo-stimulus-will-hurt-economy-long-run>

Peter Suderman, our colleague over at Reason.com, points out recent testimony by Congressional Budget Office (CBO) director Douglas Elmendorf that the $800 billion stimulus package passed in February 2009 will have a "net negative effect on the growth of GDP over 10 years." This is quite notable (and Suderman links to the video testimony; listen for Elmendorf's comments around 1:20 mark.) It's also worth expanding on a little. The effects of the Stimulus program are being debated (see my extensive critique here from 2010), but the fact that the CBO recognizes the potential for all that money dumped into the economy becoming a drag in the long run implies at least their forecasting models recognize spending has to be productive in order for it to really lift the economy. Much of the support for the Stimulus package was based on a very crude Keynesian economic model that presumed that the problem with the economy was almost exclusively an artifact of depressed consumer spending. In this naive model, all you need to do is pump money into the economy so that people spend it. And, most forecasting models, don't differentiate between productive and unproductive spending. So, literally digging ditches and filling them back in again generates "positive" economic impact. (See also my comments on economic multipliers at Planetizen.com for more on this.) Of course, as national unemployment continues to hover around 9 percent, we can pretty much recognize the crude model didn't work. In the real world growth occurs when productivity is enhanced and investment is directed by entrepreneurs into the production of goods and services that people want. Whether the product or service has been determined by a bureaucrat to be "shovel ready" is irrelevant. It's not the spending per se that drives the economy, it's the succesful investment of resources in goods and services that improve our standard of living and quality of life in meaningful and tangible ways on a broad level that boosts economic growth. That's why Apple's investment in iPads and iPods is productive investment and boosts growth while unnecessarly replacing curbs and sidewalks because they are shovel ready does not. The hard-core truth is that the economy is in fact going through a major realignment. The housing market is in shambles, and, as my colleague Anthony Randazzo points out, we probably have a way to go before it really bottoms out. Developers, builders and buyers were responding to the wrong price signals for over a decade, creating a massive housing bubble. But the housing market is only part of the problem. Mixed into the housing market debacle is a financial system seriously out of whack. Until the financial market sorts itself out, capital won't be available for consumers or businesses to spend at the levels before the housing bust. And, it's going to take a while before businesses have a good read on what consumers really want. The good news is that if the government can keep from jumping back into the market too soon and further distort prices, the economy should be on a firmer foundation for sustained long-term growth. That's another way of saying the short-term spending focus of the Stimulus Package set us back more than it pushed us forward. It may have solved a political problem at the time, but it probably did more to delay the necessary re-adjustments than speed them up. That conclusion, I believe, is the takeaway from the CBO testimony.

Keynesian stimulus has already failed – current economic trends prove

Allan H. Meltzer is a professor of Public Policy at the Tepper School at Carnegie Mellon University, 10/28/11, “Four Reasons Keynesians Keep Getting It Wrong”, Wall Street Journal, ProQuest

Those who heaped high praise on Keynesian policies have grown silent as government spending has failed to bring an economic recovery. Except for a few diehards who want still more government spending, and those who make the unverifiable claim that the economy would have collapsed without it, most now recognize that more than a trillion dollars of spending by the Bush and Obama administrations has left the economy in a slump and unemployment hovering above 9%. Why is the economic response to increased government spending so different from the response predicted by Keynesian models? What is missing from the models that makes their forecasts so inaccurate? Those should be the questions asked by both proponents and opponents of more government spending. Allow me to suggest four major omissions from Keynesian models: First, big increases in spending and government deficits raise the prospect of future tax increases. Many people understand that increased spending must be paid for sooner or later. Meanwhile, President Obama makes certain that many more will reach that conclusion by continuing to demand permanent tax increases. His demands are a deterrent for those who do most of the saving and investing. Concern over future tax rates is one of the main reasons for heightened uncertainty and reduced confidence. Potential investors hold cash and wait. Second, most of the government spending programs redistribute income from workers to the unemployed. This, Keynesians argue, increases the welfare of many hurt by the recession. What their models ignore, however, is the reduced productivity that follows a shift of resources toward redistribution and away from productive investment. Keynesian theory argues that each dollar of government spending has a larger effect on output than a dollar of tax reduction. But in reality the reverse has proven true. Permanent tax reduction generates more expansion than increased government spending of the same dollars. I believe that the resulting difference in productivity is a main reason for the difference in results. Third, Keynesian models totally ignore the negative effects of the stream of costly new regulations that pour out of the Obama bureaucracy. Who can guess the size of the cost increases required by these programs? ObamaCare is not the only source of this uncertainty, though it makes a large contribution. We also have an excessively eager group of environmental regulators, protectors of labor unions, and financial regulators. Their decisions raise future costs and increase uncertainty. How can a corporate staff hope to estimate future return on new investment when tax rates and costs are unknowable? Holding cash and waiting for less uncertainty is the principal response. Thus, the recession drags on. Fourth, U.S. fiscal and monetary policies are mainly directed at getting a near-term result. The estimated cost of new jobs in President Obama's latest jobs bill is at least $200,000 per job, based on administration estimates of the number of jobs and their cost. How can that appeal to the taxpayers who will pay those costs? Once the subsidies end, the jobs disappear -- but the bonds that financed them remain and must be serviced. These medium and long-term effects are ignored in Keynesian models. Perhaps that's why estimates of the additional spending generated by Keynesian stimulus -- the "multiplier effect" -- have failed to live up to expectations. The Federal Reserve, too, has long been overly concerned about the next quarter, never more than in the current downturn. Fears of a double-dip recession, fanned by Wall Street, have led to continued easing and seemingly endless near-zero interest rates. Here, too, uncertainty abounds. When will the Fed tell us how and when it is going to sell more than $1 trillion of mortgage-related securities? Will Fannie Mae, for example, have to buy them to hold down mortgage interest rates? By now even the Fed should understand that we do not have a liquidity shortage. It has done more than enough by adding excess reserves beyond any reasonable amount. Instead of more short-term tinkering, it's time for a coherent program to start gradually reducing excess reserves. Clearly, a more effective economic policy would aim at restoring the long-term growth rate by reducing uncertainty and restoring investor and consumer confidence. Here are four proposals to help get us there: First, Congress and the administration should agree on a 10-year program of government spending cuts to reduce the deficit. The Ryan and Simpson-Bowles budget proposals are a constructive start. (Note to Republican presidential candidates: Permanent tax reduction can only be achieved by reducing government spending.) Second, reduce corporate tax rates and expense capital investment by closing loopholes. Third, announce a five-year moratorium on new regulations. Fourth, adopt an enforceable 0%-2% inflation target to allay fears of future high inflation. Now that the Keynesian euphoria has again faded, perhaps this administration -- or more likely the next -- will recognize the reasons for the failure and stop asking for more of the same.

Stimulus will never be enough

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| Spruiell 10 (Stephen Spruiell is a conservative writer and columnist for the National Review, “[Stimulus Spending as Deficit Reduction: An Idea that Just Needs to Die](http://www.nationalreview.com/corner/253484/stimulus-spending-deficit-reduction-idea-just-needs-die-stephen-spruiell)” National Review Online, Nov. 17 2010, [http://www.nationalreview.com/corner/253484/stimulus-spending-deficit-reduction-idea-just-needs-die-stephen-spruiell)](http://www.nationalreview.com/corner/253484/stimulus-spending-deficit-reduction-idea-just-needs-die-stephen-spruiell%29//BM)  |

Both the Schakowsky deficit reduction plan, which I [wrote about](http://www.nationalreview.com/articles/253425/schakowsky-s-lack-principle-stephen-spruiell) today, and the Rivlin-Domenici plan, which Veronique [wrote about](http://www.nationalreview.com/corner/253455/rivlin-domenici-alternative-deficit-commission-report-veronique-de-rugy) below, call for increases in Keynesian stimulus spending to happen immediately, right now, as an essential step in the struggle to get deficits under control eventually. Their arguments rest on one correct assumption and two incorrect ones: While it is true that [restoring economic growth](http://www.nationalreview.com/articles/253392/thus-does-economy-grow-keith-hennessey) will make the task of reducing the deficit much easier, it is not true that short-term bursts of fiscal stimulus will get us there, and it is crazy to think that the 112th Congress will do more fiscal stimulus. But let’s assume for arguments’ sake that some amount of short-term fiscal stimulus can produce lasting growth and that Congress could be persuaded to pass another stimulus bill. Even if we made those assumptions, it would appear that neither the Schakowsky nor the Rivlin-Domenici stimulus proposals would provide enough fiscal stimulus to get the job done — at least not according to Paul Krugman, a.k.a. the stimulus lover’s stimulus lover. Krugman is an [ardent proponent](http://krugman.blogs.nytimes.com/2010/07/28/how-did-we-know-the-stimulus-was-too-small/) of the idea that the trillion-plus we have spent on stimulus since early 2008 was far too little to get us to that magical tipping point where short-term stimulus begets sustainable growth. And the figure he relies on when making that argument is the CBO’s output gap, which represents the difference between real GDP and the CBO’s estimate of what GDP would be if all the nation’s underutilized resources were fully employed. According to the CBO, we had an output gap of about $2 trillion over the two-year period covered by Obama’s stimulus bill, and according to Krugman, that means the stimulus bill should have spent $1.2 trillion, because, if you make some optimistic assumptions about Keynesian multipliers, then that would have filled the gap. The CBO’s output gap remains wide, which is why Krugman thinks our next grand adventure in Keynesian fiscal stimulus [needs to be](http://www.onpointradio.org/2010/07/paul-krugman-1-trillion-more) on the order of $1 trillion, at least. But the Schakowsky plan only calls for about $200 billion in new stimulus, and the payroll-tax holiday called for in the Rivlin-Domenici plan would only provide a jolt of $650 billion. And again, all of this assumes that lots of people are going to make big decisions with long-term implications — such as how many workers to hire or fire — based on temporary policies. If the people who are praising the stimulus ideas in the Schakowsky and Rivlin-Domenici plans subscribe to the Krugman view that the last stimulus wasn’t big enough, then they’re not being consistent: Neither of the stimulus plans they’re embracing now would be big enough, either. And if they don’t subscribe to the Krugman view regarding output gaps and the need for a WWII-sized stimulus package, then what’s their explanation for why the first stimulus failed?

Austerity Works

Austerity works – Latvia proves

de Rugy 6/6 (Veronique de Rugy, senior research fellow at the Mercatus Center at George Mason University, “Yes, Public-sector Austerity Can Work,” 6-6-12, <http://www.nationalreview.com/corner/301972/yes-public-sector-austerity-can-work-veronique-de-rugy>)

Today is a good day. Two separate media stories have acknowledged that public sector austerity — meaning spending cuts rather than tax increases — can actually bring debt-to-GDP levels down, and it may even produce economic growth. First, this story reports that French IMF director Christine Lagarde hailed Latvia as a country where public-sector austerity worked: RIGA: IMF chief Christine Lagarde pointed yesterday to Latvia as model for states like Greece balking at belt-tightening as the euro-zone debates whether the focus should shift from austerity to growth.”Latvia decided to bite the bullet and instead of spreading the pain over a number of years-doing it gently … you decided to go hard and to go quickly,” Lagarde told delegates to an International Monetary Fund conference in the Latvian capital Riga on lessons from its spectacular recovery. Latvia and its Baltic neighbours Estonia and Lithuania in the EU’s northeastern corner consider austerity as the cure to their deep recessions sparked by the 2008 global financial crisis. Lagarde called Latvia’s performance under a 2008-2009 7.5-billion-euro ($9.4 billion) IMF-EU bailout “incredibly impressive,” with sharp spending cutbacks helping it reduce its public deficit by 8.0 percentage points of gross domestic product in one year. Latvia’s economy contracted by a cumulative 25 percent during the crisis, the deepest plunge recorded worldwide, but the ex-Soviet Baltic state of two million began to recover last year when it clocked 5.5 percent growth. The ‘bite-the-bullet’ approach stands in stark contrast to that of Greece, which has been slow to implement structural reforms and has repeatedly missed targets on reducing its public deficit. Earlier, Lagarde told the Swedish daily Svenska Dagbladet that one lesson from Latvia’s experience is that cutbacks need to be made early on,” noting the risk of reform fatigue if austerity measures are not introduced at once. I wonder what her conversation with Hollande will be next time she sees him. (Thanks to Don Boudreaux for the pointer). Second, this morning NPR also had a story about the recent successful fiscal adjustments in the Baltic nations through spending cuts, and their policy of allowing prices to fall. I, for one, wished we engaged in more of this behavior in the U.S., especially in the housing market.

Debt causes crisis—spending cuts solve

US Budget Committee 11 U.S. Senate Budget Committee Republican, responsible for drafting Congress’ annual budget plan and for monitoring the federal budget, 5/12/11, “Spending Cuts And Economic Growth: What Does The Cross-Country Empirical Evidence Show?,” U.S. Senate Budget Committee Republican, http://budget.senate.gov/republican/public/index.cfm/committee?p=committee-history

The federal debt held by the public has doubled, in nominal terms, in less than four years. It now stands at over 62 percent of GDP, the highest level since 1951. What costs does this place on our economy? With our fragile economy still suffering high unemployment, can we risk attempting to slow the accumulation of more debt by reducing government spending? This paper examines these questions by surveying the available literature and empirical evidence regarding the economic effects of government debt and spending reductions on economic growth. The available evidence shows that: a national debt crisis could result in economic collapse; our high national debt already imposes sustained economic costs; our growing debt can be slowed by immediate reductions in government spending; reductions in federal spending, as part of successful fiscal consolidations, have demonstrably led to economic growth fiscal consolidations focused on spending cuts are far more successful than those relying on tax increases and those that evenly combine tax increases and spending cuts.

Spending cuts solves—empirics prove

US Budget Committee 11 U.S. Senate Budget Committee Republican, responsible for drafting Congress’ annual budget plan and for monitoring the federal budget, 5/12/11, “Spending Cuts And Economic Growth: What Does The Cross-Country Empirical Evidence Show?,” U.S. Senate Budget Committee Republican, http://budget.senate.gov/republican/public/index.cfm/committee?p=committee-history

Immediate reductions in spending will begin a necessary move to reduce deficits and reduce the pace of debt accumulation. For example, a Budget Committee analysis found that a $61 billion reduction in spending in fiscal year 2011 would immediately begin to tackle our spending problem and would save $862 billion over the next 10 years. Cutting spending can successfully bring our country out of debt, while moving our economy back toward a system that rewards private productivity, ingenuity, and American workers. Spending reductions do not necessarily mean, as Keynesian reasoning dictates, that the economy suffers. Indeed, a consistent and striking conclusion from a large and growing body of evidence is that successful efforts to climb out of debt are composed mostly of spending reductions, and that these reductions not only do not tend to harm economies but, rather tend to lead to economic growth. [24] For instance, a recent extensive review of countries that faced perilously high debt levels, by Andrew Biggs, Kevin Hassett, and Matthew Jensen, considered the experiences of 21 OECD countries over a 37 year period. [25] They find that countries that failed to successfully reduce their debt are more the rule than the exception—success appears to be achieved in approximately one-fifth of cases. On average, the typical unsuccessful country used a combination of 53 percent tax increases and 47 percent spending cuts. By contrast, the typical successful country used, on average, 85 percent spending cuts. The authors conclude that “…fiscal consolidations based upon expenditure cuts have tended to be more effective than tax-based consolidations based on the evidence from empirical studies.”

Interest rates make deficit spending cuts inevitable

US Budget Committee 11 U.S. Senate Budget Committee Republican, responsible for drafting Congress’ annual budget plan and for monitoring the federal budget, 5/12/11, “Spending Cuts And Economic Growth: What Does The Cross-Country Empirical Evidence Show?,” U.S. Senate Budget Committee Republican, http://budget.senate.gov/republican/public/index.cfm/committee?p=committee-history

As deficits and debt continue to mount, the power of compound interest means an ever-increasing amount of federal resources are being devoted to interest payments to help pay for past deficit spending. As Figure 3 shows, interest payments are projected to increase nearly fivefold under the President’s budget, to almost $1 trillion by 2021. This means desirable federal programs will have to be cut, in increasingly painful amounts, so that the government will be less and less able to provide resources for everything from nutrition assistance to highway maintenance and construction. (Revenue could be increased to diminish these reductions; this option will be discussed below.) To the extent these programs improve the country’s welfare and economic growth, they are already on a path to being squeezed.

Spending cuts solve—empirics

Brady 11 Kevin Brady, Joint Economic Committee Republicans Vice Chairman Designate, 3/15/11, “Spend Less, Owe Less, Grow the Economy,” Joint Economic Committee Republicans, http://www.speaker.gov/sites/speaker.house.gov/files/UploadedFiles/JEC\_Jobs\_Study.pdf

Keynesians hold that fiscal consolidation programs are contractionary in the short term, because they reduce aggregate demand. However, **large government budget deficits create expectations for higher taxes to service government debt and affect the economy in the short term as well as the long term**. Consequently, f**iscal consolidation programs that reduce government spending decrease short-term uncertainty about taxes and diminish the specter of large tax increases in the future for both households and businesses.** **These** “non-Keynesian” **factors can boost GDP growth** in the short term as well as the long term **because**: **Households’ expectations of higher permanent disposable income create a wealth effect, which stimulates purchases of consumer durables** and home buying **thus driving up personal consumption** expenditures and residential investment in the short term. **Businesses expecting higher after-tax returns boost their investment in non-residential fixed assets** in the short term. WHAT AND HOW TO CUT. Certain kinds of government spending reductions generate significantly larger pro-growth effects than others. For the “non-Keynesian” effects to be significant, **government spending reductions must be viewed as large, credible, and politically difficult to reverse once made**. **Some examples are:**  Decreasing the number and compensation of government workers. **A smaller government workforce** increases the available supply of educated, skilled workers for private firms, thus lowering labor costs. **Eliminating agencies and programs**. **Eliminating transfer payments to firms**. Since government transfer payments entice firms to engage in otherwise unprofitable and unproductive activities, eliminating transfer payments will increase efficiency as firms cease these activities. **Reforming and reducing transfer payments** to households. Making major government programs, such as pension and health insurance benefits for the elderly, sustainably solvent will boost real GDP growth by (a) enhancing the credibility of fiscal consolidation plans, and (b) inducing younger workers to work more, save more, and retire later. This is true even if the reforms exempt current beneficiaries, are phased-in slowly, and any short-term spending reductions are very small. EXTENSIVE EMPIRICAL SUPPORT FOR SPENDING CUTS. Gabriele Giudice, Alessandro Turrini, and Jan in ‘t Veld (2003) identified **11 episodes based on size and 19 episodes based on duration of “pure” expansionary fiscal consolidations that consisted predominately or entirely of government spending reductions as a percentage of GDP in EU member-states over 33 years**. Alberto Alesina and Silvia Ardagna (2009) made the same finding for 26 episodes in nine OECD member-countries between 1970 and 2007. The IMF strikes a cautionary note on shortterm expansionary “non-Keynesian” factors offsetting contractionary Keynesian reductions in aggregate demand. But, the IMF is in agreement with the other studies that **fiscal consolidation programs based** predominately or entirely **on government spending reductions**—especially in transfer payments to households and firms—**are better for the economy in the short term** than programs in which tax increases play a significant role.

Keynesian economics is flawed – cuts work better

N. Gregory Mankiw; macroeconomist and Professor of Economics at Harvard University, chairman of the Council of Economic Advisers; 1-09; <http://www.nytimes.com/2009/01/11/business/economy/11view.html>

WHEN the Obama administration finally unveils its proposal to get the economy on the road to recovery, the centerpiece is likely to be a huge increase in government spending. But there are ample reasons to doubt whether this is what the economy needs. Arguably, the seeds of the spending proposal can be found in the classic textbook by Paul A. Samuelson, “Economics.” First published in 1948, the book and others like it dominated college courses in introductory economics for the next half-century. It is a fair bet that much of the Obama team started learning how the economy works through Mr. Samuelson’s eyes. Most notably, Lawrence H. Summers, the new head of the National Economic Council, is Mr. Samuelson’s nephew. Written in the shadow of the Great Depression and World War II, Mr. Samuelson’s text brought the insights of John Maynard Keynes to the masses. A main focus was how to avoid, or at least mitigate, the recurring slumps in economic activity. “When, and if, the next great depression comes along,” Mr. Samuelson wrote on the first page of the first edition, “any one of us may be completely unemployed — without income or prospects.” He added, “It is not too much to say that the widespread creation of dictatorships and the resulting World War II stemmed in no small measure from the world’s failure to meet this basic economic problem adequately.” Economic downturns, Mr. Keynes and Mr. Samuelson taught us, occur when the aggregate demand for goods and services is insufficient. The solution, they said, was for the government to provide demand when the private sector would not. Recent calls for increased infrastructure spending fit well with this textbook theory. But there is much to economics beyond what is taught in Econ 101. In several ways, these Keynesian prescriptions make avoiding depressions seem too easy. When debating increased spending to stimulate the economy, here are a few of the hard questions Congress should consider: HOW MUCH BANG FOR EACH BUCK? Economics textbooks, including Mr. Samuelson’s and my own more recent contribution, teach that each dollar of government spending can increase the nation’s gross domestic product by more than a dollar. When higher government spending increases G.D.P., consumers respond to the extra income they earn by spending more themselves. Higher consumer spending expands aggregate demand further, raising the G.D.P. yet again. And so on. This positive feedback loop is called the multiplier effect. In practice, however, the multiplier for government spending is not very large. The best evidence comes from a recent study by Valerie A. Ramey, an economist at the University of California, San Diego. Based on the United States’ historical record, Professor Ramey estimates that each dollar of government spending increases the G.D.P. by only 1.4 dollars. So, by doing the math, we find that when the G.D.P. expands, less than a third of the increase takes the form of private consumption and investment. Most is for what the government has ordered, which raises the next question. WILL THE EXTRA SPENDING BE ON THINGS WE NEED? If you hire your neighbor for $100 to dig a hole in your backyard and then fill it up, and he hires you to do the same in his yard, the government statisticians report that things are improving. The economy has created two jobs, and the G.D.P. rises by $200. But it is unlikely that, having wasted all that time digging and filling, either of you is better off. People don’t usually spend their money buying things they don’t want or need, so for private transactions, this kind of inefficient spending is not much of a problem. But the same cannot always be said of the government. If the stimulus package takes the form of bridges to nowhere, a result could be economic expansion as measured by standard statistics but little increase in economic well-being. The way to avoid this problem is a rigorous cost-benefit analysis of each government project. Such analysis is hard to do quickly, however, especially when vast sums are at stake. But if it is not done quickly, the economic downturn may be over before the stimulus arrives. HOW WILL IT ALL END? Over the last century, the largest increase in the size of the government occurred during the Great Depression and World War II. Even after these crises were over, they left a legacy of higher spending and taxes. To this day, we have yet to come to grips with how to pay for all that the government created during that era — a problem that will become acute as more baby boomers retire and start collecting the benefits promised. Rahm Emanuel, the incoming White House chief of staff, has said, “You don’t ever want to let a crisis go to waste: it’s an opportunity to do important things that you would otherwise avoid.” What he has in mind is not entirely clear. One possibility is that he wants to use a temporary crisis as a pretense for engineering a permanent increase in the size and scope of the government. Believers in limited government have reason to be wary. MIGHT TAX CUTS BE MORE POTENT? Textbook Keynesian theory says that tax cuts are less potent than spending increases for stimulating an economy. When the government spends a dollar, the dollar is spent. When the government gives a household a dollar back in taxes, the dollar might be saved, which does not add to aggregate demand. The evidence, however, is hard to square with the theory. A recent study by Christina D. Romer and David H. Romer, then economists at the University of California, Berkeley, finds that a dollar of tax cuts raises the G.D.P. by about $3. According to the Romers, the multiplier for tax cuts is more than twice what Professor Ramey finds for spending increases. Why this is so remains a puzzle. One can easily conjecture about what the textbook theory leaves out, but it will take more research to sort things out. And whether these results based on historical data apply to our current extraordinary circumstances is open to debate. Christina Romer, incidentally, has been chosen as the chairwoman of the Council of Economic Advisers in the new administration. Perhaps this fact helps explain why, according to recent reports, tax cuts will be a larger piece of the Obama recovery plan than was previously expected. All these questions should give Congress pause as it considers whether to increase spending to stimulate the economy. But don’t expect such qualms to stop the juggernaut. The prevailing orthodoxy among the nation’s elite holds that increased government spending is the right medicine for what ails the economy. Mr. Samuelson once said, “I don’t care who writes a nation’s laws or crafts its advanced treaties, if I can write its economics textbooks.” The coming stimulus bill, warts and all, will demonstrate brilliantly what he had in mind.

Spending cuts expand the economy

Kevin Brady (Senior member of the House Ways and Means Committee and vice chairman of the Joint Economic Committee. 7/12, The Hill Blog, <http://thehill.com/blogs/congress-blog/economy-a-budget/171559-cut-spending-to-grow-the-economy>)

The anemic 18,000 payroll jobs the United States gained last month clearly shows America’s job creators are on strike against President Obama’s failed big government policies. If we want to spur business investment that will create new jobs we must change our fiscal course. In his 1981 inaugural address, President Reagan said, “government is not the solution to our problem; government is the problem.” Reagan began to reduce the size and scope of the federal government and produced spectacular growth dividends. Over the next two decades, federal spending shrank from 22 percent to 18 percent of our economy, and the United States created 37 million private payroll jobs. Since 2001, Congress has allowed federal spending to expand once again to 24 percent of our economy. Not surprisingly, the United States has lost 2.7 million private payroll jobs since then. Since 2009, when the Obama stimulus was enacted, the United States lost 1.3 million private payroll jobs. The lesson is clear: we must shrink Washington to create jobs on Main Streets around America.

Congressional Report shows spending cuts improve economy

Peter Roff, News Reporter, “The GOP Case for Spending Cuts to Boost the Economy”, 3/25/11, http://www.usnews.com/opinion/blogs/peter-roff/2011/03/25/the-gop-case-for-spending-cuts-to-boost-the-economy\_print.html

A recent report from Congressional Joint Economic Committee [Republicans](http://politics.usnews.com/topics/subjects/republican-party) points the way out of the nation’s current fiscal morass: “Spend Less, Owe Less, Grow the [Economy](http://politics.usnews.com/topics/subjects/unemployment).”[The report](http://tinyurl.com/4c4gvx9), which examines the behavior of all developed countries between 1970 and 2007, explains in rather simple language that the government’s financial problems do not come from revenue problems so much as they are the result of over-spending. “Clear and convincing empirical evidence proves countries that undertake programs to reduce government [budget deficits](http://politics.usnews.com/topics/subjects/deficit-and-national-debt) and stabilize the level of government debt (known as fiscal consolidations) can boost economic growth and job creation in the short term.”Of the three key findings, the most obvious is perhaps that “Spending cuts work. Tax increases don’t.”“Countries that lower their debt-to-GDP ratio predominately or entirely through spending cuts are more likely to achieve their goals of government budget deficit reduction and government debt stabilizationthan debt reduction efforts in which tax increases play a significant role.”The second key finding is that “Spending cuts can boost the economy in the short term too.”“While most economists agree that reducing government spending increases economic growth the long term,” the JEC said, “empirical studies have found that reducing government spending can boost economic growth and job creation in the short term as well.”The third key finding is that “Spending cuts must be credible to realize short-term growth benefits.”This is an important point that is often over-looked, especially by those who would rather talk about cutting spending than actually do it. Examples of the kind of spending the committee analysts who prepared the report found to be “credible” include reducing the number and compensation of government workers, eliminating agencies and programs, eliminating transfer payments to businesses and reforming and reducing transfer payments to households.

WW2 proves austerity works

Charles Kadlec economics expert, senior writer for forbes 5-7-12 Forbes http://www.forbes.com/sites/charleskadlec/2012/05/07/why-european-austerity-fails/

An extreme example is provided by the U.S. experience after World War II. Total federal spending was slashed 38% in 1946 and another 38% in 1947 or by a combined 29% of GDP. That is equivalent to reducing current federal expenditures by $4.4 trillion in two years. The federal budget went from a $54 billion deficit to a $3 billion surplus. Eight million men and women (12 % of the workforce) were released from the armed forces. Real GDP did decline by 11% in 1946. But, the economy stabilized in 1947, and then grew by 4.4% in 1948.

European austerity fails because of taxes not, budget cuts

Charles Kadlec economics expert, senior writer for forbes 5-7-12 Forbes http://www.forbes.com/sites/charleskadlec/2012/05/07/why-european-austerity-fails/

The reason European austerity has failed is not because of the reductions in government spending, but because those spending cuts have been paired with tax increases. The Europeans are struggling to reduce government spending by less than 5% of GDP. But unlike the U.S., which paired extreme budget cuts with across-the-board reductions in personal income tax rates, the European austerity combines spending cuts with massive tax increases. The result is a toxic brew which shrinks both government and the private sector, producing recession, rising unemployment, and massive budget shortfalls. Here’s why: A tax increase does far more than simply take money out of the private sector and give it to the government. Increases in marginal tax rates also reduce the opportunities for domestic economic activities in the same manner as increases in tariffs shrink the opportunities for international trade. For example, a 2-percentage point increase in the Value Added Tax raises the price of goods and services by 2%. Faced with higher prices, individuals demand less, both because prices are higher (the incentive effect), and because the same amount of euros can now purchase 2% fewer goods and services (the cash flow effect). Suppliers, faced with the fall-off in demand, may choose to absorb some of the tax by lowering the price they receive. However, the lower price received reduces both their desire (incentive effect) and ability (cash flow effect) to maintain the current level of supply.

Cartelization

Keynesian policies impair industry through cartelization

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A third area that attracts little or no attention from Keynes is the extensive New Deal drive toward cartelization of industries, which may well have had a parallel impulse in Great Britain. American industrial cartelization was no modest endeavor. In the eighteen months between August 1933 and February 1935, FDR's administrative agencies churned out some 546 Codes and 185 Supplemental Codes, pursuant to which they issued over eleven thousand administrative orders in the relentless pursuit of "fair" competition.20 The National Industrial Recovery Act (NIRA) was of course opposed to using these industrial codes to promote monopoly.21 But that spurt of generosity arose only because the Roosevelt political agenda organized cartels instead, which did not "oppress small enterprises [or] operate to discriminate against them."22 These codes set minimum prices or, alternatively, requirements that goods be sold only above cost, generously defined, which is an indirect way to impose price floors. The social losses resulting from cartels are well established in economic theory and flow to the bottom line no matter what fiscal or monetary policies are in place. Their removal should have been a top priority of the very Roosevelt Administration that established them. Trie same can be said about the continued use of the various agricultural marketing orders that have similar effects today.23 The New Deal efforts on this score were not limited to product markets. Before the first round of codes was struck down on grounds of improper delegation in A.L.A. Schechter Poultry Corp. v. United States,2\* the New Dealers included a minimum wage and maximum hours standard, intended to cartelize labor markets. This was no accidental adjunct to the Roosevelt program. It was yet another manifestation of the relentless progressive agenda to substitute cartels for competition whenever possible. Indeed, the NIRA interventions did not die with the invalidation of the statute that created them. Because Schechter Poultry was decided on broad nondelegation grounds, the entire issue resurfaced in a statute with greater particularity, the Fair Labor Standards Act of 1938 (FLSA),25 which was sustained with great fanfare in United States v. Darby.26 The FLSA provided a solid statutory foundation for regulations of the minimum wage, maximum hours, and overtime that have expanded in scope relentlessly from the time of its initial passage.27 Nor were NlRA and FLSA the only misguided efforts to cartelize labor markets. Many of the low points of the Great Depression involved misguided labor statutes that had an adverse impact on unemployment. The year 1931 saw the adoption of the DavisBacon Act,28 which required wages on government contracts to be set at the "prevailing" level within the local community.29 There is some dispute as to whether the legislation was passed with an explicit intent to keep African- American workers from the South from competing with white laborers from the North.30 But even if the statute had no racist element, its protectionist origins against interstate competition cannot be disputed. Nor is it possible to deny the consequences of shielding incumbent workers from external competition: small local gains at the expense of larger national losses. Davis-Bacon is hardly a winning strategy to beef up national labor markets in times of high unemployment. Its repeal is seventy-nine years overdue. Next on the list is the Norris-LaGuardia Act of 1932, 31 which sharply limited the use of labor injunctions in trade disputes. Most importantly, it followed the pattern of the English Trade Disputes Act of 190632 by refusing to issue injunctions when labor unions tried to induce workers to unionize secretly in violation of their terms of employment. Previously the employer had been able to stop the offending union in its tracks by obtaining injunctive relief, a right of action that the Supreme Court upheld in Hitchman Coal & Coke Co. v. Lewis.33 The statute thus strengthened the hands of unions in ways that once again pushed wages for labor further from the competitive equilibrium, with a consequent loss in social welfare. That statute was followed by an elaborate effort to organize collective bargaining arrangements under the NIRA. That act was struck down in Schechter Poultry,34 only to reappear in much more institutionalized form in the National Labor Relations Act of 1935,35 which created a new enforcement mechanism in the National Labor Relations Board. So a statute intended to usher in an era of labor peace brought in its wake labor instability that certainly failed to draw capital into labor intensive industries. It is easy to understand the sense of desperation that led to the passage of these acts, but it is impossible to ignore the role that they played in keeping levels of unemployment high. Here, again, it hardly matters whether Keynes, Krugman, or Posner (especially the last two) supports these statutes or not. If they support or ignore these statutes, they have allowed macroeconomic concerns to blind them. If they oppose these statutes, they do so for microeconomic reasons that have nothing to do with the grand Keynesian synthesis. But either way, it is hard to defend the position that these midlevel changes do not matter, and harder still today to think that the situation would not get worse with the passage of the Employee Free Choice Act, against which I have argued at every possible opportunity.36 Posner himself is opposed to passage of the statute but thinks that its effect will be moderated by the global nature of labor markets.37 That perception is at odds with the perception of the American business community, which recoils at the prospect of a card-check device for selecting unions followed by a mandatory arbitration of the substantive term of the labor contract. This latter requirement is a real job killer if anything is.38 Put otherwise, the favor that the Obama Administration shows to organized labor is a real disincentive to economic recovery in employment markets. One does not have to be a Keynesian to explain why unemployment rates now stubbornly persist at around ten percent, with no decline in sight. The threat of more labor and environmental legislation acts as a real deterrent to new jobs. And the recent passage of ObamaCare will roil labor markets for years to come.

Empirics

Empirics go neg

Cochrane 09 (John H. Cochrane, Myron S. Scholes Professor of Finance University of Chicago Booth School of Business, “Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?” 2-27-09, [http://faculty.ses.wsu.edu/rayb/420/fiscal\_stimulus.pdf](http://faculty.ses.wsu.edu/rayb/420/fiscal_stimulus.pdf%29//BM))

These ideas changed because Keynesian economics was a failure in practice, and not just in theory. Keynes left Britain 30 years of miserable growth. Richard Nixon said, “We are all Keynesians now,” just as Keynesian policy led to the inflation and economic dislocation of the 1970s--unexpected by Keynesians but dramatically foretold by Milton Friedman’s 1968 AEA address. Keynes disdained investment, where we now all realize that saving and investment are vital to long-run growth. Keynes did not think at all about the incentives effects of taxes. He favored planning, and wrote before Hayek reminded us how modern economies cannot function without price signals. Fiscal stimulus advocates are hanging on to a last little timber from a sunken boat of ideas, ideas that everyone including they abandoned, and from hard experience. If we forget all that, we could repeat the economics of postwar Britain, of spend-and-inflate Latin America, and of bureaucratic, planned India. There has been no grand empirical reevaluation of fiscal stimulus either. Empirical work is hard, since governments try fiscal stimulus in bad times. If you bleed with leaches when you have a cold, empirical work might say that the leaches cured you. Empirical work has to find fiscal stimulus events that were applied randomly, without regard to the state of the economy. Harder still, it has to find stimulus spending that people expected to be paid off rather than inflated away. Most current empirical work does not make this distinction, and therefore is in danger of measuring the slope of the Phillips curve rather than the fiscal multiplier. Finally, empirical work without a plausible mechanism is hard to believe. Even so, doing the best to surmount these problems, nothing in recent empirical work on US data has revised a gloomy opinion of fiscal stimulus.9 Looking across the world, large government deficits and spending programs are clearly not the keys to economic health, and evidence of stimulus effects over time in the US needs to be reconciled with this supreme lack of evidence across countries.The Administration's estimates for the effect of a stimulus plan cite no new evidence and no theory at all for their large multipliers. The multipliers come ".. from a leading private forecasting firm and the Federal Reserve’s FRB/US model." (Appendix 1) Multipliers are hard-wired in these models by assumption, rather than summarizing any evidence on the effectiveness of fiscal policy, and the models reflect the three theoretical fallacies above. The multipliers in this report are not conditioned on "slack output" or something else -- they state that every dollar of government spending generates 1.57 dollars of output always! If you've got magic, why not 2 trillion dollars? Why not 10 trillion dollars? Why not 100 trillion, and we can all have private jets? If you don't believe that, why do you think it works for a trillion dollars? Their estimates of industry effects come from a blog post (p. 8)! Ok, they did their best in the day and a half or so they had in the rush to put the report together. But really, before spending a trillion dollars of our money, wouldn't it make sense to spend, say one tenth of one percent on figuring out if it will work at all? (That would be 100 million dollars, more than has ever been spent on economic research in the entire history of the world. ) Some economists tell me, “Yes, all our models, data, and analysis and experience for the last 40 years say fiscal stimulus doesn’t work, but don’t you really believe it anyway?” This is an astonishing attitude. How can a scientist “believe” something different than what he or she spends a career writing and teaching? At a minimum policymakers shouldn’t put much weight on such “beliefs,” since they explicitly don’t represent expert scientific inquiry. Others say that we should have a fiscal stimulus to “give people confidence,” even if we have neither theory nor evidence that it will work. This impressively paternalistic argument was tried once with the TARP. Nobody could say how it would work in any way that made sense, but it was supposed to be important do to something grand to give people “confidence.” You see how that worked out. Public prayer would work better and cost a lot less. Seriously, as social scientists, economists don’t have any special expertise to prescribe what intrinsically meaningless gestures will and will not give “confidence,” so there is no reason for anyone to listen to our opinions on that score. "Well," I'm often asked, "we have to do something. Do you have a better idea?" This is an amazingly illogical question. If the patient has a heart attack, and the doctor wants to amputate his leg, it's perfectly fine to say "I know amputating his leg is not going to do any good," even if you don't have a five-step plan to cure heart attacks. As a matter of fact, as above, there are perfectly good answers to this question, but even if there were not, it simply makes no sense to "do something" that you know won't work. One of the most important things that scholars can do is to explain ignorance. I often say “I don’t know, but I do know with great precision why nobody else knows either.” Ninety percent of good economic policy is, “first, do no harm.”

Keynesian economics is false – empirical studies disprove

Ross ’11

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The stimulus was premised on the economic model known as Keynesianism: the intellectual legacy of the late English economist John Maynard Keynes. Keynesianism doesn't work, never has worked, and never will work. Without a clear understanding of why Keynesianism cannot work we will be forever doomed to pursuing the impossible. There's no real mystery about why Keynesianism fails. There are numerous reasons why and they've been known for decades. Keynesians have an unrealistic and unsupportable view of how the economy works and how people make decisions. Short-Run Focus Keynesian policy advocates focus primarily on the short run -- with no regard for the future implications of current events -- and they assume that all economic decision-makers do the same. Consider the following quote by John Maynard Keynes: "But the 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 ocean will be flat again." After passage of the stimulus package, Lawrence Summers, Obama's chief economic advisor at the time, often said that the spending should be "timely, targeted, and temporary." Although those sound like desirable objectives, they illustrate the Keynesian focus on the short term. Sure it would be convenient if you could just spend a bunch of money and make the economy get well, but it's not that simple. The implication of a Keynesian perspective is that you can hit the economy a few times with a cattle prod and get society back to full employment. Remember that so-called "cash-for-clunkers" program? Maybe it accelerated some new car sales by a month or two, but it had no lasting impact. The "Chicago School" is the primary source of serious research and analysis related to the Keynesian model. Two Chicago School conclusions, in particular, make it clear where Keynesian policies run aground. The two theories are the "permanent income hypothesis" and the theory of "rational expectations." The "permanent income hypothesis" was how Milton Friedman termed the findings of his research on the spending behavior of consumers. The MIT Dictionary of Economics defines the permanent income hypothesis as "The hypothesis that the consumption of the individual (or household) depends on his (or its) permanent income. Permanent income may be thought of as the income an individual expects to derive from his work and holdings of wealth during his lifetime." Whether consumers and investors focus mostly on the short run or the long run is basically an "empirical question." A convincing theoretical case can be made either way. To find out which focus actually conforms closer to reality, you have to gather evidence. Not Evidence-Based Much of the difference between the two schools of thought can be explained by differences in their methodologies. Keynes was not known for his research or empirical efforts. Keynesianism is definitely not an evidence-based model of how the economy works. So far as I know, Keynes did no empirical studies. Friedman was a far more diligent researcher and data collector than was Keynes. Friedman fit the theory to the data, rather than vice versa. The Keynesian disregard for evidence is reflected in their advocacy for more stimulus spending even in the face of the obvious failure of the what's already been spent. At a minimum, we are due an explanation of why it hasn't worked. (Don't expect that to be forthcoming, however). Failure to Consider Incentives Another of the Chicago School's broadsides against Keynesianism is the theory of "rational expectations." It's a theory for which the 1995 Nobel Prize for Economics was awarded to Robert Lucas of the University of Chicago. As economic theories go, it is relatively straightforward. It essentially states that "individuals use all the available and relevant information when taking a view about the future." (MIT Dictionary of Modern Economics) The rational expectations hypothesis is the simple assertion that individuals take into account their best guesses about the future when they make decisions. That seemingly simple concept has profound implications. The Chicago School's research led them to conclude that individuals are relatively deliberate and sophisticated in how they make economic choices. Keynesians and their liberal followers apparently think individuals are short-sighted and simple-minded. An elemental but too often overlooked reality about our economy is that it is based on voluntary exchange. Voluntary exchange is an even more fundamental feature of our economy than is the market. A market is any arrangement that brings buyers and sellers together. In other words, the primary purpose of a market is to make voluntary exchange possible. Voluntary exchange leaves large amounts of control in the hands of private individuals and businesses. The market relies on carrots rather than sticks, rewards rather than punishment. The actors, therefore, need to be induced to move in certain desired directions rather than simply commanded to do so. This is the basic reason why incentives are such an important part of economics. If not for voluntary exchange, incentives wouldn't much matter. In designing economic policy in the context of a market economy it becomes important to take into account what actually motivates people and how they make choices. If you want to change behavior in a voluntary exchange economy, you have to change incentives. Keynesian policies do not take that essential step. The federal government's share of GDP has gone from 19 percent to 24 percent during Obama's time in the White House. A larger government share of GDP ultimately necessitates higher taxes or more debt. In and of themselves, higher taxes retard economic growth because of their impact on incentives. The disincentive effect of higher taxes illustrates why big government is far costlier than it first appears.

Japan proves stimulus fails – Krugman is wrong

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According to Keynesian Paul Krugman, austerity plans are “self-defeating.”As he puts it, “there’s quite a good case to be made that austerity in the face of a depressed economy is, literally, a false economy – that it actually makes long-run budget problems worse.” Well, “yes,” if austerity means more taxes imposed on the economy’s producers, but “no,” if instead it means spending cuts imposed on the economy’s non-producers (politicians). Krugman denies this, because he opposes reductions in government spending, and wants higher taxes on the rich, even in today’s context, a context he describes as a “depression,” and which, he adds, has been caused not by vast stimulus spending, to date, but by too little of it. In the 1990s it was Krugman who most loudly championed Japan’s innumerable and reckless “stimulus” schemes, together with dozens of rounds of “quantitative easing” (fiat money printing). Japan followed his advice and ever since then has suffered a secular stagnation. Since 1990 Japan’s public debt has ballooned from 68% to 233% of GDP; its money supply is up 286%, while its industrial output is lower by 3.4% and its equity index is down by 73%. This is what Keynesians “stimulus” has done for Japan – and Krugman wants the same for the U.S.

Zero historical evidence supports stimulus

Robert Barro. professor of economics at Harvard and a senior fellow at Stanford's Hoover Institution. 9-24-11.Wall street Journal. 1http://online.wsj.com/article/SB10001424053111903596904576516412073445854.html

Theorizing aside, Keynesian policy conclusions, such as the wisdom of additional stimulus geared to money transfers, should come down to empirical evidence. And there is zero evidence that deficit-financed transfers raise GDP and employment—not to mention evidence for a multiplier of two.

Spending only works in the short term - empirics

Robert Barro. professor of economics at Harvard and a senior fellow at Stanford's Hoover Institution.5-9-12. Wall street Journal <http://online.wsj.com/article/SB10001424052702304451104577390482019129156.html?KEYWORDS=ROBERT+J+BARRO>

For the U.S., my view is that the large fiscal deficits had a moderately positive effect on GDP growth in 2009, but this effect faded quickly and most likely became negative for 2011 and 2012. Yet many Keynesian economists look at the weak U.S. recovery and conclude that the problem was that the government lacked sufficient commitment to fiscal expansion; it should have been even larger and pursued over an extended period. This viewpoint is dangerously unstable. Every time heightened fiscal deficits fail to produce desirable outcomes, the policy advice is to choose still larger deficits. If, as I believe to be true, fiscal deficits have only a short-run expansionary impact on growth and then become negative, the results from following this policy advice are persistently low economic growth and an exploding ratio of public debt to GDP. The last conclusion is not just academic, because it fits with the behavior of Japan over the past two decades. Once a comparatively low public-debt nation, Japan apparently bought the Keynesian message many years ago. The consequence for today is a ratio of government debt to GDP around 210%—the largest in the world.

Ontario’s eHealth program disproves the fundamental tenets of Keynesianism

Terence Corcoran is a Staff Writer for the National Post, 2/14/12, “Keynesian Meltdown”, ProQuest

The fiscal mess in Ontario is now common knowledge across the country, thanks in part to a sensational report from the Conference Board of Canada demonstrating that unless the government slashes spending and/or raises taxes, health care and education will have to be decimated. The report was no surprise to people who tracked Premier Dalton McGuinty's march into Keynesian fiscal stimulus spending. The surprise was the appearance of the Conference Board as the harbinger of doom. Is this the same Conference Board that only two years ago, in March, 2010, awarded Ontario "a gold star for stimulus" spending, according to ReNew Canada magazine? The province's massive deficit spending, announced in 2009, would be creating hundreds of thousands of jobs and adding to the provincial growth rate. According to the Conference Board's 2010 report - commissioned by the Ontario government to document the impact of its multi-billion dollar Keynesian stimulus effort - the deficit spending on infrastructure would also boost productivity, offset the recession, and set the stage for recovery. Two years later, the Conference Board returned to the scene of the crime to report that Ontario is in rough fiscal shape, growth isn't happening, spending will have to be cut, taxes raised and the province needs "transformative changes." Missing from the Conference Board report was any acknowledgement that Ontario might be sinking under the weight of the stimulus gold star the board had awarded the province. Like most other economists who are now issuing alarming reports and projections that Ontario faces a future of perpetual deficits, slow growth and rising taxes, the Conference Board appears to be wilfully blind to the dead corpus of Keynesian economic policy that is behind Ontario's plight - policy that they all endorsed as the province's economic salvation. The McGuinty Liberals cannot be expected to admit that the massive stimulus balloon - which began with a $19-billion deficit in 2009-10 and has since expanded to an $80billion-and-climbing monster that appears to be beyond control - has been a misguided disaster carried out under the influence of the finest economic minds in the country, if not the world. If a U.S. President can go crazy with US$1.5-trillion deficits, why shouldn't the Premier of Canada's largest province ring up $100-billion in deficits? At the Toronto Economic Club on Monday, Ontario Finance Minister Dwight Duncan was towing his Keynesian gold star around. "The McGuinty government, like many others, invested heavily in stimulus - building roads, bridges and other important infrastructure." This spending allegedly protected and created jobs, and will make Ontario "more competitive." Nobody really expects politicians to know what impact their actions have on the economy. They do what the economists, the Bay Street and in-house variety, tell them will work. And what the economists told them, via the Conference Board, bank reports and other outlets, is that running up billions in deficits is the ethanol that will keep the engine of growth going. That the forecasters and theorists turned out to be dead wrong comes back to haunt no one. In Ontario's 2009 budget, the province predicted that its total debt would rise gently to just over 30% of the province's gross domestic product before beginning a decline. GDP growth, according to a consensus of Keynesian private-sector economic modellers, would rise to 3.3%, in part under the stimulus helium provided by the deficits. As it turned out, within two years forecasts had turned sour. The new debt-to-GDP ratio looked set to top 40% (see graph above). What happened is (a) the deficits kept growing and (b) the forecast growth rates began to look a little rosy. Rates of 3% and 3.5% were expected, presumably the result of all the infrastructure spending and productivity gains. Now, however, the forecast average growth rate is said to be unlikely to exceed 2%. If we can't expect politicians to take the blame for following the Keynesian deficit-spending policies advocated by their economic advisors, shouldn't we turn to the economic experts to get them to explain themselves? The same people who supported and advised the McGuinty Liberals - and the Obama Democrats, the Greek and Portuguese politicians, the French and Canadian governments - to run up spending to rescue the economy will spend the next decade telling governments how to get out of the mess they helped create. Ontario's current circumstances create a perfect opportunity to confront the economic establishment and lay blame for the fiscal disaster that is Ontario. Government spending has been soaring for years. It all looks good if growth rates stay strong. Where were the dire economic warnings through the last decade that the expansion in government activity cannot continue without hitting a wall? A table on Ontario's spending habits (below) captures the disconnect between the government and the people. While the personal income of the people dragged at 26% growth, government spending soared more than 60%. On Wednesday, former TD Bank economist Don Drummond will deliver a set of tax and spending options to the McGuinty government, a road map on how the province can resolve its fiscal problems. It would be nice if Mr. Drummond also charted the Keynesian fallacies that got Ontario into this mess.

Keynesian stimulus has failed to restore the economy

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From the beginning, our representatives in Washington have approached this economic downturn with old-fashioned, Keynesian economics. Keynesianism -- named after the British economist John Maynard Keynes -- is the theory that you fight an economic downturn by pumping money into the economy to "encourage demand" and "create jobs." The result of our recent Keynesian stimulus bills? The longest recession since World War II -- 21 months and counting -- with no clear end in sight. Borrowing close to a trillion dollars out of the private economy to increase government spending by close to a trillion dollars does nothing to increase incentives for investment and entrepreneurship. The record speaks for itself: In February 2008, President George W. Bush cut a deal with congressional Democrats to pass a $152 billion Keynesian stimulus bill based on countering the recession with increased deficits. The centerpiece was a tax rebate of up to $600 per person, which had no significant effect on economic incentives, as reductions in tax rates do. Learning nothing from this Keynesian failure, which he vigorously supported from the U.S. Senate, President Barack Obama came back in February 2009 to support a $787 billion, purely Keynesian stimulus bill. Even the tax-cut portion of that bill, which Mr. Obama is still wildly touting to the public, was purely Keynesian. The centerpiece was a $400-per-worker tax credit, which, again, has no significant effect on economic incentives. While Mr. Obama is proclaiming that this delivered on his campaign promise to cut taxes for 95% of Americans, the tax credit disappears after next year. The Obama administration is claiming success, not because of recovery, but because of the slowdown in economic decline. Last month, just 216,000 jobs were lost, and the economy declined by only 1% in the second quarter. Based on his rhetoric, Mr. Obama expects credit for anyone who still has a job. The fallacies of Keynesian economics were exposed decades ago by Friedrich Hayek and Milton Friedman. Keynesian thinking was then discredited in practice in the 1970s, when the Keynesians could neither explain nor cure the double-digit inflation, interest rates, and unemployment that resulted from their policies. Ronald Reagan's decision to dump Keynesianism in favor of supply-side policies -- which emphasize incentives for investment -- produced a 25-year economic boom. That boom ended as the Bush administration abandoned every component of Reaganomics one by one, culminating in Treasury Secretary Henry Paulson's throwback Keynesian stimulus in early 2008. Mr. Obama showed up in early 2009 with the dismissive certitude that none of this history ever happened, and suddenly national economic policy was back in the 1930s. Instead of the change voters thought they were getting, Mr. Obama quintupled down on Mr. Bush's 2008 Keynesianism. The result is the continuation of the economic policy disaster we have suffered since the end of 2007. Mr. Obama promised that his stimulus would prevent unemployment from climbing over 8%. It jumped to 9.7% last month. Some 14.9 million Americans are unemployed, another 9.1 million are stuck in part-time jobs and can't find full-time work, and another 2.3 million looked for work in the past year and never found it. That's a total of 26.3 million unemployed or underemployed, for a total jobless rate of 16.8%. Personal income is also down $427 billion from its peak in May 2008. Rejecting Keynesianism in favor of fiscal restraint, France and Germany saw economic growth return in the second quarter this year. India, Brazil and even communist China are enjoying growth as well. Canada enjoyed job growth last month. U.S. economic recovery and a permanent reduction in unemployment will only come from private, job-creating investment. Nothing in the Obama economic recovery program, or in the Bush 2008 program, helps with that. Producing long-term economic growth will require a fundamental change in economic policies -- lower, not higher, tax rates; reliable, low-cost energy supplies, not higher energy costs through cap and trade; and not unreliable alternative energy surviving only on costly taxpayer subsidies. Unfortunately, Mr. Obama seems to be wedded to his political talking points, and his ideological blinders seem to be permanently affixed. So don't expect any policy changes. Expect an eventual return to 1970s-style economic results instead.

Models Wrong

Models don’t assume current economic climate – low interest rates, debt, flexible exchange rate – infrastructure stim causes delays

De Rugy and Mitchell 11 (Veronique de Rugy, senior research fellow at the Mercatus Center at George Mason University, and Matthew Mitchell, senior research fellow at the Mercatus Center at George Mason University., “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?”, No. 11-36, September 2011, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>)

A wide range of estimates exists, in part, because there is a wide range of circumstances in which stimulus might be applied. We now turn to the particular circumstances of the United States to see how infrastructure stimulus might impact the current economic situation. Stimulus with low interest rates and distortionary taxation: Some studies obtain larger multipliers than others because they assume that stimulus will be applied when interest rates are at or near zero percent. 8 Theoretically, low interest rates make stimulus more potent because the government is able to employ idle resources by borrowing funds at a low cost. At least for the time being, interest rates are indeed historically low, so this may be a reasonable assumption. Unfortunately, if temporary stimulus spending turns into permanent spending, then when interest rates eventually return to normal, the government will have to finance its spending at a higher cost. This will make the actual multiplier significantly smaller than these studies suggest. What‘s more, not all studies that incorporate this low interest-rate assumption obtain large estimated multipliers. For example, studies that consider the tax that will need to be levied tomorrow to pay for today‘s spending, find much smaller multipliers, even when interest rates are exceedingly low. 9 Stimulus in a highly indebted nation: An extensive study from the IMF shows that fiscal multipliers in nations with debt levels in excess of 60 percent of GDP are zero or even negative. 10 The current U.S. debt-to-GDP ratio is 70 percent and, according to the Congressional Budget Office, it will be 90 percent within seven years and 100 percent within ten. 11 Stimulus under flexible exchange rates: The same IMF study also finds that a nation‘s exchange-rate regime impacts the size of the multiplier. When a nation‘s exchange rate is fixed, the multiplier can be relatively large. 12 But when the country allows the market to dictate movements in the exchange rate—as the United States does—the IMF economists found that the multiplier is much lower. This is because fiscal stimulus tends to cause domestic interest rates to rise relative to foreign interest rates. And when this happens, foreigners increase their demand for the domestic currency, causing it to appreciate. This, in turn, makes domestic goods more expensive and foreign goods cheaper, decreasing net exports and lowering output. Stimulus in a balance-sheet recession: The current recession has resulted in an unprecedented collapse in net wealth. In other words, it is a deep ―balance sheet‖ recession. But with personal wealth diminished and private credit impaired, some economists believe that stimulus is likely to be less effective than it would be in a different type of recession. This is because consumers are likely to use their stimulus money to rebuild their nest eggs, i.e., to pay off debts and save, not to buy new products as Keynesian theoreticians want them to. 13 The same is likely true for state and local governments who have used their ARRA dollars to reduce their budget gaps or reduce their borrowing rather than to increase infrastructure spending or other government purchases. 14 Diminishing marginal returns to stimulus: New research also suggests that there are diminishing marginal returns to stimulus. 15 This makes new stimulus even less helpful than what has already been undertaken. The Federal Government has already spent over $1 trillion in legislated stimulus. Beyond this, unlegislated ―automatic stabilizers‖ in the budget have helped to push the primary deficit well over $1 trillion. 16 The problems with infrastructure stimulus: There are unique problems with infrastructure stimulus that tend to diminish its chances of success. Chief among these are long implementation delays. The Congressional Budget Office reports that: [F]or major infrastructure projects supported by the federal government, such as highway construction and activities of the Army Corps of Engineers, initial outlays usually total less than 25 percent of the funding provided in a given year. For large projects, the initial rate of spending can be significantly lower than 25 percent. 17 Economists from the IMF studied the impact of implementation delays on the multiplier and found that, ―Implementation delays can postpone the intended economic stimulus and may even worsen the downturn in the short run.‖

Keynesianism is an inadequate economic model – failure to predict stagflation

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Last, there is the question about the stability and operation of financial markets, and here too the case for some Keynesian explanation for the failure of these markets looks to be vanishingly thin. As before, there are some conventional explanations that Keynesians may embrace, but these are hardly distinguishable from the more traditional Chicago-style explanations. Thus, the obvious culprits are the easy money policies of the Federal Reserve and the unwise guarantee policies of both Fannie Mae and Freddie Mac. Proving we have not learned our lesson, the Federal Housing Administration (FHA) is now replicating these policies and has begun to specialize in making risky loans on a 3.5% down payment.39 In addition, it looks as though it will commit yet another $50 billion to salvage homeowners who are in default or whose properties are worth less than the mortgages on them.40 Once again, it does not take a Keynesian to note that the low rates of interest will generate a bubble, which will surely burst once there are no greater fools to step into the gap. Nor does it take a Keynesian to examine the role, if any, that mark-to-market accounting had in spurring the downward cycle in asset values as private banking houses had to sell off asset after asset to make back their margins.41 There is some debate about the extent to which these policies are attributable to securities regulation or to private covenants. The right answer is some mixture of both, which suggests that both public and private parties did not perform ideally in the financial meltdown. But that observation hardly makes the case for more extensive governmental control over lending markets. Rather, the key question is who learns more quickly from their mistakes. There are only two choices: government bureaucrats who are systematically immunized from the consequences of their decisions or private lenders who (even with imperfect employment contracts) are not. No private bank will lend on the terms that the FHA is prepared to supply. The reasons are too evident to require extended discussion. The situation only gets worse when we look at the rules in place once mortgages go into default. From the outset I have taken the uncompromising position that the only person who should be entitled to renegotiate loans or waive foreclosure is the bank or syndicate that holds the paper.42 The current policy reintroduces the worst features of the Depression strategy that sought delayed foreclosures in ways that only prolonged the agony for the individual parties and prevented the restabilization of the market. Everyone should have some sympathy for the plight of borrowers in the 1930s, given that the major deflation forced them to pay back loans with more expensive dollars than those they borrowed. But that problem can only be cured by keeping currencies stable- which is harder to do with one, or more, large stimulus programs waiting in the wings. Today, we do not have deflation to justify government intervention, and the various programs of forced delay have done exactly what one would have predicted. Very few of the borrowers who were in arrears brought their payments current during the foreclosure moratorium.43 The common result was eventual foreclosure at additional expense, at which time the underlying properties were worth less than before. The systematic effect of debtor relief is to keep these units out of the resale market, to keep prices artificially high, and to put obstacles in the path of new home buyers who were guilty of no indiscretions of their own. It does not take a Keynesian to realize that the insecurity of ail forward transactions saps the confidence that governments should build in markets. Even people who have excellent "animal spirits"44 will be loathe to invest in a market in which neither politicians nor courts give credence to "stable expectations."45 Animal spirits lurk in all individuals who take joy in their work. The question is whether that private satisfaction from productive labor is enough to offset the additional burdens and uncertainty of oppressive regLilation. The motivations of individuals are, of course, not amenable to public intervention, but the rules that either shackle or encourage innovation are. Figuring out what these are, and how they relate to the current malaise is difficult because some of the policies to which I refer have been in effect for a long time, and others are of much more recent vintage. But even older policies may have greater salience as time marches on. One need only look to the ever greater threats to solvency in Medicare, Medicaid, and Social Security to realize that incremental changes and adjustments can produce long-term effects. The same can be said about the accumulated public pension liabilities that are now the norm in states like New York and California, owing to the enormous strength of their public unions. My own sense, therefore, is that we must start dismantling these programs if we as a nation are to get out of the long-term stagflation (or inflation?) that is our due. The Keynesians have little distinct to say about this dilemma. Nor, in the end, do they have much useful to say about the issues of employment, consumption, investment, and savings that lie at the core of their theory.

Keynesian theory doesn’t assume squo – our supply is not constrained

Cochrane 09 (John H. Cochrane, Myron S. Scholes Professor of Finance University of Chicago Booth School of Business, “Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?” 2-27-09, [http://faculty.ses.wsu.edu/rayb/420/fiscal\_stimulus.pdf](http://faculty.ses.wsu.edu/rayb/420/fiscal_stimulus.pdf%29//BM))

My first fallacy was “where does the money come from?” Well, suppose the Government could borrow money from people or banks who are pathologically sitting on cash, but are willing to take Treasury debt instead. Suppose the government could direct that money to people who are willing to keep spending it on consumption or lend it to companies who will spend it on investment goods. Then overall demand for goods and services could increase, as overall demand for money decreases. This is the argument for fiscal stimulus because “the banks are sitting on reserves and won’t lend them out” or “liquidity trap.” In this analysis, fiscal stimulus is a roundabout way of avoiding monetary policy. If money demand increases dramatically but money supply does not, we get a recession and deflation. If we want to hold two months of purchases as money rather than one months’s worth, and if the government does not increase the money supply, then the price of goods and services must fall until the money we do have covers two months of expenditure. People try to get more money by spending less on goods and services, so until prices fall, we get a recession. This is a common and sensible analysis of the early stages of the great depression. Demand for money skyrocketed, but the Fed was unwilling or, under the Gold standard, unable, to increase supply. This is not a convincing analysis of the present situation however. We may have the high money demand, but we do not face any constraints on supply. Yes, money holdings have jumped spectacularly. Bank excess reserves in particular (essentially checking accounts that banks hold at the Federal Reserve) have increased from $2 billion in August to $847 billion in January. However, our Federal Reserve can create as much more money as anyone might desire and more. There is about $10 trillion of Treasury debt still outstanding. The Fed can buy it. There are trillions more of high quality agency, private debt, and foreign debt outstanding. The Fed can buy that too. We do not need to send a blank check to, say, Illinois’ beloved Governor Blagojevich to spend on “shovel-ready” projects, in an attempt to reduce overall money demand. If money demand-induced deflation is the problem, money supply is the answer. Some people say “you can’t run monetary policy with interest rates near zero.” This is false. The fact of low interest rates does not stop the Fed from simply buying trillions of debt and thereby introducing trillions of cash dollars into the economy. Our Federal Reserve understands this fact with crystal clarity. It calls this step “quantitative easing.” If Fed ignorance of this possibility was the problem in 1932, that problem does not face us now.

Keynesianism is invalid - doesn’t assume vote-buying and credit-claiming by politicians

Peter Foster is a staff writer for the National Post, 10/09/09, “Keynesian Quagmire”, Proquest

John Maynard Keynes is frequently described as "the greatest economist of the 20th century." He might more accurately be called the most influential economist of the 20th century. That was because he provided an intellectual justification for activist government. It was to be expected in the wake of the recent crisis that market critics such as Paul Krugman and Joseph Stiglitz would be quick to claim that Keynes was "back," but the most depressing convert to the cause is Richard Posner, a highly-respected U.S. judge and expert in "law and economics" at the University of Chicago. Professor Posner also recently published a book, A Failure of Capitalism: The Crisis of '08 and the Descent into Depression. But if anything threatens Depression it is the Keynesian policies that Professor Posner has now embraced. Professor Posner certainly further undermines the notion that Chicago is some kind of free-market hotbed. Milton Friedman, the school's most famous economist, once explained that the reason Chicago stood out was that it was pretty much the only U.S. school with any market enthusiasts. It isn't famous for them any more. The best-known Chicago economist at the moment is Richard Thaler, whose field of "behavioural economics" provides allegedly fresh rationales for policy "nudges." This week, Professor Thaler was appointed a policy advisor to the British Conservative Party. Yes, Conservative Party. Professor Posner's hoary claim is that the prevailing view among economists is that individuals are rational and markets are perfect. Perhaps Chicago should adopt a Straw Man as its mascot. Human imperfection doesn't dilute the enormous power of the Invisible Hand to harness human ingenuity, but it certainly raises serious questions about "macro management." The most devastating critique of Keynesian economics -- and easiest to understand -- came from James Buchanan (an economist at one point chastised and even persecuted for promoting the power of markets). Professor Buchanan pointed out that Keynes seemed to assume that he was giving advice to philosopher kings. Insert real, vote-grubbing politicians into the equation -- which was unavoidable -- and the Keynesian fiction disintegrated. Professor Posner seems blind to these criticisms and even unaware that Keynesianism proved a bust in the stagflationary 1970s. He claims that the economist "profession" was blindsided by the crisis, but there is no economics profession. Economics remains a battle ground of ideas, not an objective science. He seems to confuse understanding how an economy works with possessing theories to control it. He seems to believe that it is economists' job to provide formulae for avoiding the unavoidable consequences of bad decisions. He largely ignores the role of bad policies in influencing those decisions. He also, in his book, seems to have fallen in with the notion that "greed did it" in the form of deliberately reckless decisions by overpaid bankers. This explanation has been enthusiastically promoted by politicians, but evidence for it is thin on the ground. He notes that Keynes was "suspicious of saving," the bedrock of capitalist investment. He also reports, apparently without his jaw dropping, Keynes' support for destroying farming inventories, because that would promote production! On that basis, the surest thing we could do to boost the economy would be to torch all our warehouses and factories! Keynes believed that an economy could be "stuck" in a high-unemployment "equilibrium." Professor Posner acknowledges that one of the main reasons for this is downward "stickiness" of wages. But this could only be caused by destructive, government-backed union power, confirming that all unions do is force up their own wages at the expense of other workers. Keynes opposed low wages as destructive of his all-important "demand," but in a freely operating market, prices would be falling too. Professor Posner claims that such a fall "imperils economic stability," but he doesn't say why. It should also be remembered that FDR attempted to force up wages, which in fact merely increased unemployment, as despised "classical" economics said it would. Like Keynes, Professor Posner dismisses businessmen as "animal spirits," subject to irrational exuberance one minute, "paralyzed" by fear into "hoarding" the next. This is where wise and competent government steps in to "arrest a downward economic spiral." "[T]he government," writes Professor Posner, "must do everything it can to convince businessmen and consumers that it is resolute in working for economic recovery. An ambitious public-works program can be a confidence builder." Has Professor Posner even been living on planet Earth? Robert Lucas won a Nobel Prize for pointing out that people adjust their behaviour to compensate for, and thus negate, this attempted con job. Meanwhile look at the ugly reality of government expenditure, such as Ontario's disastrous eHealth boondoggle. For a Keynesian, eHealth could be justified as a fine example of economic stimulus. All those consultants obviously spent or invested the money they received, so what's all the fuss? Just think of the Keynesian "multiplier!" Back in the real world, however, as Niels Veldhuis and Milagros Palacios of the Fraser Institute pointed out on this page yesterday, to the extent economies are turning around, it has little or nothing to do with artificial stimulus, whose only impact is to crowd out private investment in the short term and/or create a debt burden that will impoverish taxpayers in the long. Professor Posner, although a legal expert, seems strangely impervious to the impact of regulation in promoting the recent crisis. Jeffrey Friedman, a political scientist at the University of Texas, in a review of Professor Posner's book for The Weekly Standard, notes that the "rational self-interest" that Professor Posner indicts "follows the tens of thousands of pages of the tax code; it follows the millions of pages of the regulatory code." Professor Posner concludes that "we need a more active and intelligent government to keep our model of capitalism from running off the rails." "Active" we have. "Intelligent," not so much. But this failure of intelligence lies not in the absence of IQ, but in the conception of an economy as a machine with knobs and levers. This is the flawed Keynesian model that is so appealing to conceited wonks and desperate politicians, but for which the bill always has to be paid. Just like eHealth.

Keynesian models are inaccurate – don’t factor in consumption of the unemployed

Predrag Rajsic is a postdoctoral researcher in the Department of Food, Agricultural, and Resource Economics at the University of Guelph in Ontario, Canada, 7/13/10, “The Self-Defeat of the Keynesian Cross”, http://mises.org/daily/4552

The Austrian business-cycle theory, initiated by Ludwig von Mises and further developed and elaborated by F.A. Hayek, is by many considered the cornerstone of this school of thought. However, in 1998, Paul Krugman plainly dismissed the theory as not "worthy of serious study." More recently in his New York Times blog, Professor Krugman claimed that the Austrian business-cycle theory fails to fully explain fluctuations in output and employment between recessions and booms. From this he concludes that the theory fails to demonstrate how a business cycle can be caused by government intervention. At the same time, he interprets this as a sign of Austrians' unconscious adherence to Keynesianism in explaining the booms but not the busts. Austrian economists, says Professor Krugman, seem to be "Keynesians during booms without knowing it." The assertions about the alleged inadequacy of the Austrian business-cycle theory have been addressed by Robert Murphy and will not be the focus of this article. Instead, I will demonstrate that the common interpretation of the theory that Krugman considers more worthy of studying seriously — J.M. Keynes' General Theory of Employment, Interest and Money — has serious logical flaws. Ironically, it turns out that these are the same flaws that Krugman attributes to the Austrian theory, namely the inability to explain continuous unemployment during a recession. The Basics of J.M. Keynes' Theory Keynes based his 1936 treatise The General Theory of Employment, Interest and Money on one key assumption, that involuntary unemployment is a possible market-equilibrium outcome. He defines involuntary unemployment in this way: Men are involuntarily unemployed if, in the event of a small rise in the price of wage-goods relatively to the money-wage, both the aggregate supply of labour willing to work for the current money-wage and the aggregate demand for it at that wage would be greater than the existing volume of employment.[1] Next, Keynes describes the basic elements of his theory: This theory can be summed up in the following propositions: In a given situation of technique, resources and costs, income (both money-income and real income) depends on the volume of employment N. The relationship between the community's income and what it can be expected to spend on consumption, designated by D1, will depend on the psychological characteristic of the community, which we shall call its propensity to consume. That is to say, consumption will depend on the level of aggregate income and, therefore, on the level of employment N, except when there is some change in the propensity to consume. The amount of labour N which the entrepreneurs decide to employ depends on the sum (D) of two quantities, namely D1, the amount which the community is expected to spend on consumption, and D2, the amount which it is expected to devote to new investment. D is what we have called above the effective demand. Since D1 + D2 = D = φ(N), where φ is the aggregate supply function, and since, as we have seen in (2) above, D1 is a function of N, which we may write χ(N), depending on the propensity to consume, it follows that φ(N) − χ(N) = D2. Hence the volume of employment in equilibrium depends on (i) the aggregate supply function, φ, (ii) the propensity to consume, χ, and (iii) the volume of investment, D2. This is the essence of the General Theory of Employment.[2] These propositions were later formulated by Paul Samuelson into what is now known as the Keynesian cross model.[3] This model has become one of the standard elements of undergraduate macroeconomics courses. Figure 1 shows a diagrammatic representation of the Keynesian cross, as generally presented in contemporary macroeconomics textbooks. The horizontal axis represents the aggregate output or income, and the vertical axis denotes the aggregate expenditure. The aggregate demand, D, is equal to the sum of the consumption expenditure, pc∙φ(N), and investment, D2. The consumption expenditure at any level of employment, N, is a product of the propensity to consume, pc, and the income, φ(N). While Keynes avoids using any explicit units for the aggregate income, expenditure, consumption and demand, implicitly, they are treated in terms of money outlays. The 45° line represents the locus of points where the aggregate expenditure equals aggregate output. Consequently, the economy is in equilibrium at the output level φ(N0), and N0 is the equilibrium level of employment. At this point, the aggregate expenditure is E0. If we assume that N0 is the total amount of labour available in the economy, this equilibrium corresponds to full employment. From this, it follows that the consumption expenditure at full employment is pc∙φ(N0). Figure 1. The Keynesian cross diagram The next step in the application of this model generally involves assuming that propensity to consume, which is an exogenous variable, fluctuates between some minimum and maximum value. Let these values be pc1 and pc2. This is shown in figure 2. If the propensity to consume fluctuates around the level that ensures full employment, pc0, the model suggests that, in times when the propensity to consume is below pc0 (i.e., pc1), aggregate demand, Dl, is low and there will be a period of reduction in output and employment. In contrast, as the propensity to consume increases above pc0, aggregate demand, Dh, is high, full employment and maximum output is reached and a period of increases in output prices can be observed. Figure 2. Changes in the aggregate demand due to the changes in propensity to consume This idea is graphically illustrated in figure 3. It shows cycles of price increases, output and employment loss, as the propensity to consume fluctuates over time. The periods of higher prices and output, according to this model, coincide with full employment while the periods of lower prices are accompanied by unemployment and a decrease in output. The typical interpretation of the model is that the observed cycles in output, prices, and employment are consequences of intertemporal fluctuations in the aggregate demand, caused by the changes in the population's propensity to consume in a market not stabilized by government intervention. Figure 3. Fluctuations in output price, employment, and output over time, as commonly interpreted using the Keynesian cross model The suggested remedy for these fluctuations, according to the Keynesian theory, involves either fiscal or monetary policy. The fiscal policy remedy would be to increase taxes during the inflationary periods and run budget deficit during the recessionary period. The monetary-policy intervention would involve a reduction in the money supply during the inflationary periods and an expansion of the money supply during the recessionary periods. The intended effect of these policies would be to reduce the aggregate demand when it is too high and increase it when it is too low. This would make the government the primary body that balances the economic activity in order to bring about full employment. This interpretation, on the surface, sounds plausible. However, when the internal logic of the model is examined, a serious error can be found. The next section elaborates on this. The Internal Contradiction N0 in figure 2 is the quantity of labor that produces the output/income φ(N0). The demand equation implies that, in equilibrium, some share of the total output, pc0, is consumed by the income earners — the employed laborers (N0) and the employers. Consequently, pc0∙φ(N0) is the aggregate (accounting) value[4] of the consumption goods and services exchanged on the market. Following this logic, the same relationship needs to hold in any other equilibrium. Thus, if there is some other equilibrium at the level of employment, N1, and another propensity to consume, pc1, the consumption, C1 = pc1∙φ(N1), is the aggregate accounting value of the consumption goods and services exchanged on the market. These are the goods and services produced by laborers, N1, and consumed by all those who earn income. However, if pc1 is less than the propensity to consume that corresponds to full employment, there will be some unemployed labor, equal to the difference between N0 and N1. In order for this labor to be available at another point in time, when the (exogenous) propensity to consume returns back to the level needed for full employment, these unemployed laborers need to have some nonzero level of consumption while being unemployed. Let CU = e∙N1 be this minimum consumption, where e is the physical quantity of output needed to sustain the life of an unemployed person. But consumption of the unemployed is not met by an equivalent expenditure because unemployed labor does not earn income. This physical output must be given to the unemployed without monetary compensation. However, nowhere in this model is it specified that there is some surplus production of physical output that will be given away to the unemployed without monetary compensation. Thus, it seems that the model assumes zero consumption for the unemployed, which directly implies that the unemployed will not be able to sustain their physical existence in a prolonged recession. If, on the other hand, one assumes nonzero consumption for the unemployed that is not included in the consumption expenditure of the employed, the actual physical output available for purchase at the level of employment, N1, is less than the quantity that results in the expenditure E1. In order to arrive at the actual value of goods exchanged on the market, say φ'(N1), the amount equal to the unpaid consumption of the unemployed must be subtracted from the existing supply: φ'(N1) = φ(N1) − P∙CU, where P is the price of output. But this lowers the aggregate quantity of the goods and services available for exchange in the market below the quantity that corresponds to φ(N1). This means that the actual supply available for exchange no longer meets the effective demand of the income earners at pc1. Thus, assuming nonzero consumption of the unemployed that is not included in the expenditure of the employed is not an equilibrium situation in the model presented above. In order for this situation to move towards equilibrium, the propensity to consume of the employed and the employers needs to be reduced below pc1 to meet the consumption needs of the unemployed. However, propensity to consume is an exogenous variable and is not a subject of individual choice in this model. Even if propensity to consume was subject to individual choice, a further reduction in the propensity to consume would only lead to more unemployment and disequilibrium — since the reduction in the propensity to consume, according to the model, caused the recession in the first place. The only stable equilibrium in this situation is zero output for the whole economy, which amounts to a complete annihilation of the economy. Therefore, we cannot assume that the consumption of the unemployed is not included in the expenditure of the employed. Alternatively, if the consumption of the unemployed were to be included in the expenditure of the employed (i.e., the employed used a portion of their income as charity for the unemployed), we would end up with a paradox: that, as the propensity to consume reduces, the employed are more able to feed more unemployed by spending ever smaller portions of their income. Thus, it must be concluded that, in this model, the consumption of the unemployed is not included in the consumption expenditure of the employed. But the model at the same time implies that the consumption of the unemployed cannot be outside of the expenditure of the employed if the model is expected to produce a nonzero equilibrium output. This leaves the only remaining option — the consumption of the unemployed must be zero. Thus, according to this model, in any continuous economy free of external intervention, if the initial reduction in the propensity to consume below the level that ensures full employment persists for long enough, the economy returns to equilibrium at a lower, newly established level of full employment, N1. This is shown in figure 4. Figure 4. A true restoration of equilibrium in the Keynesian cross model But, unlike the restoration of equilibrium where the unemployed find the yet undiscovered opportunities for employment, the true logic of the Keynesian model implies that the equilibrium is restored by the cessation of the physical existence of the unemployed (i.e., death). Any other outcome contains unresolved internal contradictions. Conclusion $22 $19 Contrary to the commonly used interpretation of the "Keynesian cross," continued fluctuations in output and employment cannot be produced by this model if its strict logic is coupled with the logic of human existence. In this case, the Keynesian model implies that prolonged business cycles could not persist in the absence of an intervention external to the market processes. However, for Keynes, government intervention was the cure, not the cause, of the business cycle. It then turns out that the Keynesians are Austrians during recessions "without even knowing it." Rhetoric aside, given the inadequacies of the Keynesian paradigm, anyone interested in explaining the origins of the business cycle would benefit from seriously studying other economic theories. This is why I cannot agree with Professor Krugman's statement that the Austrian business-cycle theory is not "worthy of serious study."

Keynesianism is inaccurate – over reliant on Phillips curve

Robert J. Barro is THE Paul M. Warburg Professor of Economics at Harvard University, 1989, “New Classicals and Keynesians,

or the Good Guys and the Bad Guys”, ProQuest

One important function of a macroeconomic model is to isolate the sources of disturbances that cause aggregate business fluctuations. Keynesian analyses focus on shocks to aggregate demand, and typically attribute these shocks either to governmental actions (disruptive or corrective fiscal and monetary policies), or to shifts in private preferences that influence consumption or investment demand. Keynes's own discussion referred to the "animal spirits" of businessmen, and the onsequent volatility of investment demand due to shifting moods of optimism or pessimism. Thus, aside from governmental actions, the Keynesian model is not strong at pinpointing observable, objective events that cause recessions or booms. Schweiz. Zeitschrift für Volkswirtschaft und Statistik, Heft 3/1989 264 One reason that Keynes may not have been troubled by this "deficiency" is that he viewed the private economy as inherently unstable. It did not take large (and presumably objectively observable) shocks to trigger a recession, because even a small shock - when interacting with the multiplier (and, in some models, also the investment accelerator) - could generate a significant and sustained drop in output and employment. Curiously, however, later Keynesian developments deemphasized the multiplier. For example, in the well-known IS/LM model (in which interest rates adjust and matter for aggregate demand) or in Keynesian analyses that incorporate some version of the permanent-income hypothesis, multipliers need not exist. These extensions do improve the model's fit with some facts about business cycles, such as the apparent absence of a multiplicative response of output to changes in government purchases and the relative stability of consumption over the business cycle. But the elimination of the multiplier means also that large responses of output, as in a substantial recession, require large impulses; hence, it again becomes important to identify the kinds of shocks that typically matter for aggregate fluctuations. I think that the desire to find observable, aggregate shocks motivated many Keynesians - although not Keynes nor many of his immediate followers - to assign a substantial weight to monetary disturbances as a source of the business cycle. Within a framework where prices adjust slowly and output is determined by aggregate demand, it is easy to conclude that an increase in money raises output and also leads gradually to a higher price level. Moreover, the positive correlation between money and output - and perhaps between the price level and output - showed up in some data. During the 1960s and early 1970s, Keynesian analysis became increasingly identified with this Phillips curve-view of the world. Thus, this analysis also lost considerable prestige when the Phillips curve disappeared in the mid 1970s; the rise in unemployment along with the increasing rate of inflation was difficult to explain in this kind of model. New Keynesians have, however, demonstrated their flexibility by arguing that the old Keynesian model merely need to be patched up to incorporate the supply side. But this argument does not work. In a single market, one can think of quantity as determined by demand with the excess supply rationed - as in the Keynesian model - so that changes in quantity depend only on shocks to demand. Then if this situation applies to the majority of markets, one can generate orthodox Keynesian prescriptions for the government's macro policies. Alternatively, quantity in a typical market could be determined by supply with the excess demand rationed - as in markets subject to effective price controls - so that movements in quantity depend only on shocks to supply. If this situation holds for the majority of markets, one again gets prescriptions for the government's macro policies, but they are basically opposite to those from the Keynesian model. The serious alternative to either of these two polar cases is a framework where demand and supply are somehow balanced 01 equilibrated on the various markets. Although I regard this equilibrium approach 265 as the logical way to think about macroeconomics, this approach - pursued by new classical macroeconomists - turns out basically to be anathema to Keynesian thinking. T

Not Big Enough

Last stimulus was $800 billion – that’s too small

Pethoukoukis 8-5-12 (James, American Enterprise Institute, “July jobs report: America’s labor market depression continues,” August 5 2012, <http://www.aei-ideas.org/2012/08/july-jobs-report-americas-labor-market-depression-continues/>

Only in a world of lowered, New Normal expectations was the July jobs report anything less than another disaster for U.S. workers. Nonfarm payrolls rose 163,000 last month as the unemployment rate rose to 8.3%. In addition, employment for May and June was revised by 6,000 jobs. – Not only is the 8.3% unemployment rate way above the 5.6% unemployment rate that Team Obama predicted for July 2012 if Congress passed the $800 billion stimulus plan. It’s way above the 6.0% unemployment rate they predicted if no stimulus was passed. – Job growth, as measured by nonfarm payrolls, has average about 75,000 jobs a month during the Obama recovery for a total of 2.7 million jobs. Context: During the first three years of the Reagan Recovery, job growth averaged 273,000 a month for a total of 9.8 million. If you adjust for the larger U.S. population today, the Reagan Recovery averaged 360,000 jobs a month for a three-year total of 13 million jobs.

Stimulus can’t be big enough – no support for enough spending to solve

Robb 12 (Robert Robb, The Arizona Republic, “Fiscal two-step out of step with reality,” 5-25-12, USA Today, <http://www.usatoday.com/USCP/PNI/Editorial/2012-05-25-PNI0525opi-robb-columnPNIBrd_ST_U.htm>)

Substantively, there's not much reason to believe this would work, despite the eminence of those proposing it. Keynesian economists scoff at the size of the initial Obama stimulus of $800 billion. But that's too constrained a focus. Over the last four years, deficit spending has totaled over $5 trillion. Federal spending is now 24 percent of GDP , and the federal deficit is 8.5 percent. During the New Deal, federal spending never exceeded 11 percent of GDP and the deficit never exceeded 6 percent. So, we've already had considerably more stimulus than FDR threw at the Great Depression . European countries have similarly blown out their balance sheets. If the key to getting developed economies going was deficit-financed government spending, we'd be rolling in the dough. But it really doesn't matter if the fiscal two-step were the right policy. It's not going to happen, irrespective of how many eminences stand behind it. There are three reasons. The first is that there is no political support for it. In this country, the Obama stimulus is widely perceived to have failed. The word "stimulus" has become politically toxic. That's why Obama is now only calling for around $50 billion to $100 billion of it and calling it anything but a stimulus. There is no political appetite in the United States for a stimulus large enough to get the Keynesian economists nodding their heads.

Slow

Keynesian theory fundamentally flawed – even if a stimulus was a good idea, the plan cant act fast enough

Brannon and Edwards ’09

 (Ike Brannon and Chris Edwards, Ike Brannon is the Director of Economic Policy as well as the Director of Congressional Relations for the American Action Forum, Chris Edwards is the director of tax policy studies at Cato and editor of [www.DownsizingGovernment.org](http://www.DownsizingGovernment.org), January 29, 2009, “ Barack Obama's Keynesian Mistake”, <http://www.cato.org/publications/commentary/barack-obamas-keynesian-mistake>)

Despite the flaws in Keynes' analysis, his prescription of fiscal stimulus to increase aggregate demand during recessions became widely accepted. Governments came to believe that by manipulating spending or temporary tax breaks they could scientifically manage the economy and smooth out business cycles. Many economists thought that there was a trade-off between inflation and unemployment that could be exploited by skilled policymakers. If unemployment was rising, the government could stimulate aggregate demand to reduce it, but with the side-effect of somewhat higher inflation. Keynesians thought that fiscal stimulus would work by counteracting the problem of sticky wages. Workers would be fooled into accepting lower real wages as price levels rose. Rising nominal wages would spur added work efforts and increased hiring by businesses. However, later analysis revealed that the government can't routinely fool private markets, because people have foresight and they are generally rational. Keynes erred in ignoring the actual microeconomic behaviour of individuals and businesses. The dominance of Keynesianism ended in the 1970s. Government spending and deficits ballooned, but the result was higher inflation, not lower unemployment. These events, and the rise in monetarism led by Milton Friedman, ended the belief in an unemployment-inflation trade-off. Keynesianism was flawed and its prescription of active fiscal intervention was misguided. Indeed, Friedman's research showed that the Great Depression was caused by a failure of government monetary policy, not a failure of private markets, as Keynes had claimed. Even if a government stimulus were a good idea, policymakers probably wouldn't implement it the way Keynesian theory would suggest. To fix a downturn, policymakers would need to recognize the problem early and then enact a counter-cyclical strategy quickly and efficiently. But U.S. history reveals that past stimulus actions have been too ill-timed or ill-suited to have actually helped. Further, many policymakers are driven by motives at odds with the Keynesian assumption that they will diligently pursue the public interest. The end of simplistic Keynesianism in the 1970s created a void in macroeconomics that was filled by "rational expectations" theory developed by John Muth, Robert Lucas, Thomas Sargent, Robert Barro and others. By the 1980s, old-fashioned Keynesian was dead, at least among the new leaders of macroeconomics. Rational expectations theorists held that people make reasoned economic decisions based on their expectations of the future. They cannot be systematically fooled by the government into taking actions that leave them worse off. For example, people know that a Keynesian-style stimulus might lead to higher inflation, and so they will adjust their behaviour accordingly, which has the effect of nullifying the stimulus plan. A spending stimulus will put the government further into debt, but it will not increase real output or income on a sustained basis. It is difficult to find a macroeconomics textbook these days that discusses Keynesian fiscal stimulus as a policy tool without serious flaws, which is why the current $800-billion proposal has taken many macroeconomists by surprise. John Cochrane of the University of Chicago recently noted that the idea of fiscal stimulus is "taught only for its fallacies" in university courses these days. Thomas Sargent of New York University noted that "the calculations that I have seen supporting the stimulus package are back-of-the-envelope ones that ignore what we have learned in the last 60 years of macroeconomic research." It is true that Keynesian theory has been updated in recent decades, and it now incorporates ideas from newer schools of thought. But the Obama administration's claim that its stimulus package will create up to four million jobs is outlandish. Certainly, many top macroeconomists are critical of the plan including Harvard University's Greg Mankiw and Stanford University's John Taylor, who have been leaders in reworking the Keynesian model. Taylor noted that "the theory that a short-run government spending stimulus will jump-start the economy is based on old-fashioned, largely static Keynesian theories." One result of the rational expectations revolution has been that many economists have changed their focus from studying how to manipulate short-run business cycles to researching the causes of long-run growth. It is on long-run growth that economists can provide the most useful advice to policymakers, on issues such as tax reform, regulation and trade. While many economists have turned their attention to long-run growth, politicians unfortunately have shorter time horizons. They often combine little knowledge of economics with a large appetite for providing quick fixes to crises and recessions. Their demand for solutions is often matched by the supply of dubious proposals by overeager economists. Many prominent economists pushed for the passage of the $170-billion stimulus act in early 2008, but that stimulus turned out to be a flop. The lesson is that politicians should be more skeptical of economists claiming to know how to solve recessions with various grand schemes. Economists know much more about the factors that generate long-run growth, and that should be the main policy focus for government reform efforts. The current stimulus plan would impose a large debt burden on young Americans, but would do little, if anything, to help the economy grow. Indeed, it could have similar effects as New Deal programs, which Milton Friedman concluded "hampered recovery from the contraction, prolonged and added to unemployment and set the stage for ever more intrusive and costly government." A precedent will be created with this plan, and policymakers need to decide whether they want to continue mortgaging the future or letting the economy adjust and return to growth by itself, as it has always done in the past.

NIB will begin to take effect in 2017 at the earliest

Alessi 11

(Christopher Alessi, Associate Staff Writer, reports and writes on global economics for Council on Foreign Relations, “Banking on U.S. Infrastructure Revival,” 9-8-11, CFR, <http://www.cfr.org/economics/banking-us-infrastructure-revival/p25782>)

Congressional Democrats (WSJ)--and President Obama--are Washington's biggest proponents of an independent, national infrastructure bank. They argue that the bank would incite private investment and spur job creation in the short term--while strengthening the foundations of the economy in the long run. But many congressional Republicans say that, as with the stimulus package implemented during the height of the financial crisis, U.S. workers would not immediately feel the effects of infrastructure spending, if at all. Senate Republican leader Mitch McConnell says more government spending (NYT) would only strangle already-anemic economic growth. Experts remain divided, too, using historical precedent to bolster competing arguments. The Heritage Foundation's Ronald D. Utt wrote in an August 30 memo that the American Recovery and Reinvestment Act (PDF) of 2009 (ARRA)--the stimulus package--included $48.1 billion for transportation infrastructure development that had a limited effect on the job market and larger economy. "Based on 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," Utt wrote. In a September 6 entry for 24/7 Wall Street, media entrepreneur Douglas A. McIntyre contended that an infrastructure bank would face the same bureaucratic conditions that rendered the 2008 stimulus ineffective. Some opponents to the bank think the most efficient way to address the United States' infrastructure needs is by encouraging private consortia to operate projects at the state level. "A federal infrastructure bank would be swayed by political criteria and would be tempted to invest in low-return projects, such as roads to nowhere," Manhattan Institute senior fellow Diana Furchtgott-Roth argued in a May 26 piece for Real Clear Markets.

Takes years to generate revenue

Pethokoukis 7/14/12

(James Pethokoukis, American Enterprise Institute, “The CBO just poured cold water on Obama’s idea for a national infrastructure bank,” 7-14-12, <http://ricochet.com/main-feed/The-CBO-just-poured-cold-water-on-Obama-s-idea-for-a-national-infrastructure-bank>)

President Obama has criticized congressional Republicans for opposing his idea to create a national “infrastructure bank” to finance highway and rail construction. The WaPo describes how the whole thing would work : The proposal, modeled after a bipartisan bill in the Senate, would take $10 billion in start-up money and identify transportation, water or energy projects that lack funding. Eligible projects would need to be worth at least $100 million and provide “a clear public benefit.” The bank would then work with private investors to finance the project through cheap long-term loans or loan guarantees, with the government picking up no more than half the tab — ideally, much less — for any given project. … Administration officials have, in turn, tried to allay fears about taxpayer losses by noting that the loans would only go toward projects that have “a dedicated revenue stream,” such as toll roads, to repay the loans. The bank would be managed by an independent seven-member board, with no more than four members from either party. But a new report from the Congressional Budget Office seems skeptical of the idea in practice, at least as it concerns surface transportation projects: “At least initially, however, an infrastructure bank would probably generate neither significant new revenues for surface transportation nor significant new interest from private-sector investors, when considered as a share of current investment in surface transportation infrastructure.”

Taxes

Keynesianism retards growth by discouraging low taxes

Wall Street Journal, 7/26/10, “Course of Economy Hinges on Fight Over Stimulus”, http://online.wsj.com/article/SB10001424052748704720004575376923163437134.html

Eighteen months after President Barack Obama administered a massive dose of spending increases and tax cuts to a weak economy, a brawl has broken out among economists and politicians about whether fiscal-stimulus medicine is curing the illness or making it worse. The debate is more than academic. It is shaping congressional decisions on whether to respond to the distressing prognosis for the U.S. economy with more government spending or a dose of deficit reduction. Getty Images British economist John Maynard Keynes (1883 - 1946). One side says Mr. Obama's $862 billion fiscal stimulus prevented an even graver recession. Cutting the deficit right now, this side insists, would send the economy into a tailspin. The other side questions the benefits of the stimulus and argues addressing long-term deficits now is crucial to avoid higher interest rates and even bigger economic problems down the road. And then there is a camp in the middle—defending last year's stimulus, but urging a deficit-cutting plan now. The quarrel over deficits and the economy is at the center of many congressional disputes. Republicans battled against Mr. Obama's proposal to renew the extension of unemployment compensation benefits for up to 99 weeks, insisting on spending cuts elsewhere to avoid widening the deficit, but lost last week. The president argues the benefits are vital to millions of unemployed and would bolster consumer spending. Meanwhile, the White House says it will allow taxes to rise on families with incomes above $250,000. Republicans and a few Democrats argue that allowing President George W. Bush's income-tax cuts on those upper-income households to expire at year-end, as the law currently provides, will choke the economy. "Too many are searching for answers in the discredited economic playbook of borrow-and-spend Keynesian policies," Rep. Paul Ryan, a Wisconsin Republican who is pushing a long-run deficit cutting plan, said this month. "I reject the false premise that only forceful and sustained government intervention in the economy can secure this country's renewed prosperity." Richard Trumka, president of the AFL-CIO union alliance, says if the government starts cutting deficits now, "We'll slip back into recession and possibly depression." Public opinion seems to be with the deficit fighters. A June Wall Street Journal/NBC News poll asked respondents which statement came closest to their views: (1) The president and Congress should worry more about boosting the economy even if it means bigger deficits; or (2) The president and Congress should worry more about keeping the deficit down even if it means the economy will take longer to recover. Some 63% chose deficit-fighting. Most mainstream economists agree on some points: The U.S. economy needed some kind of fiscal help in 2009 as the financial system teetered and the Federal Reserve pushed interest rates near zero. The deficit has to be reined in eventually, in part by restraining the growth of spending on health and other benefits. And developing a long-term plan to do so now would reduce risks of a future financial market calamity and help hold interest rates down. But today, neither side can say with certainty whether the latest stimulus worked, because nobody knows what would have happened in its absence. Fed Chairman Ben Bernanke backed fiscal stimulus in early 2009. Now he says the economy still needs fiscal stimulus, but says it must be accompanied with a credible plan to reduce future deficits. Like the Obama administration, he doesn't think that plan should be implemented until the economy is on more solid footing. Unlike the U.S., Europe has embraced, at least rhetorically, the primacy of deficit-reduction now. In some instances this is because of pressure from markets and the International Monetary Fund, such as in the cases of Greece and Spain, and in other instances because of local politics, as in the cases as the U.K. and Germany. "It is an error to think that fiscal austerity is a threat to growth and job creation," European Central Bank President Jean-Claude Trichet said recently. "Economies embarking on austerity policies that lend credibility to their fiscal policy strengthen confidence, growth and job creation." The case that government deficit spending can be vital at times of recessions dates to John Maynard Keynes, the British economist whose teachings dominated economics for decades after the Great Depression. "Pyramid-building, earthquakes, even wars may serve to increase wealth," Mr. Keynes said in his 1936 classic, "The General Theory of Employment, Interest and Money." A counter-revolution led by Milton Friedman, of the University of Chicago, de-emphasized the role of government and gave rise to Ronald Reagan and Britain's Margaret Thatcher. Keynes lost favor during the stagflation of the late 1970s and early 1980s. The Fed and its manipulation of interest rates came to be seen as the best way for governments to manage the short-term ups and downs of the economy. One big issue: Lessons about fiscal policy in normal times aren't necessarily applicable to today, when the Fed has cut interest rates to zero and unemployment remains high. Skeptics of fiscal stimulus traditionally argue that government borrowing crowds out private investment and pushes up long-term interest rates. True, says Obama adviser Lawrence Summers, but not at times like these. When private-sector lending was drying up and the credit markets froze, "government investment and creation of demand for consumers was a form of alternative financing, not a threat to private investment," he says. Both camps emphasize past victories. Keynesians cite deficit spending as the eventual cure for the Great Depression and see parallels to today and to Japan's premature deficit-cutting in 1997 as the cause for its return to recession. The other side points to Margaret Thatcher, who in 1981—ignoring protests from hundreds of economists—raised taxes and tightened government purse strings to cut a budget deficit in mid-recession. The U.K. emerged with lower inflation, lower interest rates and a recovery. Keynesians say that episode isn't relevant today because the U.S. can't cut interest rates, as the British did. Another difference: The British pound lost half of its value in the 1980s, spurring exports. The dollar, by contrast, strengthened after the financial crisis hit because global investors saw it as a safe haven. The Obama administration is stocked with heirs of Mr. Keynes, including academics Christina Romer and Mr. Summers. Ms. Romer famously projected in January 2009 that without government support, the unemployment rate would reach 9%, but with support the government could keep it under 8%. It's 9.5% today. Some Obama administration officials privately acknowledge they set job-creation expectations too high. The economy, they argue, was in fact sicker in 2009 than they and most others realized at the time. But they insist unemployment would have been worse without the stimulus. In the first quarter of 2009, when stimulus was enacted, the economy shrank at a 6.4% annual rate. Since then it has grown at a 2.5% annual rate. And the U.S. recently has begun adding jobs, albeit slowly. It's hard to isolate the impact of fiscal stimulus from other actions. Congressional approval of the stimulus in February 2009 coincided with an improvement in the economy. But before Mr. Obama's stimulus was enacted, the Fed pushed short-term interest rates to zero and began buying mortgage-linked securities to drive down long-term interest rates. Soon after the stimulus was okayed, the Fed expanded its securities purchases. A turnaround in the stock market coincided with the Fed's expanded effort and with a separate Fed-Treasury "stress test" to shore up confidence in the nation's banks. The Obama stimulus, a third of which was temporary tax cuts and the rest spending on everything from infrastructure to unemployment insurance, is still affecting the economy. Robert Hall, a Stanford University professor, says there hasn't actually been that much extra government spending overall, because the increased federal spending has been largely offset by a large contraction in state and local government outlays. By the third quarter of 2009, he notes, federal government spending added $66 billion to economic output, less than 0.5% of total output, offset by a $43.1 billion contraction in state and local government spending, he says. A study of 91 fiscal stimulus programs in 21 developed economies between 1970 and 2007 by Harvard's Alberto Alesina found tax cuts were more stimulative than government spending. "I would have done more on the tax side than on the spending side," he says. Underlying the debate is a long-running argument about how much of a lift the government gets from spending more or taxing less. Keynesians argue that when the economy is distressed, a dollar spent by the government multiplies in value. It gives a worker income the private sector has failed to produce, which he spends, creating demand for goods and services. Ms. Romer argued last year that this "multiplier" for government meant every dollar spent created about $1.50 worth of demand. Some economists say that's too high. Valerie Ramey of the University of California at San Diego, initially thinking as a Keynesian, developed doubts after sifting through historical examples. During the military build-ups of World War II, the Korean War and the Reagan era, a dollar spent added roughly a dollar of growth, she says. Although Ms. Ramey supported stimulus in 2009 because the economy was so weak, she doesn't advocate more now. "We just don't have enough evidence to prove that it's good." Robert Barro, a Harvard economist, found even smaller multipliers: A government dollar spent creates about 80 cents worth of growth, or possibly less, he says. Government spending, he says, crowds out private sector spending that would otherwise be taking place. Keynesians say other things were happening at the same time as military build-ups that muddy the results. During World War II, for instance, consumer goods were rationed and Americans were exhorted not to spend. Economists who say Mr. Obama should have relied more on tax cuts cite research of an unlikely source: Ms. Romer, his adviser. In a study she and her husband, David Romer, conducted before she joined the administration, Ms. Romer found large multipliers from tax cuts, which she concluded "have very large and persistent positive output effects." Tax increases, she also found, hurt growth. That study didn't address whether spending is better than tax cuts, though. And she says the gravity of the economic situation called for both tax cuts and spending. Tax cuts haven't been a cure-all. President Bush tried $168 billion of tax rebates in 2008, and a recession ensued anyhow. Economists note that households tend to save temporary tax cuts or use them to pay down debt, so they don't provide much short-term stimulus. Before the debate over the efficacy the 2009 stimulus is resolved, Congress is turning to whether it's time to start cutting deficits. Mr. Alesina says it is: In 107 periods since 1980 when governments cut deficits, doing so tended to quicken economic growth, not slow it. But his study focused on periods when central banks could offset deficit cutting with lower interest rates. The Fed has exhausted that avenue. Carmen Reinhart, a University of Maryland economist who has studied the fiscal aftermath of financial crises, says more stimulus could be counterproductive because it could lead the public to expect even higher taxes in the future. Instead, policy makers now need to convince the public that they are committed to reducing future deficits, without acting on that commitment right away, she says. That could hold interest rates down, without yanking money from an ailing economy too quickly. "We are not in an easy position," she says. "Credibility is going to be difficult to achieve."

Keynesian policies hamper economic growth by ignoring free trade and tax increases

Richard A. Epstein is a Professor of Law at UChicago, “WHY I WILL NEVER BE A KEYNESIAN”, Harvard Journal of Law and Public Policy, ProQuest

At first glance, we should all be impressed by the apparent breadth of Keynes's title, which seeks to link employment, interest, and money into a single theory. Success in unifying these three large classes of events has to count as a signal achievement in economic thought. But, by the same token, that synthesis should not be regarded as a comprehensive explanation of how the economy works in practice. Its scope is incomplete, and hence it gives only weak information about how to correct perceived economic imbalances, whether during the Great Depression or today. So it is useful to mention some of the issues that are missing from the Keynesian theory, each of which plays a real role in the operation of the economy. Free trade is the first topic not covered by Keynes's title, nor mentioned in Posner's recent salute to his new master. Keynes's writing on this point seems to indicate some sympathy with the laissez-faire position, for he surely understood the risks of mercantilist policies.6 By the same token, however, Keynes also thinks that a bit of governmental oversight would not be all that bad/ Indeed, it would be hard for Keynes to maintain a strong free trade perspective given his own view that we cannot trust laissez-faire capitalism to determine "the current volume of investment."8 The connection between the foreign and domestic markets is too intimate to let international trade run its course. Yet notAvithstanding Keynes's doubts on the subject, vibrant international trade is clearly important to the overall health of the economy today, and it was also important (albeit at a smaller level) when transportation and communications costs were higher during the Depression. This observation is hardly new; the debate over free trade came to a head just before the passage of the Smoot-Hawley Tariff Act of 1930,9 which put a serious kibosh on international exchange. The basic mechanics of comparative advantage as they apply to free trade have been well discussed in the work of Adam Smith10 and David Ricardo,11 in the late eighteenth and early nineteenth centuries. Their insights were widely disregarded by the Republican Party, whose 1928 platform revealed protectionist preferences that later became law.12 The danger of this protectionist position was not completely lost in the pre-Keynes years. In 1930, a large group of economists, 1028 in all, led by Paul Douglas of the University of Chicago, drafted an impassioned plea to Congress not to pass the legislation.13 That denunciation of Smoot-Hawley noted that any tariff increase would force distortions in domestic and foreign markets that would reduce overall levels of production to the detriment of consumers, encourage retaliation that would only make matters worse, hamper those in local service industries who had nothing to fear from foreign competition, and harm farmers by forcing them to pay more as consumers and shutting down their access to foreign markets. The letter even quoted President Herbert Hoover's cautionary words that "[i]t is obviously unwise protection which sacrifices a greater amount of employment in exports to gain a less amount of employment from imports."14 There may be some doubt as to the exact extent of the damage caused by Smoot-Hawley given that total exports and imports were less than six percent of Gross Domestic Product at the time.15 But there can be no doubt that it had a negative effect. President Hoover may have known all this, but the business pressure for protectionism was tough to resist. World trade shriveled, and, in part because of poor economic circumstances, a climate of unrest led to the rise of fascism and Nazism. It is not, of course, proper to charge Keynes with fostering these counterproductive maneuvers. It is sufficient to say that his general theory neglected to warn against such misguided government interventions, which are easily condemned within the standard neoclassical framework. So even if we were to classify Keynes and Posner as ardent champions of free trade, nothing about that position stems from the unique insights of a Keynesian theory. Nor should we regard these insights as unimportant today. We are blessed insofar as there is no powerful coalition in support of a return to Smoot-Hawley. The defenders of protectionism tend to rely instead on more modest claims, such as the inability to conduct "free and fair" trade -fear the "fair" in this formulationwith nations that do not maintain appropriate labor or environmental standards. Concern for fair trade has, for example, stalled various bilateral free trade agreements with Colombia.16 But this effort to use trade policy to meddle in the internal business of foreign nations is a dead loser. We should trade with them whenever it works to our mutual advantage. The lure of foreign trade should help to discipline and rationalize internal productive capacities in both nations (thus bleeding out the monopoly power of unions), and with the increase in domestic wealth, we can confidently predict an expansion in efforts at environmental protection. No one wants to live in a mansion if he cannot breathe the outside air when he steps into his backyard. And so prosperity from free trade, and not protectionism, will increase pressure foT sustainable environmental improvements. Tax policy also deserves more attention. It represented one of the key mistakes of the Hoover Administration, which in its own way was as misguided on tax matters as President Franklin Delano Roosevelt's New Deal was on social politics. In particular, President Hoover's Revenue Act of 1932 raised the top marginal tax rate from twenty-five to sixty-three percent in order to staunch the deficit at the federal level.17 We hear similar calls for higher taxes today for much the same reason: We do not want to live in a society where a huge fraction of the population has to scrimp by on the government dole or toil at low-paying jobs while the rich live in the lap of luxury. But it is a mistake to think of taxation policy solely, or even largely, in terms of income distribution. Taxation has allocative as well as distributive consequences. In many cases, the imposition of progressive taxes contributes to the decline of investment and the withdrawal of human capital from the labor markets. It becomes almost selfdefeating to find moral support for the very tax regime that has helped to contribute to a societal slowdown and to the current economic distress. In general, the opposite approach is better. If the flat tax is preferred in good times, as I think is the case, it should be preferred in bad times as well.18 The advantages in good times include the simplification of the overall tax structure, the removal of incentives for people to split or assign income in counterproductive ways, and the elimination of the political risk of allowing, as now is the case in California, for a very large portion of the population to enact tax increases that only a small slice of its richest citizens pay. The long term political dynamic of any steeply progressive system of taxation is to level off government expenditure, which in turn will reduce the overall level of production. In an ideal world, then, we do not constantly have to figure out how to switch tax structures as good times become bad and bad times become good. We follow instead the advice of David Hume, who thought that the stability of possession (by which he meant the institution of property generally) was the key to long-term success. We do not, however, reside in perfect times. So one question that arises is what to do if current tax levels are high and there is no practical means to reduce them in the short run, precisely because of the strong populist impulse toward progressive taxes. At this point, we have to bite the bullet and recognize that something must be done in a second-best world to offset the loss of wealth (for both consumption and investment) in the private sector. One way to do so is to prime the pump to spend the revenue quickly. But, make no mistake about it, this spending binge by government is a distinct second-best solution. There is no reason to think that the government knows what projects to invest in, or why. To be sure, there is always room for government investment in infrastructure under any sensible theory of laissez-faire,19 but in general the effort should be to invest only to the point where the last dollar on public expenditure has the same rate of return as the last dollar on the private side. That ratio need not change as times get bad, especially if infrastructure were properly cared for in good times. Yet that is not how matters sit with the new Keynesians. Posner seeks to find a larger space for public investment in a downturn by declaring that "[an a]mbitious public-works program can be a conñdence builder," seeking to tap into Keynes's explanation of how the government can promote the "return of confidence." But the argument ignores the obvious indignant response that a poorly run government program can destroy confidence and further demoralize businesses who think that higher taxes will snatch away the fruits of their efforts. Only by assuming the eternal and unalterable benevolence of government can one posit that all soft externalities will move in the same direction. Think of the public cynicism about the Alaskan "bridge to nowhere," or foolish public expenditures that led to the construction of the Murtha-Johnstown-Cambria Airport. **These projects shatter public confidence**. What is missing from this entire paean to public works and expenditures is any sense of the public-choice dynamics that make pork barrel politics the order of the day. I am no social historian, but I suspect that public expenditures were also hijacked for partisan advantage in the Great Depression. But by the same token, I think that the size of the heists are far greater in a $787 billion pork barrel package, most of which is directed toward delayed capital expenditures that do not have (if any expenditure has) their supposed stimulus effect. In the end, it seems clear that the best solution is to lower taxes and not to leverage high taxes as an excuse for expanded public spending.

AT: NIB → Jobs/Growth

Won’t solve unemployment – the “bridge to nowhere” strategy is flawed & hurts long-term

Chin 11 (Curtis S. Chin served as U.S. ambassador to the Asian Development Bank from 2007 to 2010 under Presidents Barack Obama and George W. Bush. “Obama’s infrastructure bank won’t create real jobs: Asia shows trade growth lifts economy more than government projects,” 10-17-11, The Washington Times, <http://www.washingtontimes.com/news/2011/oct/17/obamas-infrastructure-bank-wont-create-real-jobs/>)

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’s recent 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 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 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 borrows a few billion dollars annually from the World Bank and the 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 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. Certainly, the infrastructure in the United States could use some serious updating. Recall the bridge collapse in Minnesota and the continued congestion of U.S. roads and skies. Sen. John F. Kerry, Massachusetts Democrat, Sen. Kay Bailey Hutchison, Texas Republican, and others in their own proposed legislation for a national infrastructure bank have rightly and usefully drawn attention to the need for greater investment in our country’s dated infrastructure. But, as with proposed “bridges to nowhere,” not all infrastructure projects or infrastructure banks are equal. Infrastructure spending is essential but not a panacea for persistent joblessness in the United States or persistent poverty in the developing world, particularly when larger, underlying economic issues are at play. So, what to do? Policymakers around the world need a more balanced approach to infrastructure, one that better embraces civil society and the private sector, including new forms of investment and ownership. We also need to think more seriously about models for better funding operations and maintenance, including public-private partnerships. In brief, this means a new attitude toward infrastructure, driven by a couple basic principles: First, we need to stop thinking of and selling infrastructure investment simply as a direct provider of short-term employment when times are bad. To do so risks not just bridges, but roads, rails and airports to nowhere. It also risks a decline in long-term support for critical infrastructure investment when promised jobs do not materialize.

GOP will strip any actual job-creating stimulus from the bill before it passes

Yost 11

(Keith, Staff Columnist, “No national infrastructure investment bank: Infrastructure investment is a state responsibility,” 9-20-11, MIT’s The Tech, Vol. 131, issue 38, <http://tech.mit.edu/V131/N38/yost.html>)

Last week, President Obama unveiled a $447 billion spending plan. Notice I say “spending plan,” rather than “stimulus plan” or “jobs plan,” because there is a difference. None of the plan’s components, which consist of roughly $250 billion in payroll tax cuts, $60 billion in unemployment insurance, and $140 billion to fund infrastructure (most of it going to a national infrastructure investment bank), can be considered significantly stimulative, and without stimulus, we’re unlikely to see many new jobs. The plan’s unemployment benefits and tax cuts are largely extensions of existing measures — our economic situation would be much worse if the cuts and benefits were allowed to expire, but these half-measures are not going to push us out of our current, miserable trajectory. And the infrastructure bank promises very little spending in the short term; it’s not an institution tasked with finding shovel-ready, stimulative projects, even if such things existed. This is quite plainly a spending plan in which Obama has tied a pet project that he thinks deserves money (the infrastructure bank) to something that Republicans find fairly unobjectionable. As a political matter, the future of the plan seems pretty straightforward: Republicans will strip out the infrastructure bits and pass the rest, judging (correctly) that the American public isn’t going to assign blame for the whole economy to the GOP just because they blocked one of Obama’s minor economic proposals. The president probably even prefers it this way because an actual infrastructure bank wouldn’t do much in the short term to help Obama keep his job, but the idea of an infrastructure bank could prove useful on the campaign trail.

Little to no job creation – takes years at best

Isidore 11

(Chris @ CNN Money, “Infrastructure Bank: Fixing how we fix roads,” 9-7-11, <http://money.cnn.com/2011/09/07/news/economy/jobs_infrastructure/index.htm>)

But despite support from such typical adversaries as the U.S. Chamber of Commerce and the AFL-CIO, getting I-Bank legislation through Congress will not necessarily be easy. One problem is that it's not fast-acting. As a result, those who argue for immediate stimulus would much rather pursue projects that are ready to go. "An I-Bank will not create any jobs on day one; it probably won't create jobs on day 365," said Janet Kavinoky, executive director of transportation and infrastructure for the Chamber of Commerce. "In my view it could take three years." Another problem is that the cost, though limited, isn't nothing. It could take $5 billion in seed money to get the I-Bank rolling. Some proposals call for $5 billion of seed money every year for several years. "It may be an idea whose time has come," said Kavinoky. But there's also a good chance it gets crowded out by what's going on with debt and deficit reduction." And conservatives don't like government's involvement in the I-Bank, even as facilitator. They think it will merely add more bureaucracy. "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," said Ronald Utt, a senior research fellow at the Heritage Institute, a conservative think tank. "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."

The plan fails – not enough infrastructure is included and jobs are not immediate

Malkin 11 (Michelle, author of Culture of Corruption: Obama and his Team of Tax Cheats, Crooks & Cronies, “Michelle Malkin: Obama’s Latest Government Loans to Nowhere Bill New American Infrastructure Financing Authority just one in a string of bureaucratic boondoggles,” 9-25-2011, http://www.noozhawk.com/article/092511\_michelle\_malkin/)

President Barack Obama still hasn’t learned the classic First Rule of Holes: When you’re in one, stop digging. Up to his earlobes in failed stimulus grants and tainted federal loan guarantees, the shoveler in chief tunneled forward last week on his latest Government Loans to Nowhere bill. His willful ignorance is America’s abyss. Little noticed in the White House jobs-for-cronies proposal is a provision creating yet another corruption-friendly “government corporation” that would dole out public infrastructure loans and loan guarantees. Because, you know, the government-chartered, political hack-stacked Fannie Mae and Freddie Mac “public-private partnerships” — which have incurred an estimated $400 billion in losses while enriching bipartisan Beltway operatives — worked out so well for American taxpayers. The new monstrosity, dubbed the American Infrastructure Financing Authority, would “provide direct loans and loan guarantees to facilitate investment in economically viable infrastructure projects of regional or national significance,” according to the White House plan. Obama would have the power to appoint AIFA’s chief executive officer and a seven-member board of directors. No doubt the nominees would include the likes of AFL-CIO chief Richard Trumka on the left and the U.S. Chamber of Commerce on the right — strange Obama bedfellows that have formed a Big Labor-Big Business-Big Government alliance supporting Obama’s infrastructure slush fund. In addition, a new bureaucracy to support AIFA would be created, including a “chief lending officer” in charge of “all functions of AIFA relating to the development of project pipeline, financial structuring of projects, selection of infrastructure projects”; the “creation and management of a Center for Excellence to provide technical assistance to public sector borrowers in the development and financing of infrastructure projects”; and creation and funding of “an Office of Rural Assistance to provide technical assistance in the development and financing of rural infrastructure projects.” In its first two years, AIFA would rake in $10 billion in congressional appropriations, $20 billion over the next seven years and $50 billion per fiscal year after that. How would Obama ensure the loan review process is protected from special interest favor-trading and White House meddling? If the ongoing, half-billion-dollar stimulus-funded Solyndra solar company loan debacle is any indication, the answer is: not very well. And consider Obama’s naked partisan stunt Thursday at the Brent Spence Bridge connecting Republican House Speaker John Boehner’s home state of Ohio and Senate Minority Leader Mitch McConnell’s home state of Kentucky. “There’s no reason for Republicans in Congress to stand in the way of more construction projects. There’s no reason to stand in the way of more jobs,” he railed. “Mr. Boehner, Mr. McConnell, help us rebuild this bridge. Help us rebuild America. Help us put this country back to work. Pass this jobs bill right away!” While he has high-mindedly called on “Washington” (as if he isn’t at the center of it) to put country over politics, he continues to use tax dollars to travel the country for campaign events assailing Republicans in front of decrepit bridges that wouldn’t see a dime of his “immediate” jobs bill money for years. If ever. The point was made not by evil GOP obstructionists, but by the local Cincinnati Enquirer newspaper, which pointed out that the Brent Spence Bridge is not named in Obama’s jobs bill, has no guarantee of funding in the jobs bill, and “is still in the preliminary engineering and environmental clearance phase. In a best-case scenario, the earliest that workers would be hired would be in 2013, but more likely 2015.” It gets worse. Obama’s infrastructure loan corps wouldn’t just oversee bridge loans to nowhere. The AIFA board would get to dispense billions and score political points for their favorite photo-op-ready roads, mass transit, inland waterways, commercial ports, airports, air traffic control systems, passenger rail, high-speed rail, freight rail, wastewater treatment facilities, storm water management systems, dams, solid-waste disposal facilities, drinking water treatment facilities, levees, power transmission and distribution, storage and energy-efficiency enhancements for buildings. As I reported in my Tuesday column, a separate $6 billion “private nonprofit corporation” would be created by the Obama jobs plan to oversee the “Public Safety Broadband Corporation.” The panel would consist of 11 board members and four Obama administration officials. It, too, would be tasked with choosing winners and losers. Instead of local and state governments overseeing construction, this new federally created investing entity would “hold the single public safety wireless license granted under section 281 and take all actions necessary to ensure the building, deployment, and operation of a secure and resilient nationwide public safety interoperable broadband network.” Given recent bombshell revelations of White House pressure on military and government officials to promote Obama’s old broadband cronies at shady LightSquared Inc., the idea of empowering a new Obama bureaucracy to dole out more broadband contracts in the name of “public safety” is unsettling at best. Deeper and deeper we go.

AT: Infr. → Growth

1970’s economic decline not caused by lack of infrastructure investment- manufacturing industry proves

Hulten and Schwab 93

(Charles Hulten, Professor of Economics at the University of Maryland, Ph. D, Research Associate of the National Bureau of Economic Research, Senior Fellow at the Conference Board, Robert Schwab, Professor of Economics at the University of Maryland, Ph.D., National Tax Journal, “Infrastructure Spending: Where Do We Go From Here?”, September, 1993)

One major problem arises from the fact that the U.S. time series data are domi- nated by two trends: infrastructure invest ment fell sharply starting in the late 1960s and early 197Os, and the aggregate U.S. economy has performed poorly since roughly 1973. This is sufficient to establish a correlation between infrastructure and output growth. But, while it is clear that the two are associated, it is far from clear that lower infrastructure investment was the cause of slower growth. Any variable that fell through the 1960s and early 197Os, like SAT scores, is an equally plausi- ble candidate as the cause of our growth problems. The following story illustrates this point. The number of storks in a certain region was found to be closely correlated with the number of babies that were born in that region. This might support the conclu- sion that storks bring babies. But the truth was more mundane. When the harvest was good, families were more likely to have another child and more storks came to the region to take advantage of the available food. Of course, it is always easy to dismiss any evidence by arguing that correlatron does not imply causality. But in this case, there are enough other troubling pieces of evi- dence to suggest that we truly are dealing with spurious correlation. For example, if infrastructure were an important part of the productivity problem, then we would expect to find a significant slowdown in in- dustries such as manufacturing that are very dependent on infrastructure but little change in other industries, such as services and finance, insurance, and real estate. But, in fact, the exact opposite is true; the productivity slowdown in manufacturing has been very mild. The growth rate of GDP per hour of work in manufacturing was roughly the same in the 1973-1987 period as it was during 1948.-1973. In contrast, in the private sector as a whole, GDP per hour grew at a rate only about one-third of the pre- 1973 rate.

AT: Infr. → Competitiveness

Competitiveness not tied to infrastructure investment- Japan auto and US steel industries prove

Hulten and Schwab 93

(Charles Hulten, Professor of Economics at the University of Maryland, Ph. D, Research Associate of the National Bureau of Economic Research, Senior Fellow at the Conference Board, Robert Schwab, Professor of Economics at the University of Maryland, Ph.D., National Tax Journal, “Infrastructure Spending: Where Do We Go From Here?”, September, 1993)

Thus, the international evidence strongly suggests that inadequate infrastructure spending is not the source of U.S. compet- itive problems as some critics have argued. The great success of Japan’s auto industry was not due to superior infrastructure capi- tal, nor were Detroit’s problems due to a deteriorating American infrastructure. The infrastructure in Japan is, in fact, no better than in the United States and is probably worse; recall that the Japanese hire people to stuff people onto commuter trains at rush hour. Jalpan auto producers were suc- cessful because they pioneered new pro- ‘duction techniques, such as quality circles and the just-in-time inventory system. Moreover, the decline in the U.S. steel in- ldustry was accelerated when the comple- tion of one piece of infrastructure-the St. Lawrence Seatway-allowed iron ore to be ‘shipped to Japan, made into steel, and ‘sold competitively on world markets.

AT: Infr. → Jobs

Unemployment not effectively solved by infrastructure projects- too slow

Hulten and Schwab 93

(Charles Hulten, Professor of Economics at the University of Maryland, Ph. D, Research Associate of the National Bureau of Economic Research, Senior Fellow at the Conference Board, Robert Schwab, Professor of Economics at the University of Maryland, Ph.D., National Tax Journal, “Infrastructure Spending: Where Do We Go From Here?”, September, 1993)

Job creation is the final element in the case for more infrastructure spending. The recent recession, combined with the ongo- ing fiscal distress of many American cities, is seen by many as sufficient reason to en- act a public works program to put people back to work. But many have argued that infrastructure spending is a very poor short-term policy tool. Public works proj- ects involve a great deal of planning and long lead times. As a consequence, by the time funds are actually spent, the economy may have recovered and the new spending will come at the peak, rather than the trough, of the business cycle. This problem has been significant in the past. The General Accounting Office (GAO) (1986) found that over 2 years after $9 bil- lion was allocated for infrastructure under the Emergency Jobs Act of 1983, only $4.5 billion had been spent. The GAO noted that “funds for public works programs, such as those that build highways or houses, were spent much more slowly” than funds for other programs. A recent Congressional Budget Office memorandum found that, on average, only 17 percent of federal funds for highways are spent in the first year and that more than 30 percent are spent more than 3 years after the money has been allocated. Bartlett (1993), examining job legislation designed to ame- liorate the 1949, 1958, 1961-1962, 1971, 1975-1977, and 1983 recessions, found that in each case, the antirecession pro- grams were enacted after a recession had officially ended. This history is not encouraging for the cur- rent “jobs” legislation, which would also be enacted (,if passed) after the offictal end of the recent recession. The slower than usual recovery of employment, and the re- cent signs of slower growth, may ulti- mately propel some form of jobs bill through Congress. At best, given the his- tory of long :spending lags, the stimulus for job creation Iunder this legislation may ac- tually come on-line at the beginning of the next recession. Finally, it should be noted that there is a fundamental conflict between short-term infrastructure programs and longer-run in- frastructure objectives. The former stress the “ready to go” aspect of infrastructure projects and their job creating capacity. But It is not at all clear that those projects that (are ready to begin in the near term are the best projects to undertake from a long-run growth perspective.

Using infrastructure investment as stimulus to solve short-term economic problems fails- long lead times

Hulten and Schwab 93

(Charles Hulten, Professor of Economics at the University of Maryland, Ph. D, Research Associate of the National Bureau of Economic Research, Senior Fellow at the Conference Board, Robert Schwab, Professor of Economics at the University of Maryland, Ph.D., National Tax Journal, “Infrastructure Spending: Where Do We Go From Here?”, September, 1993)

Fourth, it is unwise to use infrastructure spending as a tool to solve short-term eco- nomic problems. By their nature, public works projects involve a great deal of plan- ning and long lead times, particularly In a climate when many will be quick to argue that a new road must “not be in my back- yard” and are willing to go to court to make their voices heard. As a conse- quence, by the time funds are actually spent, the economy may have recovered and the new spending will come at the peak rather than the trough of the busi- ness cycle.

Transportation infrastructure projects don’t decrease unemployment

AP ’10

( Matt Apuzzo And Brett J. Blackledge, AP Investigative team, Jan. 11 2010, “ AP Impact: Road projects don't help unemployment”, http://www.deseretnews.com/article/705357688/AP-Impact-Road-projects-dont-help-unemployment.html)

 WASHINGTON — Ten months into President Barack Obama's first economic stimulus plan, a surge in spending on roads and bridges has had no effect on local unemployment and only barely helped the beleaguered construction industry, an Associated Press analysis has found. Spend a lot or spend nothing at all, it didn't matter, the AP analysis showed: Local unemployment rates rose and fell regardless of how much stimulus money Washington poured out for transportation, raising questions about Obama's argument that more road money would address an "urgent need to accelerate job growth." Obama wants a second stimulus bill from Congress that relies in part on more road and bridge spending, projects the president said are "at the heart of our effort to accelerate job growth." Construction spending would be a key part of the Jobs for Main Street Act, a $75 billion second stimulus to revive the nation's lethargic unemployment rate and improve the dismal job market for construction workers. The House approved the bill 217-212 last month after House Speaker Nancy Pelosi, D-Calif., worked the floor for an hour; the Senate is expected to consider it later in January. AP's analysis, which was reviewed by independent economists at five universities, showed that strategy hasn't affected unemployment rates so far. And there's concern it won't work the second time. For its analysis, the AP examined the effects of road and bridge spending in communities on local unemployment; it did not try to measure results of the broader aid that also was in the first stimulus like tax cuts, unemployment benefits or money for states. "My bottom line is, I'd be skeptical about putting too much more money into a second stimulus until we've seen broader effects from the first stimulus," said Aaron Jackson, a Bentley University economist who reviewed AP's analysis. Even within the construction industry, which stood to benefit most from transportation money, the AP's analysis found there was nearly no connection between stimulus money and the number of construction workers hired or fired since Congress passed the recovery program. The effect was so small, one economist compared it to trying to move the Empire State Building by pushing against it. "As a policy tool for creating jobs, this doesn't seem to have much bite," said Emory University economist Thomas Smith, who supported the stimulus and reviewed AP's analysis. "In terms of creating jobs, it doesn't seem like it's created very many. It may well be employing lots of people but those two things are very different." Transportation spending is too small of a pebble to quickly create waves in the nation's $14 trillion economy. And starting a road project, even one considered "shovel ready," can take many months, meaning any modest effects of a second burst of transportation spending are unlikely to be felt for some time. "It would be unlikely that even $20 billion spent all at once would be enough to move the needle of the huge decline we've seen, even in construction, much less the economy. The job destruction is way too big," said Kenneth D. Simonson, chief economist for the Associated General Contractors of America. Few counties, for example, received more road money per capita than Marshall County, Tenn., about 90 minutes south of Nashville. Obama's stimulus is paying the salaries of dozens of workers, but local officials said the unemployment rate continues to rise and is expected to top 20 percent soon. The new money for road projects isn't enough to offset the thousands of local jobs lost from the closing of manufacturing plants and automotive parts suppliers. "The stimulus has not benefited the working-class people of Marshall County at all," said Isaac Zimmerle, a local contractor who has seen his construction business slowly dry up since 2008. That year, he built 30 homes. But prospects this year look grim. Construction contractors like Zimmerle would seem to be in line to benefit from the stimulus spending. But money for road construction offers little relief to most contractors who don't work on transportation projects, a niche that requires expensive, heavy equipment that most residential and commercial builders don't own. Residential and commercial building make up the bulk of the nation's construction industry. "The problem we're seeing is, unfortunately, when they put those projects out to bid, there are only a handful of companies able to compete for it," Zimmerle said. The Obama administration has argued that it's unfair to count construction jobs in any one county because workers travel between counties for jobs. So, the AP looked at a much larger universe: The more than 700 counties that got the most stimulus money per capita for road construction, and the more than 700 counties that received no money at all. For its analysis, the AP reviewed Transportation Department data on more than $21 billion in stimulus projects in every state and Washington, D.C., and the Labor Department's monthly unemployment data. Working with economists and statisticians, the AP performed statistical tests to gauge the effect of transportation spending on employment activity. There was no difference in unemployment trends between the group of counties that received the most stimulus money and the group that received none, the analysis found. Despite the disconnect, Congress is moving quickly to give Obama the road money he requested. The Senate will soon consider a proposal that would direct nearly $28 billion more on roads and bridges, programs that are popular with politicians, lobbyists and voters. The overall price tag on the bill, which also would pay for water projects, school repairs and jobs for teachers, firefighters and police officers, would be $75 billion. "We have a ton of need for repairing our national infrastructure and a ton of unemployed workers to do it. Marrying those two concepts strikes me as good stimulus and good policy," White House economic adviser Jared Bernstein said. "When you invest in this kind of infrastructure, you're creating good jobs for people who need them." Highway projects have been the public face of the president's recovery efforts, providing the backdrop for news conferences with workers who owe their paychecks to the stimulus. But those anecdotes have not added up to a national trend and have not markedly improved the country's broad employment picture.

#### Lack of fiscal discipline hurts the economy – sustains unemployment and perpetuates recession

Paul J. Sullivan, Professor at Georgetown University, 6/20 (Al Arabiya News – Washington, 6/20/2011, “Frightening profligacy, poor fiscal discipline, disputatious democracy and uncertain leadership in the United States,” http://english.alarabiya.net/articles/2011/06/20/153996.html)

Much of the fiscal indiscipline in many countries is due to the political invertebracy of many in the political leadership. The profligacy of the past is catching up with the present and could have deep repercussions in the future. The time for leadership, fiscal courage, and some hard thinking and choices is now. Otherwise, the financial crisis of the 2000s could seem quite mild compared to the brewing economic troubles out there. The effects of not getting things in order could spread far beyond the gates of Athens or the beltway of Washington. It is, however, not too late to get moving on the solutions and the tough decisions. I have an odd sense of foreboding mixed with cautious optimism about the US. In the past the US has worked its way out of very difficult times. One can think of the Great Depression and other deep recessions in its past going back even to the start of the country. One can also see a lot of strength in the inventiveness and entrepreneurial nature of the US. It is a powerful economy and society with many very hard working people. However, this situation seems fundamentally different than in difficult times in the past because the culture of discipline, and especially fiscal discipline, and the society’s and governments views toward debts have changed – even since the 1980s – considerably. If anyone is struggling to figure out why the US unemployment rate will likely remain high for some time to come, and it could take many years to get back down to 5 to 6 percent unemployment rates, then look to the government, household and other debts that are drags on the economy. Also, debt is what got the US economy and a good part of the rest of the world economy into the difficult positions they have been in recent years. Let’s hope our leaders in business, government, thought leaders in society, and others can do the right things on time, and the US economy, and by implication much of the rest of the world economy, can get back on track before the next economic storms hammer so many lives once again.

Government spending decreases employment

Mitchell ’08

(Dan Mitchell is a senior fellow at the Cato Institute and co-author of Global Tax Revolution: The Rise of Tax Competition and the Battle to Defend It, December 5, 2008, “ The Fallacy That Government Creates Jobs”, <http://www.cato.org/publications/commentary/fallacy-government-creates-jobs>) SRK

In part, this is a debate about Keynesian economics, which is the theory that the economy can be boosted if the government borrows money and then gives it to people so they will spend it. This supposedly "primes the pump" as the money circulates through the economy. Keynesian theory sounds good, and it would be nice if it made sense, but it has a rather glaring logical fallacy. It overlooks the fact that, in the real world, government can't inject money into the economy without first taking money out of the economy. More specifically, the theory only looks at one-half of the equation — the part where government puts money in the economy's right pocket. But where does the government get that money? It borrows it, which means it comes out of the economy's left pocket. There is no increase in what Keynesians refer to as aggregate demand. Keynesianism doesn't boost national income, it merely redistributes it. The pie is sliced differently, but it's not any bigger. The real world evidence also shows that Keynesianism does not work. Both Hoover and Roosevelt dramatically increased spending, and neither showed any aversion to running up big deficits, yet the economy was terrible all through the 1930s. Keynesian stimulus schemes also were tried by Gerald Ford and George W. Bush and had no impact on the economy. Keynesianism also failed in Japan during the 1990s. It would be easy to dismiss this orgy of new spending as the spoils of war. To be fair, the inability of Keynesianism to boost growth may not necessarily mean that government spending does not create jobs. Moreover, the argument that government can create jobs is not dependent on Keynesian economics. Politicians from both parties, for instance, argued in favor of pork-filled transportation bills earlier this decade when the economy was enjoying strong growth — and job creation generally was their primary talking point. Unfortunately, no matter how the issue is analyzed, there is virtually no support for the notion that government spending creates jobs. Indeed, the more relevant consideration is the degree to which bigger government destroys jobs. Both the theoretical and empirical evidence argues against the notion that big government boosts job creation. Theory and evidence lead to three unavoidable conclusions: The theory of government-instigated job creation overlooks the loss of resources available to the productive sector of the economy. Frederic Bastiat, the great French economist (yes, there were admirable French economists, albeit all of them lived in the 1800s), is well known for many reasons, including his explanation of the "seen" and the "unseen." If the government decides to build a "Bridge to Nowhere," it is very easy to see the workers who are employed on that project. This is the "seen." But what is less obvious is that the resources to build that bridge are taken from the private sector and thus are no longer available for other uses. This is the "unseen." So-called stimulus packages have little bang for the buck. Even if one assumes that money floats down from Heaven and we don't have to worry about the "unseen," government is never an efficient way to achieve an objective. Based on the amount of money that is being discussed and the claims of how many jobs will be created, Harvard Professor Greg Mankiw filled in the blanks and calculated that each new job (assuming they actually materialize) will cost $280,000. But since money doesn't come from Heaven, this calculation is only a partial measure of cost. In reality, the cost of each government job should reflect how that $280,000 would have been spent more productively in the private sector. Government workers are grossly overpaid. There are several reasons why it costs so much for the government to "create" a job, including the inherent inefficiency of the public sector. But the dominant factor is probably the excessive compensation packages for bureaucrats. According to Bureau of Economic Analysis data, the average employee for the federal government now gets paid nearly twice as much as workers in the productive sector of the economy.

\*Stimulus Bad / Offense

General

Keynesian theory is wrong—multiplier effect is small, investment causes crowding-out, and studies show negative correlation between spending and growth

Stratmann and Okolski 10 Thomas Stratmann, a scholar at the Mercatus Center and a professor of economics at George Mason University, And Gabriel Lucjan Okolski, Presidential Management Fellow in the Department of Transportation, 6/10/10, “Does Government Spending Affect Economic Growth?” MERCATUS CENTER AT GEORGE MASON UNIVERSITY, http://mercatus.org/publication/does-government-spending-affect-economic-growth

THE CONSEQUENCES OF UNPRODUCTIVE SPENDING AND THE MULTIPLIER EFFECT Proponents of government spending often point to the fiscal multiplier as a way that spending can fuel growth. The multiplier is a factor by which some measure of economy-wide output (such as GDP) increases in response to a given amount of government spending. According to the multiplier theory, an initial burst of government spending trickles through the economy and is re-spent over and over again, thus growing the economy. A multiplier of 1.0 implies that if government created a project that hired 100 people, it would put exactly 100 (100 x 1.0) people into the workforce. A multiplier larger than 1 implies more employment, and a number smaller than 1 implies a net job loss. In its 2009 assessment of the job effects of the stimulus plan, the incoming Obama administration used a multiplier estimate of approximately 1.5 for government spending for most quarters. This would mean that for every dollar of government stimulus spending, GDP would increase by one and a half dollars.8 In practice, however, unproductive government spending is likely to have a smaller multiplier effect. In a September 2009 National Bureau of Economic Research (NBER) paper, Harvard economists Robert Barro and Charles Redlick estimated that the multiplier from government defense spending reaches 1.0 at high levels of unemployment but is less than 1.0 at lower unemployment rates. Non-defense spending may have an even smaller multiplier effect.9 Another recent study corroborates this finding. NBER economist Valerie A. Ramey estimates a spending multiplier range from 0.6 to 1.1.10 Barro and Ramey's multiplier figures, far lower than the Obama administration estimates, indicate that government spending may actually decrease economic growth, possibly due to inefficient use of money. CROWDING OUT PRIVATE SPENDING AND EMPIRICAL EVIDENCE Taxes finance government spending; therefore, an increase in government spending increases the tax burden on citizens—either now or in the future—which leads to a reduction in private spending and investment. This effect is known as "crowding out." In addition to crowding out private spending, government outlays may also crowd out interest-sensitive investment.11 Government spending reduces savings in the economy, thus increasing interest rates. This can lead to less investment in areas such as home building and productive capacity, which includes the facilities and infrastructure used to contribute to the economy's output. An NBER paper that analyzes a panel of OECD countries found that government spending also has a strong negative correlation with business investment.12 Conversely, when governments cut spending, there is a surge in private investment. Robert Barro discusses some of the major papers on this topic that find a negative correlation between government spending and GDP growth.13 Additionally, in a study of 76 countries, the University of Vienna's Dennis C. Mueller and George Mason University's Thomas Stratmann found a statistically significant negative correlation between government size and economic growth.14 Though a large portion of the literature finds no positive correlation between government spending and economic growth, some empirical studies have. For example, a 1993 paper by economists William Easterly and Sergio Rebelo looked at empirical data from approximately 100 countries from 1970-1988 and found a positive correlation between general government investment and GDP growth.15 This lack of consensus in the empirical findings indicates the inherent difficulties with measuring such correlations in a complex economy. However, despite the lack of empirical consensus, the theoretical literature indicates that government spending is unlikely to be as productive for economic growth as simply leaving the money in the private sector.

Investment spending forces government borrowing- reduces consumption

Cochrane 09 (John H. Cochrane, Myron S. Scholes Professor of Finance University of Chicago Booth School of Business, “Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?” 2-27-09, [http://faculty.ses.wsu.edu/rayb/420/fiscal\_stimulus.pdf](http://faculty.ses.wsu.edu/rayb/420/fiscal_stimulus.pdf%29//BM))

A much more plausible diagnosis of our current troubles is staring us in the face: credit markets. The institutions that channel your and my savings into consumer and business borrowing are not working. Banks are in trouble, and more importantly the much larger markets for securitized debt seem really broken. New issues of securitized debt have dropped to next to nothing, unless they are guaranteed by the Federal Government. Savings is going to low-interest Treasuries and guaranteed agency debt, yet consumers and businesses who need credit face a small supply at very high prices.3 Imagine by analogy that several major refineries had blown up. There would be tankers full of oil sitting in the harbor, and oil prices would be low, yet little gasoline would be available and gas prices would be high. Stimulating people to drive around would not revive gas sales. Borrowing gasoline and using it on infrastructure projects would be worse. The right policy action would obviously be to run whatever government or military refineries could be cobbled together on short notice at full speed, and focus on rebuilding the private ones. The former step is exactly what the Federal Reserve’s many charmingly acronymed facilities (TALF, etc.) are doing, to the tune of over a trillion and a half dollars. Together, the Treasury and Fed are issuing huge amounts of Government debt, and they are turning around and lending the proceeds to consumers and businesses. This basic idea makes sense, though there is plenty to worry about in the details. An unconventional potential defense of fiscal stimulus lurks in this story. If the Treasury borrows and the Government uses the proceeds for investment, then the government is in some sense acting as the missing intermediary. The focus on investment spending in the Obama plan reflects some of this thinking, though investment is anathema to the traditional Keynesian insistence that stimulus be channeled to consumption spending. However, this is a poor argument, since stimulus “investment” spending is on much different projects than the private sector would have funded. Fiscal stimulus investments make fuel oil, not gasoline. Moreover, the extra issues of Treasury debt will largely come from the few dollars that are flowing from savings to private investment, just what the “credit crunch” does not need. To “intermediate,” additional government borrowing would have to come out of consumption. People would have to be attracted to postponing a trillion dollars of consumption by slightly higher treasury yields.

Turn – the plan causes recessions, financial crises, many wars, unemployment, depression, energy criscs and poor education

Shannon 6/07

(John Shannon, Novelist – this is his fourth book on the economy – former Investment Advisor, 6/7/2012, “ Keynesian Economics, The Cancer in America”)

 In the United States of America before 1910, there was no Keynesian Economics. The federal government, along with state and local government, did not interfere with free markets. The classical school of economics prevailed. The classical school of economic thought spread from Adam Smith and his book “The World of Nations” written in 1776. A lot of wonderful things were written 1776. The federal government punished crime, protected the country, and made laws to set the rules of the game, but did not interfere with the markets and the economy. The governing should uphold the Constitution, the Bill of Rights, and the freedom and liberty of the people, but not interfere with the markets. The classical school of economics produced the greatest economic boom in recorded history, the Industrial Revolution, and the increase of the middle class from dirt-poor farmers. The first few years of the Twentieth Century showed a nation with an unlimited economic potential. This 150 years of growing wealth and prosperity brought with it the seeds of its own destruction: Keynesian Economics, Keynesian economists and Keynesian politicians - before Lord Keynes was even born. Because Keynesianism is just a masquerade for big government, and big government is just a masquerade for theft and corruption in the name of helping others (as you help yourself), Keynesian Economics was seen by liberal politicians like President Woodrow Wilson and Teddy Roosevelt as a new tickct to unlimited power, status, control, notoriety, and wealth ... at the expense of, and in the name of helping, the American people. As these two presidents expanded the power oi the lederal government with the income tax, the Federal Reserve and other federal agencies, classical economics was being dismantled. Slowly the federal government and the Federal Reserve, within a few short years, created instability in the banking system, a depression, two world wars, and a growing threat to the nation created in 1776. 'Fhc Keynesians found of patsy and a hero. The hero was John Maynard Keynes, whom the Keynesians named their new economic philosophy after; the patsy was the classical school of economics Adam Smith. The Keynesians blamed the free markets and capitalism for all the problems that the Keynesians themselves created. The American people, who are not being taught economics in school and are influenced by the propaganda of the Keynesians themselves, really did not know that the Keynesians who pulled the shirts over their heads were the ones beating the hell out of them. Keynesians Economics got a massive shot of steroids during the President Franklin Roosevelt administration. The next shot of steroids came during the President Johnson administration of the 1960s. With that shot of steroids, the federal government became a superhero just like the “Green Goblin”. President Jimmy Carter and all presidents after and excluding president Ronald Reagan continued with the steroid injections. Current president for life Barack Obama has given so many shots of steroids to himself and to the federal government that he has created a new superhero “Two-Face". Today Keynesian Economics has created a government, lederal, state and local, that is 50% of the economy. That is unbelievable!!!! That is unbelievable!!!! That is unbelievable!!!! And a super villain “Two-Face”, which is President Obama and the federal government has, with the lapdog Keynesian news media, convinced the American public it has a revenue problem. That is unbelievable!!!! Keynesian Economics has given America a massive federal debt, dysfunctional family units, high crime rate, recessions, financial crises, the Federal Reserve, the IRS tax code, open borders, many wars (only government can create wars), inflation, unemployment, welfare (to the lazy not the needy), cronie capitalism, prohibition, depression, debasement of the currency, energy criscs, useless public school system, NAFTA, US manufacturing outsourcing to foreign countries, ObamaCare, Solyndra, 1970s bussing, Alan Greenspan, the Chevy Volt, Korea Gate, moral decay, the Cold War, a large corrupt government, and a very unstable globe ... militarily, politically, economically, and financially. 1 guess John Maynard Keynes, John Kenneth Galbraith, and Professor Paul Samuelson saw the world before they had their effects on it - when they expressed such optimism. I can prove that Keynesian Economics, which is the key word for Big Government is the cause of all these problems. Now I will list some ol the things the government can and should do right without interfering with the free market and classical economics. The government can have the strongest military in the world, a fair and just judicial system, a small yet efficient government that ensures products are safe, food is inspected, and air and water is clean. Massive accomplishments can be done with a small, effective and efficient government that ensures rules of the game are adhered to and steps back and allows the free markets to accomplish the goals of humanity in a far better way than the best laid plans of mice, men and liberals. Keynesian Economics is destroying America because it definitely makes government bigger and bigger. A bigger and bigger government chokes off and collapses the private sector ... just as government will collapse itself. Power corrupts, and absolute power corrupts absolutely. The bigger and bigger government gets, the more the people lose their freedom and their liberty. The bigger and bigger agencies within the government get, the more corrupt, inefficient and useless it becomes. For example: Years ago, when small, the SEC was a watchdog of the securities industry. In 2007 to 2008 they totally missed the largest financial crisis in history while watching porn on their computers. Many other government agencies formed to protcct the consumer are now so massive in size they protect the special interests of the companies they are supposed to watch. 'Ihc most important way Keynesian Economics is destroying America is through its crippling effect on a free-market economy, its crippling effect on freedom, and its crippling effect on capitalism. “In the long run we will all be Communists” — a misquote from John Maynard Keynes. I can prove that Keynesian Economics creates big government and big government creates big problems! 7h is is a fact! This is a truth! And this is a problem! Does anyone not see the direct correlation between big government and big problems in America? The economy, the socicty, the values, the morals ... all dccline as government grows and gets involved. Since the 1960s government has been massively growing to a point of 50% of GDP for federal, state and local spending. America has been failing since the 1960s because government has grown to 50% of the economy. And government has grown to 50% of the economy because of Keynesian Economics. Keynesian Economics is the tool that government uses to expand itself.

#### US deficit spending hurts the global economy

Chris Kitze, writer for the Market Oracle, ’11 (March 10 2011, “Signs of Impending Doom for Global Economy 2011,” http://www.marketoracle.co.uk/Article26811.html)

Meanwhile, the United States is also covered in a sea of red ink and the economic situation in the largest economy on earth continues to deteriorate rapidly. It is as if the entire world financial system has caught a virus that it just can't shake, and now it looks like another massive wave of financial disaster could be about to strike. Does the global economy have enough strength to weather a major oil crisis in 2011? How much debt can the largest nations in North America and Europe take on before the entire system collapses under the weight? Will 2011 be a repeat of 2008 or are we going to be able to get through the rest of the year okay? Only time will tell. But it is quickly becoming clear that we are reaching a tipping point. If the price of oil keeps going up, all hopes for any kind of an "economic recovery" will be completely wiped out. But if the globe does experience another economic slowdown, it could potentially turn the simmering sovereign debt crisis into an absolute nightmare. The U.S. and most nations in Europe are having a very difficult time servicing their debts and they desperately need tax revenues to increase. If another major economic downturn causes tax revenues to go down again it could unleash absolute chaos on world financial markets. The global economy is more interconnected than ever, and so a major crisis in one area of the world can have a cascading effect on the rest of the globe. Just as we saw back in 2008, if financial disaster strikes nobody is going to escape completely unscathed.

#### Failure to reduce the deficit kills the economy – increased interest rates, crowd out, and loss of investor confidence

National Commission on Fiscal Responsibility and Reform ’10 (12/1/10, “The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform,” pg online @ lexisnexis)

Federal debt this high is unsustainable. It will drive up interest rates for all borrowers - businesses and individuals - and curtail economic growth by crowding out private investment.By making it more expensive for entrepreneurs and businesses to raise capital, innovate, and create jobs, rising debt could reduce per-capita GDP, each American's share of the nation's economy, by as much as 15 percent by 2035. Rising debt will also hamstring the government, depriving it of the resources needed to respond to future crises and invest in other priorities. Deficit spending is often used to respond to short-term financial "emergency" needs such as wars or recessions. If our national debt grows higher, the federal government may even have difficulty borrowing funds at an affordable interest rate, preventing it from effectively responding. Large debt will put America at risk by exposing it to foreign creditors. They currently own more than half our public debt, and the interest we pay them reduces our own standard of living. The single largest foreign holder of our debt is China, a nation that may not share our country's aspirations and strategic interests. In a worst- case scenario, investors could lose confidence that our nation is able or willing to repay its loans - possibly triggering a debt crisis that would force the government to implement the most stringent of austerity measures.

#### Spending Increases perpetuate recession – we’re already beyond our means

Israel Ortega, Editor of the Spanish Page of the Heritage Foundation, ’11 (The Heritage Foundation, April 22nd 2011, “Time to Face Economic Reality,” http://www.heritage.org/Research/Commentary/2011/04/Time-to-Face-Economic-Reality)

Here are the official government numbers. According to the Department of the Treasury, our current total public debt is more than $14 trillion. Our public debt represents the sum of how much we currently owe to other financial institutions and foreign countries. To give you a sense of what $14 trillion looks like, imagine filling the entire Estadio Azteca in Mexico City (with a capacity of 104,000) with $100 bills from the bottom to the brim.This staggering debt is a burden to every single American. It’s also a sobering reminder that we are spending beyond our means. And yet, powerful voices are asking us to ignore the perilous reality and fight to increase federal spending at every turn. This hysteria was evident in Congress’ recent battle over last year’s budget spending bill when politicians calling for necessary spending cuts were labeled heartless and cruel. The irony of the recent debate is that it was dealing with only a fraction of our entire federal budget, and it pales in comparison to what’s necessary to get our financial house in order. The truth is that the federal government will need to exercise even more financial restraint if we are to ensure that our economy can get out of this recession and remain competitive in the global market.

Stimulus risks economic collapse

Taylor and Vedder ’10

( Jason E. Taylor is professor of economics at Central Michigan University. Richard K. Vedder is distinguished professor of economics at Ohio University and adjunct scholar at the American Enterprise Institute, May/June 2010, “ Stimulus by Spending Cuts: Lessons from 1946” <http://www.cato.org/pubs/policy_report/v32n3/cpr32n3-1.html>) SRK

 The conversation has begun regarding the nation's exit strategy from the unsustainable fiscal and monetary stimulus of the last two years. Our soaring national debt will not only punish future generations but is also causing concern that our creditors may bring about a day of reckoning much sooner (the Chinese have recently become a net seller of U.S. government securities). There are fears that the Fed's policy of ultra-low interest rates may bring new asset bubbles and begin the cycle of boom and bust all over again. And unless the Fed acts to withdraw some of the monetary stimulus, many fear a return of 1970s era double-digit inflation. On the other hand, there are widespread fears that if we remove the stimulus crutch, the feeble recovery may turn back toward that "precipice" from which President Obama has said the stimulus policies rescued us. History and economic theory tell us those fears are unfounded. More than six decades ago, policymakers and, for the most part, the economic profession as a whole, erroneously concluded that Keynes was right — fiscal stimulus works to reduce unemployment. Keynesian- style stimulus policies became a staple of the government's response to economic downturns, particularly in the 1960s and 1970s. While Keynesianism fell out of style during the 1980s and 1990s — recall that Bill Clinton's secretary of treasury Robert Rubin turned Keynesian economics completely on its head when he claimed that surpluses, not deficits, stimulate the economy — during the recessions of 2001 and 2007-09 Keynesianism has come back with a vengeance. Both Presidents Bush and Obama, along with the Greenspan/Bernanke Federal Reserve, have instituted Keynesian-style stimulus policies — enhanced government spending (Obama's $787 billion package), tax cuts to put money in people's hands to increase consumption (the Bush tax "rebate" checks of 2001 and 2008), and loose monetary policy (the Federal Reserve's leaving its target interest rate below 2 percent for an extended period from 2001 to 2004 and cutting to near zero during the Great Recession of 2007-09 and its aftermath). What did all of this get us? A decade far less successful economically than the two non- Keynesian ones that preceded it, with declining output growth and falling real capital valuations. History clearly shows the government that stimulates the best, taxes, spends, and intrudes the least. In particular, the lesson from 1945-47 is that a sharp reduction in government spending frees up assets for productive use and leads to renewed growth.

Spending Bad – General

#### Gov’t spending hurts the economy, not the other way around – 4 independent studies go neg

Clemens et. al(Director of Research at the Pacific Research Institute) October 2010

(Jason, Niels Veldhuis is the Fraser Institute President and one of Canada’s most-read private-sector economists, Julie Kaszton is a research fellow at the Pacific Research Institute, “No Bang for the Taxpayer’s Buck: Why California Must Reform Spending and Trim Government,” http://www.pacificresearch.org/docLib/20101013\_CAProsp\_3\_F%284%29.pdf)

Similarly, Stefan Folster and Magnus Henrekson examined data from 1970 to 1995 and found a negative relationship between government spending and economic growth in OECD countries.23 They concluded that a 10-percent increase in government spending as a percent of GDP decreased economic growth by 0.7 to 0.8 percentage points.24 Internationally renowned fiscal policy expert and Harvard professor Alberto Alesina and his colleagues investigated the effects of large changes in government fiscal policy on business investment.25 Their 2002 study, published in the prestigious *American Economic Review,* examined 16 OECD countries from 1960 to 1996 and found a negative relationship between increased government spending and private sector investment, a critical determinant of economic growth. In addition, they found that fiscal stabilizations (when countries stabilize and reduce their debt-to-GDP ratios through spending reductions or tax increases) that led to economic growth consisted mainly of spending cuts while those associated with downturns were characterized by tax increases. These findings confirm the powerful relationship between the size of government and economic growth. Several recent studies buttress these conclusions. In a 2008 study for the European Central Bank, Antonio Afonso and Davide Furceri examined the effect of government size (pending and revenues as a percent of GDP) on per person economic growth for 28 OECD countries and a small subset of 15 EU countries from 1970 to 2004.26 The results suggest that total revenue and total expenditures negatively impact real growth of per person GDP both for the OECD and the EU countries.27 In particular, the authors found that a 10 percentage point increase in the share of total expenditures would decrease output by 1.2 and 1.3 percentage points respectively for the OECD and EU countries. Afonso and Furceri concluded that relevant policy implications can be garnered from the results; most notably, cuts in government consumption and subsidies will contribute positively to economic growth.28 Similarly, a 2009 study by Minnesota State University professor Atrayee Ghosh Roy examined the impact of the size of government on economic growth in the United States from 1950 to 1998.29 Ghosh Roy found that the size of government (government spending as a share of national income) had a direct and negative effect on economic growth. She found that a 10 percentage point increase in government expenditures as a percent of GDP decreased economic growth by 1.9 percentage points. The author concluded that the result “underscores the importance of reducing the size of the government in the United States.” Most recently, Andreas Bergh and Martin Karlsson in a 2010 paper examined the relationship between the size of government and economic growth for a sample of “rich” countries over the period 1970 to 2005.31 Using two measures of government size, total tax revenue and total expenditures as a share of GDP, the author found that a large government is negatively related to economic growth.

Spending Bad – General

#### Budget deficits are harmful and slow economic growth—5 reasons

Brookings Institution 04 The Brookings Institution, an independent organization devoted to nonpartisan research, education, and publication in economics, government, foreign policy, and the social sciences, Jan 2004, Edited by Alice M. Rivlin and Isabel Sawhill, “RESTORING FISCAL SANITY: HOW TO BALANCE THE BUDGET,” The Brookings Institution, http://www.brookings.edu/es/research/projects/budget/fiscalsanity/full.pdf

This book argues that deficits matter a lot and that better policies are possible and urgently needed. Not all budget deficits are harmful—indeed, recent deficits have ameliorated the recession that began in 2001. However, large persistent deficits weaken the economy and lower family incomes. The authors also believe that passing on large and unnecessary fiscal burdens to future generations is unfair and irresponsible. More specifically, deficits are harmful for five reasons: —They slow economic growth. By 2014, the average family’s income will be an estimated $1,800 lower because of the slower income growth that results when government competes with the private sector for a limited pool of savings or borrows more from abroad. —They increase household borrowing costs. A family with a $250,000, thirty-year mortgage, for example, will pay an additional $2,000 a year in interest. —They increase indebtedness to foreigners, which is both expensive and risky. The United States is the largest net debtor in the world. The income of Americans will ultimately be reduced by the interest, dividends, and profits paid to foreigners who have invested in the United States. Moreover, if foreigners lose confidence in the American economy—or begin to worry that we are not managing our fiscal affairs responsibly—they may reduce their investment here. This can reduce the value of the dollar and raise the prices we have to pay for imported goods. If the fall in the dollar ii were precipitous, it could cause rapid increases in interest rates, possibly recession, or even a serious financial crisis. —They require that a growing proportion of revenues be devoted to paying interest on the national debt, estimated to increase by $5.3 trillion over the next decade. By 2014 this increase in government borrowing will cost the average household $3,000 in added interest on the debt alone. —They impose enormous burdens on future generations. Today’s children and young adults and their descendants will have to pay more because this generation has chosen to be irresponsible. Meanwhile, deficits and rising interest costs are likely to put downward pressure on spending for education, nutrition, and health care that could make today’s children more productive and thus better able to pay these future obligations.

#### Spending is responsible for debt and Euro crisis

Chris Edwards, B.A. and M.A. in economics, 9-20-11, Cato Institute <http://www.cato.org/publications/congressional-testimony/damaging-rise-federal-spending-debt>

Federal spending and debt have soared over the past decade. As a share of gross domestic product, spending grew from 18 percent in 2001 to 24 percent in 2011, while debt held by the public jumped from 33 percent to 67 percent. The causes of this expansion include the costs of wars, growing entitlement programs, rising spending on discretionary programs, and the 2009 economic stimulus bill. Projections from the Congressional Budget Office show that without reforms spending and debt will keep on rising for decades to come.1 Under the CBO's "alternative fiscal scenario," spending will grow to about 34 percent of GDP by 2035, as shown in Figure 1, and debt held by the public will increase to at least 187 percent of GDP.2Hopefully, we will never reach anywhere near those levels of spending and debt. Going down that path would surely trigger major financial crises, as the ongoing debt problems in Europe illustrate. It is also very unlikely that Americans would support such a huge expansion of the government. The results of the 2010 elections suggest that the public has already started to revolt against excessive federal spending and debt.

Spending Bad – General

#### Spending kills revenue – turns their confidence arguments

Niall Ferguson, Laurence A. Tish Professor of History at Harvard, 5-13-10, Event Transcript: “Fiscal Crises and Imperial Collapses: Historical Perspective on Current Predicaments,” <http://www.iie.com/publications/papers/niarchos-ferguson-2010.pdf>

Just to be clear, by fiscal adjustment, what I mean here is the percentage of GDP by which fiscal policy has to contract—either through tax increases or through spending cuts, probably through some combination of the two—to prevent a public debt explosion. I’ve ranked the problem so that you can see who’s worst off. Japan is worst off. It would have to achieve a fiscal tightening of 13.4 percent GDP to stabilize its debt-GDP ratio even at 80 percent. Then I’m afraid, and I say I’m afraid for the sake of David Cameron and George Osborne because it’s their harsh task to clear up this mess, then comes the United Kingdom and of course it’s not surprising to see the usual suspects lined up behind them: Ireland, Spain, Greece, Portugal—but oh, before we get to Portugal, there’s the United States. The fiscal adjustment the United States would have to make in order to stabilize its debtGDP ratio is in fact 0.2 percent of GDP less than that which Greece has to make. So there is really no significant fiscal difference, though there is a difference in monetary regime between Greece and the United States. Many people find this hard to believe. In fact, it causes all kinds of disquiet when I make this point to audiences, but I didn’t make these numbers up; they’re numbers, as I’ve said, from the International Monetary Fund. And here’s perhaps the most striking chart I can show you about our present and future predicament. The BIS has calculated projected interest payments in relation to GDP for all the major developed countries, and yeah, the picture is certainly pretty bleak for Greece, which on its present course, would end up spending more than 20 percent of GDP on interest by 2040. But look at the right-hand chart and you’ll see that powering ahead in the interest payment stakes are once again, the United Kingdom and the United States. This projection suggests that by 2040, unless there’s a radical change of course, the United States will be spending over 20 percent of GDP on interest payments on the federal debt. Guess what, that’s exactly the percentage of GDP that the CBO, the Congressional Budget Office, estimates will be raised as tax revenue by the federal government. Once again, you don’t need a PhD in economics to do this math. That implies that by 2040, unless we radically change course, all federal tax revenues will be consumed by debt service.

#### Public sector reliance kills growth and stimulus fails – recent examples

Daniel Mitchell, Senior Fellow at the Cato Institute, 2-1-10, <http://www.cato.org/publications/commentary/spending-our-way-stagnation>

Popularized by John Maynard Keynes in the 1930s, the theory is based on the notion that government can "prime the pump" by spending money, which then begins to circulate through the economy. Keynesian theory sounds good but it overlooks the fact that, in the real world, government can't inject money into the economy without first taking money out of the economy. Any money that the government puts in the economy's right pocket must be borrowed, which means the money comes out of the economy's left pocket. doesn't boost national income, it merely redistributes it. The Obama Administration claimed that spending more money would keep the unemployment rate below 8% in the United States, yet it climbed to 10%. The United Kingdom and Canada also suffered continued stagnation after adopting so-called stimulus packages. Ironically, statist nations such as France and Germany that resisted the siren song of Keynesianism better weathered the global economic storm. The recent trend toward bigger government is particularly worrisome because most nations have oversized public sectors. Government spending in industrialized nations now consumes, on average, nearly 45% of GDP with Canada and the United States slightly below average. Australia, Switzerland, South Korea, and Slovakia are the only nations where the public sector claims less than 40% of economic output. To put these numbers in context, government spending in the industrialized world consumed about 30% of economic output in the mid-1960s, less than 20% of GDP between the First and Second World Wars and only about 10% of GDP during the golden century between the end of the Napoleonic wars and the First World War. While many factors influence economic performance, the negative impact of government spending is one reason why small-government jurisdictions such as Hong Kong (where the burden of the public sector is below 20% of GDP) have higher growth rates than nations that have medium-sized government, such as Canada and the United States. The same principle explains in part why big-government countries such as France often suffer from economic stagnation.

Spending Bad – General

#### More deficit spending kills competitiveness and investment and harms economic growth

Bergsten 11 C. Fred Bergsten, Director, Peterson Institute for International Economics, 5/6/11, edited by the Economist, “The Budget Deficit and U.S. Competitiveness,” Council on Foreign Relations, http://www.cfr.org/economics/budget-deficit-us-competitiveness/p24910

 Early and effective correction of the budget deficit is critical to the global competitiveness of the U.S. economy. This is because there are only two possible financial consequences of our continuing to run deficits of more than $1 trillion annually as now projected for the next decade or more. One is sky-high interest rates that would crowd out private investment. The other is huge borrowing from the rest of the world that would push the exchange rate of the dollar so high as to price U.S. products out of international markets. Either outcome would severely undermine U.S. global competitiveness. The saving rate of the U.S. private sector, despite modest recovery from its rock-bottom lows prior to the recent crisis, is far too meager to finance enough investment to grow U.S. productivity and economic output at an acceptable rate. Government deficits anywhere near current levels tap such a large share of this pool of funds that they starve the capital needs of productive enterprise. Elimination of the fiscal imbalance, and preferably the maintenance of a modest surplus, is imperative to avoid further severe deterioration of the international economic position of the United States. The traditional "escape value" from this dilemma, facilitated by the central international role of the dollar, is for the United States to borrow abroad. We can do so in only two ways, however: by offering interest rates so high that they will also stultify domestic investment or, more likely, by letting the dollar climb to levels that are substantially overvalued in terms of U.S. trade competitiveness. Every rise of a mere 1 percent in the trade-weighted average of the dollar in fact reduces the U.S. current account balance by $20 to $25 billion, after a lag of two years, cutting economic growth and destroying 100,000 to 150,000 jobs in an economy already suffering from high unemployment. Partly as a result of persistent budget deficits, the dollar has been overvalued by at least 10 percent--and frequently by much more--over the past forty years. As a result, U.S. competitiveness and the entire U.S. economy have been severely undermined. In addition, the United States has become by far the world's largest debtor country, and its external balance is on a wholly unsustainable trajectory.

#### Spending slows growth—cutting solves

Mitchell 11 Daniel Mitchell, Senior Fellow, Cato Institute, 5/6/11, edited by the Economist, “The Budget Deficit and U.S. Competitiveness,” Council on Foreign Relations, http://www.cfr.org/economics/budget-deficit-us-competitiveness/p24910

Fiscal policy also is an important part of the mix. Excessive government spending can slow growth by diverting labor and capital from more productive uses. Punitive tax rates can hinder prosperity by discouraging work, saving, investment, and entrepreneurship. And large budget deficits can undermine competitiveness by "crowding out" private capital and building negative expectations of future tax increases. In extreme cases, high budget deficits can destabilize entire economies, either because a government resorts to the printing press to finance deficits or because investors lose faith in a government's ability to service debt, thus leading to a sovereign debt crisis. The United States hopefully is not close to becoming either Argentina or Greece, but the trend in recent years is not very encouraging. The burden of government spending has exploded, which, combined with temporarily low tax receipts because of a weak economy, has pushed annual red ink above $1 trillion per year. The good news is that the deficit situation will get a bit better in coming years. Even modest growth rates will cause revenues to climb (that's the kind of tax increase nobody opposes). Indeed, revenues will soon be above their long-run average, as a share of economic output. The bad news is that we'll still have too much red ink because the federal government's budget is about twice as big as it was when Bill Clinton left office. Even more worrisome, government borrowing actually will begin to increase again by the end of the decade because of demographic changes such as retiring baby boomers. The best way to control this red ink while also boosting competitiveness is to cap the growth of government spending. If revenues increase by an average of 7 percent each year (as the president's budget projects, even without tax increases), then we can reduce deficits by making sure spending grows by less than 7 percent annually. Given the enormous size of the budget deficit, this doesn't solve the problem overnight. If spending was allowed to grow 2 percent each year, the budget wouldn't be balanced until 2021. But it would be a big step on the road to fiscal recovery. To turn a phrase upside down, this makes a necessity out of virtue. Spending restraint is good for growth since it leaves a greater share of resources in the productive sector of the economy. And since this also happens to be the best way of letting revenue catch up to spending, it also solves the deficit issue.

Spending Bad – General

#### Deficit spending pushes up interest rates, kills investment, and causes fiscal crisis

MacGuineas 11 Maya MacGuineas, President, Committee for a Responsible Federal Budget, 5/6/11, edited by the Economist, “The Budget Deficit and U.S. Competitiveness,” Council on Foreign Relations, http://www.cfr.org/economics/budget-deficit-us-competitiveness/p24910

A balanced, multi-year fiscal consolidation plan needs to be a central part of a strategy to enhance U.S. growth and competitiveness. If we fail to reduce our borrowing needs, at some point there will be upward pressure on interest rates, increasing the cost of capital as well as the interest payments owed by the government, dampening investment, and harming economic growth. This could come on gradually or in the form of a full-blown fiscal crisis.

#### Escalating federal spending damages the economy and prevents effective crisis response

Brady 11 Kevin Brady, Joint Economic Committee Republicans Vice Chairman Designate, 3/15/11, “Spend Less, Owe Less, Grow the Economy,” Joint Economic Committee Republicans, http://www.speaker.gov/sites/speaker.house.gov/files/UploadedFiles/JEC\_Jobs\_Study.pdf

**The United States cannot maintain the current level of federal spending as a percentage of GDP—let alone allow it to escalate—without seriously damaging its economy.** Numerous studies have identified expansionary “non-Keynesian” effects from government spending reductions that offset at least some and possibly all of the contractionary “Keynesian” effects on aggregate demand. In some cases, these “**non-Keynesian” effects may be strong enough to make fiscal consolidation programs expansionary in the short term as well the long term.** **A number of developed countries have successfully reduced government spending, government budget deficits, and stabilized the level of government debt**. Fiscal consolidation **programs in Canada**, Sweden, and New Zealand, **among others, achieved their goals for government deficit reduction and government debt stabilization and boosted their real GDP growth rates by reducing government spending**. Obama Administration officials have emphasized the risk of starting a fiscal consolidation program now while ignoring the risk of delay. **There are significant external risk factors to the U.S. economy in both the short term and the long term that cannot be foreseen, such as: 1) resurging price inflation, (2) loss of confidence in the U.S. dollar** as the world’s reserve currency, (3) **euro-zone sovereign debt defaults, and (4) war in the Middle East.** But, **the United States will be in a better position to respond to any of these challenges by reducing federal spending sooner rather than later.**

Spending Bad – General

#### Failure to reach a budget deal kills the economy

Associated Press 7/17/12 (“Bernanke warns US economy could topple into recession if Congress doesn’t end budget impasse” <http://www.washingtonpost.com/politics/bernanke-goes-before-congressional-panels-as-us-economy-slumps-could-signal-feds-next-move/2012/07/17/gJQAf95NqW_story.html>)

WASHINGTON — Federal Reserve Chairman Ben Bernanke sketched a bleak picture of the U.S. economy Tuesday — and warned it will darken further if Congress doesn’t reach agreement soon to avert a budget crisis. Without an agreement, tax increases and deep spending cuts would take effect at year’s end. Bernanke noted what the Congressional Budget Office has warned: A recession would occur, and 1.25 million fewer jobs would be created in 2013. The Fed is prepared to take further action to try to help the economy if unemployment stays high, he said. Bernanke didn’t signal what steps the Fed might take or whether any action was imminent. And he noted there’s only so much the Fed can do. But the Fed chairman made clear his most urgent concern is what would happen to the economy if Congress can’t resolve its budget impasse before the year ends. Cuts in taxes on income, dividends and capital gains would expire. So would this year’s Social Security tax cut and businesses tax reductions. Defense and domestic programs would be slashed. And emergency benefits for the long-term unemployed would run out. All that “would greatly delay the recovery that we’re hoping to facilitate,” Bernanke said near the end of two hours of testimony to the Senate Banking Committee. Bernanke was giving his twice-a-year report to Congress on the state of the economy. He will testify Wednesday before the House Financial Services Committee. The economy is growing modestly but has weakened, Bernanke said. Manufacturing has slowed. Consumers are spending less. And job growth has slumped to an average of 75,000 a month in the April-June quarter from 226,000 a month from January through March. The unemployment rate is stuck at 8.2 percent. Bernanke noted that the economy, after growing at a 2.5 percent annual rate in the second half of 2011, slowed to roughly 2 percent from January through March. And it likely weakened further in the April-June period. Congress needs to resolve its impasse well before the year ends, Bernanke said. “Doing so would help reduce uncertainty and boost household and business confidence,” he said. The cuts that would kick in next year could cost as many as 2 million jobs, a trade group that represents manufacturers said in a report released Tuesday. The report came from the Aerospace Industries Association. A separate report Tuesday pointed to the budget crises many states are suffering, caused in part by shrinking revenue from the federal government. States are finding it harder to pay for basic services such as law enforcement, local schools and transportation, the report said. It was issued by the State Budget Crisis Task Force, a non-profit co-chaired by former Federal Reserve Chairman Paul Volcker and former New York Lieutenant Governor Richard Ravitch. Republicans in Congress are demanding deeper spending cuts while extending income tax cuts for everyone. Democrats want to extend the tax cuts for middle- and lower-class Americans. But they want them to expire for people in the highest-income brackets.

Spending Bad – General

#### Fiscal discipline key to the economy – multiple warrants

1. Higher interest rates
2. Higher taxes
3. Investor confidence

National Commission on Fiscal Responsibility ’10 (4/27/10, “National Commission on Fiscal Responsibility Holds Its Inaugural Meeting,” pg online @ lexisnexis)

The ultimate goal of the commission's efforts should be to put us on a path of fiscal sustainability. One widely accepted criterion for sustainability is that the ratio of federal debt held by the public to national income remain at least stable, or perhaps even decline in the longer term. This goal can be achieved by bringing spending, exclusive of interest payments, roughly into line with revenues. Unfortunately, most projections suggest that we are far from this goal, and that without significant changes to current policy, the ratio of federal debt to national income will continue to rise sharply. Thus, the reality is that the Congress, the administration and the American people will have to choose among making modifications to entitlement programs, such as Medicare and Social Security, restraining federal spending on everything else, accepting higher taxes, or some combination thereof. Achieving long-term fiscal sustainability will be difficult, but the costs of failing to do so could be very high. Increasing levels of government debt relative to the size of the economy can lead to higher interest rates, which inhibit capital formation and productivity growth and might even put the current economic recovery at risk. To the extent that higher debt increases our reliance on foreign borrowing, an ever-larger share of our future income would be devoted to interest payments on federal debt held abroad. Moreover, other things being equal, increased federal debt implies higher taxes in the future to cover the associated interest costs -- higher taxes that may create disincentives to work, save, hire and invest. High levels of debt also decrease the ability of policy-makers to respond to future economic and financial shocks. And, indeed, a loss of investor confidence in the ability of the government to achieve fiscal sustainability can itself be a source of significant economic and financial instability, as we have seen in a number of countries in recent decades. Neither experience nor economic theory clearly indicates the threshold at which government debt begins to endanger prosperity and economic stability. But given the significant costs and risks associated with a rapidly rising federal debt, our nation should soon put in place a credible plan for reducing deficits to sustainable levels over time. Doing so earlier, rather than later, will not only help maintain the U.S. government's credibility in financial markets, thereby holding down interest costs, but it will also ultimately prove less disruptive by avoiding abrupt shifts in policy and by giving those affected by budget changes more time to adapt. The path forward contains many difficult tradeoffs and choices, but postponing those choices and failing to put the nation's finances on a sustainable long-run trajectory would ultimately do great damage to our economy.

Crowdout

Deficit spending crowds out investment and causes fiscal crisis—cutting spending solves

CBO 10 Congressional Budget Office, has produced independent, nonpartisan, timely analysis of economic and budgetary issues to support the Congressional budget process, 7/27/10, “Federal Debt and the Risk of a Fiscal Crisis,” Congressional Budget Office, http://www.cbo.gov/publication/21625)

Although deficits during or shortly after a recession generally hasten economic recovery, persistent deficits and continually mounting debt would have several negative economic consequences for the United States. Some of those consequences would arise gradually: A growing portion of peoples savings would go to purchase government debt rather than toward investments in productive capital goods such as factories and computers; that crowding out of investment would lead to lower output and incomes than would otherwise occur. In addition, if the payment of interest on the extra debt was financed by imposing higher marginal tax rates, those rates would discourage work and saving and further reduce output. Rising interest costs might also force reductions in spending on important government programs. Moreover, rising debt would increasingly restrict the ability of policymakers to use fiscal policy to respond to unexpected challenges, such as economic downturns or international crises. Beyond those gradual consequences, a growing level of federal debt would also increase the probability of a sudden fiscal crisis, during which investors would lose confidence in the governments ability to manage its budget, and the government would thereby lose its ability to borrow at affordable rates. It is possible that interest rates would rise gradually as investors confidence declined, giving legislators advance warning of the worsening situation and sufficient time to make policy choices that could avert a crisis. But as other countries experiences show, it is also possible that investors would lose confidence abruptly and interest rates on government debt would rise sharply. The exact point at which such a crisis might occur for the United States is unknown, in part because the ratio of federal debt to GDP is climbing into unfamiliar territory and in part because the risk of a crisis is influenced by a number of other factors, including the governments long-term budget outlook, its near-term borrowing needs, and the health of the economy. When fiscal crises do occur, they often happen during an economic downturn, which amplifies the difficulties of adjusting fiscal policy in response. If the United States encountered a fiscal crisis, the abrupt rise in interest rates would reflect investors fears that the government would renege on the terms of its existing debt or that it would increase the supply of money to finance its activities or pay creditors and thereby boost inflation. To restore investors confidence, policymakers would probably need to enact spending cuts or tax increases more drastic and painful than those that would have been necessary had the adjustments come sooner.

Keynesian theory is wrong—budget deficits don’t affect interest rates and investment crowds out business

Brady 11 Kevin Brady, Joint Economic Committee Republicans Vice Chairman Designate, 3/15/11, “Spend Less, Owe Less, Grow the Economy,” Joint Economic Committee Republicans, http://www.speaker.gov/sites/speaker.house.gov/files/UploadedFiles/JEC\_Jobs\_Study.pdf

While Keynesian theory may sound plausible, it is not well supported. First, the relationship between government budget deficits or surpluses (or government debt) and real interest rates is more complex and smaller than Keynesians contend. Increases in federal budget deficits due to temporary factors—e.g., recession or war—which financial market participants expect to be transitory and reversed do not affect real interest rates. However, a permanent increase in federal budget deficits does elicit a small, but statistically significant increase in real interest rates. For example, Engen and Hubbard (2004) found that “an increase in government debt equivalent to one percentage point of GDP” would increase real interest rates by 2 to 3 basis points.8 Moreover, Laubach (2009) found that a projected increase in the federal budget deficit equal to 1% of GDP raises the five-year-ahead 10-year forward Treasury rate by 20 to 29 basis points. Alternatively, Laubach found that a projected increase in the federal debt held by the public equal to 1% of GDP increased the five-year-ahead 10-year forward Treasury rate by 3 to 4 basis points.9 Relationship among government budget deficits and debt, real interest rates, and business investment. Second, recent empirical studies have found that government debt, the real interest rate, and business investment are not as statistically related as Keynesians contend. In a study examining whether additional government debt “crowds out” private investment through a higher real interest rate, Traum and Yang (2010) found “no systematic relationship among [government] debt, the real interest rate, and [business] investment.”10 Short term. Additional government debt, in the short term, may either “crowd in” or “crowd out” business depending on what caused government debt as a percentage of GDP to increase. If higher government debt as a percentage of GDP is due to a reduction in “distortionary taxes”—e.g., high marginal tax rates on capital income – that increase the after-tax rate of return on business investment, then higher government debt is associated with a short-term increase in business investment. On the other hand, if higher government debt as a percentage of GDP is due to an increase in government spending as a percentage of GDP— particularly for higher government consumption and transfer payments to households and firms—then higher government debt is associated with a short-term decrease in business investment. Long term. Higher government debt as a percentage of GDP, in the long term, reduces business investment. Imposing higher taxes in order to service the increase in government debt as a percentage of GDP drives this negative long-term relationship with business investment.

Spending crowds out and collapses private sector

Amerman No Date Daniel R. Amerman, Chartered Financial Analyst with MBA and BSBA degrees in finance, No date, “High Government Deficits "Crowd Out" Stock Market Returns,” danielamerman.com, http://danielamerman.com/articles/Crowding.htm

“Crowding out” is an obscure term if you're not an economist – but this replacement of the private sector economy with government spending may end up being one of the largest determinants of your standard of living during retirement. The investment problem is that the past, present and likely future of the US economy is one of rapidly growing government spending. Because the investment models that drive conventional financial planning assume a rapidly growing private sector, this sets up a fundamental competition between government growth and private sector growth for their shares of a single economy, and may lead to a collapse of stock market values and conventionally invested retirement portfolios. One of the sharpest economic changes in our lifetimes occurred between 2007 and 2009, as the private sector share of the United States economy collapsed to a depression level. About 75% of the collapse in the private sector was (and is) hidden by an explosive increase in government spending, which could not be paid for by taxes, but has instead created a "new normal" of fantastic annual government deficits without end. The current trillion dollar plus annual deficits which are used to cover up the continuing "hole" in the economy are not stable, however, but merely serve to "bridge" the gap between the private sector collapse and the rapidly accelerating future deficits that will be required to pay for Boomer social security and Medicare promises, as well as the increasing amount of the economy devoted to government transfer payments. On the most fundamental of levels, stock market valuations and traditional long-term investing are based upon a dependably growing private economy. However, when government spending is surging at rates sufficiently far in excess of overall economic growth, this means that the private economy is necessarily barely growing - or even shrinking. Therefore, the current situation creates a long-term and highly bearish scenario for stock valuations. The ripple effects of the government competing with the private sector for the limited real resources of the future may potentially collapse most pension funds – and their government and corporate sponsors – across not only the US, but the rest of the developed world.

Spending spikes interest rates and crowds out private investment

US Budget Committee 11 U.S. Senate Budget Committee Republican, responsible for drafting Congress’ annual budget plan and for monitoring the federal budget, 5/12/11, “Spending Cuts And Economic Growth: What Does The Cross-Country Empirical Evidence Show?,” U.S. Senate Budget Committee Republican, http://budget.senate.gov/republican/public/index.cfm/committee?p=committee-history

With continued deficits and growing debt, more and more national savings go to servicing government debt rather than to investment in productive private capital goods such as factories, machines, and other such incubators of private job creation. That is, government spending “crowds out” private investment spending, leading to lower output and incomes and fewer jobs than would occur without a growing government. Some commentators, such as economist Paul Krugman, contend that government spending does not crowd out private spending in the current near-zero short-term interest rate environment. With interest rates as low as they are today, the argument goes, the traditional avenue of crowding out is not operative. That traditional avenue is where government competes for resources in financial markets with the private sector, driving up interest rates and choking off private investment spending. Short-term rates are indeed close to zero, for Treasury maturities of up to approximately one year. Those unusually low rates reflect the extraordinary intervention into financial markets by the Fed, and are not indicative of market-based supply and demand forces. Yet, even with low short-term rates, longer-term interest rates are not zero and are influenced by supply and demand forces in markets for long-term funds. The 10-year Treasury rate has averaged around 3.5 percent since the beginning of the financial crisis in August 2007. In fact, it remains the case that outsized borrowing by the Federal Government has exerted upward pressure on longer-term interest rates. Government borrowing, by pushing long-term interest rates higher, chokes off some private, productive investment spending that would otherwise occur. There remains further room for long-term interest rates to decline and stimulate private investment spending and the economy. Indeed, a major motivation for the Fed’s recent purchases of well over $600 billion of longer-term Treasury securities is its intention to lower longer-term interest rates in order to stimulate interest-sensitive spending, such as home purchases by households or capital expenditures by manufacturing firms. Thus, the Fed’s actions provide additional evidence that crowding out is occurring and is leading to higher long-term interest rates than would be the case without elevated demands for resources by government. This means the nation’s debt is leading to higher costs for businesses and American households to obtain long-term credit. Longer-term interest rates would be even lower today, and more stimulating of economic activity, if today’s deficit and government debt were lower.

American Recovery and Reinvestment Act proves stimulus doesn’t work – it killed 1,226,000 productive private sector jobs while only creating 443 thousand government jobs

Conley and Dupor ’11

( Timothy Conley and Bill Dupor, Timothy Conley is an associate professor at the Department of Economics, University of Western Ontario, Canada, Bill Dupor is an associate professor of economics at Ohio State Unvierstiy, May 17, 2011, “The American Recovery and Reinvestment Act: Public Sector Jobs Saved, Private Sector Jobs Forestalled”, <http://web.econ.ohio-state.edu/dupor/arra10_may11.pdf>)

\*\*HELP services = health, (private) education, professional and business services

 Table 4 reports the jobs effect of ARRA aid for the four employment categories, both with and without the fungibility restriction imposed. Each estimate uses the outlaid amount, includes the same forty-six states, twelve control variables and all five instruments. The table reports estimates of the thousands of jobs that existed in September of 2010 that would have not existed (i.e. jobs saved or created) had the Act not been implemented. A negative enumber implies that the ARRA destroyed or prevented employment growth in that sector over the period. The bracketed pair of numbers beneath each estimate correspond to its 90% confidence interval. First, our point estimate states that government employment (non-Federal) was 443 thousand persons greater than it would have been in absence of the Act, as seen in Table 4. This is the only sector where we see a strong positive employment effect of ARRA aid. The estimate is consistent with the raw data represented visually in Figure 4. This figure shows that states with weak budget positions, after including ARRA aid, saw falling government employment. Intuitively, state and local governments with declining tax revenue (that was not replaced with ARRA aid) either cut or else did not increase government hiring. In our counterfactual world without the Act, all states would have been forced to take the same action of firing and not filling job openings—resulting in significant government jobs lost. On the other hand, employment in HELP services is 772 thousand persons lower because of the Act. This is consistent with the raw data represented visually in Figure 5. States with weak budget positions, after including ARRA aid, tended to have greater employment growth in the HELP service sector. The employment effects for the other two sectors are smaller. Non-HELP services employment was 92,000 persons greater because of the Act; however, the lower bound of the confidence interval is -347 thousand. Next, goods-producing employment was reduced by 362 thousand workers. The upper bound of its confidence interval was positive 218 thousand. A second way to report the jobs effect is directly as the elasticity of employment growth with respect to ARRA aid (specifically, OFFSET). This coefficient, for each of the sectors, appears in Table 5 in two cases: fungibility is imposed, a from equation (3.1) and fungibility is not imposed, b from equation (3.2). This elasticity equals 0.139 for the government employment sector when fungibility is imposed. In words, this means that a one-percent increase in ARRA outlays relative to the state’s pre-recession revenue results in employment that is 13.9% greater in September 2010. The corresponding elasticity for the HELP service sector is negative -0.096. Table 5 also tells us that the data does not reject the fungibility restriction. Under the heading “fungibility restriction not imposed,” we see the elasticity estimates when b is not required to equal d. Examining the government column, the elasticity for the ARRA outlay-based offset equals 0.149 and the elasticity for −LOSS equals 0.206. Taking into account the standard errors of the estimates, these two values are very close. Formally, the Chi-squared statistic for the test is sufficiently low that we fail to reject fungibility at all conventional significance levels. This failure to reject fungibility also holds for the other sectors. Moreover, our finding of jobs forestalled for the three private sectors is maintained even when the fungibility restriction is not imposed (although the precision of the estimates fall). What can explain our two findings that (a) the ARRA has created/saved government jobs, [Tables omitted] (b) the ARRA has may have forestalled at least some private sector jobs (in particular those in the HELP service sector)? Finding (a) has a straightforward explanation. First, a significant part of the ARRA is aimed directly at saving government jobs and services, e.g. the $53.6 billion State Fiscal Stabilization Fund. Second, states have found ways to use ARRA dollars (not directly intended for government salaries) to free up state funds for other uses. Several examples based on U.S. Dept. of Transportation programs are presented in Section 2. Freed-up state monies can in turn be used for government hiring and retention. Finding (b) might be partially explained by a ‘crowding out’ effect. In the absence of the ARRA, many government employees would have found jobs in the private sector. Governement workers tend to be well educated. In 2006, the most recent available data, 49% of state and 47% percent of local government workers had at least a bachelor’s degree,35 for private sector workers this proportion is only 25%. The labor market for well-educated individuals was relatively strong during and after the recession. In September of 2010, the unemployment rate among persons with at least a bachelor’s degree was only 4.5%; on the other hand, versus 10% for high school graduates with no college. The spread in unemployment rates across different educational attainment categories was fairly constant during and after the recession. The HELP services sector employs much more educated workers than our other two private sectors36, is thus relatively strong as seen in Figure 2, and could plausibly have absorbed large numbers of these counter-factually unemployed workers.

Spending Bad - Crowdout

#### Deficit spending crowds out investment and causes fiscal crisis—cutting spending solves

CBO 10 Congressional Budget Office, has produced independent, nonpartisan, timely analysis of economic and budgetary issues to support the Congressional budget process, 7/27/10, “Federal Debt and the Risk of a Fiscal Crisis,” Congressional Budget Office, http://www.cbo.gov/publication/21625

Although deficits during or shortly after a recession generally hasten economic recovery, persistent deficits and continually mounting debt would have several negative economic consequences for the United States. Some of those consequences would arise gradually: A growing portion of peoples savings would go to purchase government debt rather than toward investments in productive capital goods such as factories and computers; that crowding out of investment would lead to lower output and incomes than would otherwise occur. In addition, if the payment of interest on the extra debt was financed by imposing higher marginal tax rates, those rates would discourage work and saving and further reduce output. Rising interest costs might also force reductions in spending on important government programs. Moreover, rising debt would increasingly restrict the ability of policymakers to use fiscal policy to respond to unexpected challenges, such as economic downturns or international crises. Beyond those gradual consequences, a growing level of federal debt would also increase the probability of a sudden fiscal crisis, during which investors would lose confidence in the governments ability to manage its budget, and the government would thereby lose its ability to borrow at affordable rates. It is possible that interest rates would rise gradually as investors confidence declined, giving legislators advance warning of the worsening situation and sufficient time to make policy choices that could avert a crisis. But as other countries experiences show, it is also possible that investors would lose confidence abruptly and interest rates on government debt would rise sharply. The exact point at which such a crisis might occur for the United States is unknown, in part because the ratio of federal debt to GDP is climbing into unfamiliar territory and in part because the risk of a crisis is influenced by a number of other factors, including the governments long-term budget outlook, its near-term borrowing needs, and the health of the economy. When fiscal crises do occur, they often happen during an economic downturn, which amplifies the difficulties of adjusting fiscal policy in response. If the United States encountered a fiscal crisis, the abrupt rise in interest rates would reflect investors fears that the government would renege on the terms of its existing debt or that it would increase the supply of money to finance its activities or pay creditors and thereby boost inflation. To restore investors confidence, policymakers would probably need to enact spending cuts or tax increases more drastic and painful than those that would have been necessary had the adjustments come sooner.

Government spending drains the private sector

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His administration drained resources out of the private sector via taxes, then he signed his $825 billion "stimulus" bill, the American Recovery and Reinvestment Act of 2009 (ARRA), so that money could be redistributed among government bureaucracies. For instance, Obama authorized spending money to repair U.S. Department of Agriculture buildings, maintain the Farm Service Agency's computers and inform the electronically disadvantaged about digital TV. Obama essentially acknowledged that he didn't know or care about how to stimulate the private sector, since he provided hardly any specific guidance for spending the money. For instance, ARRA awarded $600 million to the National Oceanic and Atmospheric Administration, saying only that the money was "for procurement, acquisition and construction" — which could have meant almost anything. If the aim was really to stimulate recovery of the private sector, the most effective way of doing that would have been to leave the money in the private sector. After all, people tend to be more careful with their own money than they are with other people's money. Undoubtedly people would have spent their money on all sorts of things to help themselves, things worth stimulating like food, clothing, gasoline, downloads, cell phones and household repairs.

Spending Bad – Crowdout

#### Government spending is less effective than Private

Chris Edwards, B.A. and M.A. in economics, 9-20-11, Cato Institute <http://www.cato.org/publications/congressional-testimony/damaging-rise-federal-spending-debt>

Let's take a look at how federal spending damages the economy over the long-run. Federal spending is financed by extracting resources from current and future taxpayers. The resources consumed by the government cannot be used to produce goods in the private marketplace. For example, the engineers needed to build a $10 billion government high-speed rail project are taken away from building other products in the economy. The $10 billion rail project creates government-connected jobs, but it also kills $10 billion worth of private activities. Indeed, the private sector would actually lose more than $10 billion in this example. That is because government spending and taxing creates "deadweight losses," which result from distortions to working, investment, and other activities. The CBO says that deadweight loss estimates "range from 20 cents to 60 cents over and above the revenue raised."19 Harvard University's Martin Feldstein thinks that deadweight losses "may exceed one dollar per dollar of revenue raised, making the cost of incremental governmental spending more than two dollars for each dollar of government spending."20 Thus, a $10 billion high-speed rail line would cost the private economy $20 billion or more.

#### Excessive government spending will crowd out private investors

Stephen Dinan, 2/4/09, contributor for The Washington Times, “CBO: Obama stimulus harmful over long-term”, http://www.washingtontimes.com/news/2009/feb/04/cbo-obama-stimulus-harmful-over-long-haul/

President Obama’s economic recovery package will actually hurt the economy more in the long run than if he were to do nothing, the nonpartisan Congressional Budget Office said Wednesday. CBO, the official scorekeepers for legislation, said the House and Senate bills will help in the short term but result in so much government debt that within a few years they would crowd out private investment, actually leading to a lower Gross Domestic Product over the next 10 years than if the government had done nothing. CBO estimates that by 2019 the Senate legislation would reduce GDP by 0.1 percent to 0.3 percent on net. [The House bill] would have similar long-run effects, CBO said in a letter to Sen. Judd Gregg, New Hampshire Republican, who was tapped by Mr. Obama on Tuesday to be Commerce Secretary. The House last week passed a bill totaling about $820 billion while the Senate is working on a proposal reaching about $900 billion in spending increases and tax cuts. But Republicans and some moderate Democrats have balked at the size of the bill and at some of the spending items included in it, arguing they won’t produce immediate jobs, which is the stated goal of the bill. The budget office had previously estimated service the debt due to the new spending could add hundreds of millions of dollars to the cost of the bill — forcing the crowd-out. CBOs basic assumption is that, in the long run, each dollar of additional debt crowds out about a third of a dollars worth of private domestic capital, CBO said in its letter. CBO said there is no crowding out in the short term, so the plan would succeed in boosting growth in 2009 and 2010. The agency projected the Senate bill would produce between 1.4 percent and 4.1 percent higher growth in 2009 than if there was no action. For 2010, the plan would boost growth by 1.2 percent to 3.6 percent. CBO did project the bill would create jobs, though by 2011 the effects would be minuscule.

Spending Bad - Crowdout

#### More evidence: spending causes a crowd out

Scott Walter and Sandra Swirski, 3/26/10, By Scott Walter, former Special Assistant to the President for Domestic Policy in the last Administration, and Sandra Swirski, co-founder of Venn Strategies and a tax attorney, “Crowding Out Private Money: Why A Growing Government Undercuts American Philanthropy”, http://www.wlf.org/publishing/publication\_detail.asp?id=2150

The dramatic growth of government now underway makes most Americans rather uneasy. Economists in particular fear that higher spending by government causes long-term harm to business investment and economic growth, especially when the country already struggles under heavy public debt. But another danger must not be overlooked: the harm governmental expansion does to philanthropy. This vital sector of society will see its productivity drained as private dollars that would have been spent by charitable and philanthropic entrepreneurs are channeled instead into the hands of politicians and bureaucrats who may have short-sighted needs. The danger was detailed in a report on the nonprofit sector issued this past holiday season by the nonpartisan Congressional Research Service (CRS). It warned that government spending "can potentially crowd out private support for charities" and also "cause charities to reduce their fund-raising efforts." The effect is stark. One study cited by CRS estimated that government largess typically "crowds out" private donations by around 56 percent. That means every $1,000 in government grant money can reduce private donations by $560. See Molly F. Sherlock and Jane G. Gravelle, An Overview of the Nonprofit and Charitable Sector, Congressional Research Service report, Nov. 17, 2009. But the immediate cost in dollars is just the beginning of the harm, because $1,000 guided by private hands isn't the same as $1,000 doled out by government. Innovation and efficiency are the hallmarks of independent entrepreneurs, not the federal government, and that is especially true in philanthropy. Yet despite the great potential for harm, few in the political class have raised any alarms. Perhaps that isn't surprising. After all, for two years in a row proposals have been advanced which would take big chunks out of the charitable income tax deduction -- that mighty Mississippi of American generosity through which billions flow each year towards those most in need, such as schools, the aged, the arts, and those reeling from economic upheaval. Nor is the charitable deduction cut the only threat. Indeed, the aforementioned proposal won't even take effect unless Congress enacts it through new legislation, which lawmakers declined to do last year. But two other threats to the charitable sector require no action by Congress to become reality, namely, a jump-up in tax rates for the nation's biggest taxpayers and a cut in the same people's ability to claim itemized deductions. Specifically, if congressional inaction allows the 2003 tax cuts to expire at year's end, persons earning more than $200,000 a year ($250,000 for married couples) will see their marginal income tax rates rise around 10 percent, and their tax rates on capital gains and dividends rise 33 percent. This drain on upper-income taxpayers will have a significant effect on philanthropy, because households whose wealth exceeds $1 million (roughly 7 percent of the population) provide around half of all charitable donations. See Arthur C. Brooks, WHO REALLY CARES: AMERICA'S CHARITY DIVIDE--WHO GIVES, WHO DOESN'T, AND WHY IT MATTERS (New York: Basic Books, 2006). Taking more money out of these Americans' pockets, in short, means less money for charity. By contrast, a vigorous economy that spins off greater income for all Americans sends more dollars flowing into the philanthropic sector. As researcher Arthur Brooks observes, the booming economy of 1995-2000 saw real income per capita rise by 12 percent, while household giving, spurred by stock market and home value gains, exploded by 54 percent. Id. Too many in Washington seem to have forgotten that America's greatness, and her liberty, are tightly linked to the fact that her citizens are the most charitable on earth. Nearly two centuries ago the French thinker Alexis de Tocqueville observed that while Frenchmen would wait on government to deal with their problems, and Englishmen would await a nobleman's aid and leadership, Americans spontaneously join together in private groups, voluntarily giving time and treasure to respond to the day's most pressing needs.

Confidence

#### Spending kills investor confidence and spikes interest rates, hinders economic growth

US Budget Committee 11 U.S. Senate Budget Committee Republican, responsible for drafting Congress’ annual budget plan and for monitoring the federal budget, 5/12/11, “Spending Cuts And Economic Growth: What Does The Cross-Country Empirical Evidence Show?,” U.S. Senate Budget Committee Republican, http://budget.senate.gov/republican/public/index.cfm/committee?p=committee-history

Having received numerous warnings from a variety of sources, the U.S. can no longer kick its fiscal problems further down the road. Given the recent debt-outlook downgrade from Standard & Poor’s, the U.S. faces a loss of its top-tier credit rating if it waits to constrain growing deficits. The economy will suffer dearly if financial markets and our creditors lose faith in the Federal Government’s commitment to paying off its obligations in full. Fearing default either explicitly or through inflationary policies, financial markets will demand ever increasing compensation for the risk through higher and higher interest rates. The resulting increased interest payments will choke off the ability of government to operate and will choke off private, interest-sensitive spending. The economy will be harmed, perhaps precipitously. The U.S. can avoid catastrophe by curtailing spending immediately, and this need not threaten expansion of our private economy. Indeed, a large and growing body of empirical research identifies positive effects on economic growth from fiscal consolidations that relied primarily on spending cuts rather than tax hikes. The nation faces stark and critical decisions about the size of government it desires. As experiences in many European countries have shown, high levels of government spending have negative economic effects, including persistently high unemployment rates. [32] Government spending in the United States over the past two years has exploded. Recent levels of spending, if locked in and financed by increased taxes, will severely inhibit the very economic growth necessary for the nation to pay down its unsustainably high levels of debt. Without bringing spending down toward historic norms, we face an unnecessarily weaker economic future. In contrast, by reducing expenditures the U.S. can decide to strengthen incentives to invest in labor and capital, harness the productive potential of the strong American workforce, and ensure for our children that the United States will still have the most dynamic, productive, and resilient economy in the world.

#### Deficit spending kills confidence, spikes interest rates, and chokes economic activity

US Budget Committee 11 U.S. Senate Budget Committee Republican, responsible for drafting Congress’ annual budget plan and for monitoring the federal budget, 5/12/11, “Spending Cuts And Economic Growth: What Does The Cross-Country Empirical Evidence Show?,” U.S. Senate Budget Committee Republican, http://budget.senate.gov/republican/public/index.cfm/committee?p=committee-history

As deficits and debt have grown extraordinarily, so too have warnings that our unsustainable fiscal path will lead to crisis. Recent experiences of Greece and other fiscally challenged Eurozone countries have made clear that a fiscal crisis involves painful and precipitous increases in interest rates. Rates rise as sovereign debt investors demand greater compensation for growing perceived default risks. This has become the reality for a number of European countries with unsustainable indebtedness—see Figure 2. The cost of issuing three-year debt for Greece has roughly tripled over a one-year period and the cost for Ireland and Portugal has risen roughly fourfold. The rapid and sudden increases in funding costs force sudden and painful choices, as previously profligate governments are forced to scale back social benefit promises and the size of government workforces. Those who counted on the promises are disappointed; disappointment fuels unrest. What would a large increase in funding cost mean to the U.S.? CBO, in a recent analysis of alternative interest rate scenarios, estimates that if the 10-year Treasury rate were to rise from an average of 3.8 percent in 2011 to around the average levels of over 10 percent during the high-rate period of 1981-1990, then deficits would rise by over $12 trillion between 2012 and 2021. Debt held by the public under such a scenario would rise by over $23 trillion by 2021. [2] Deficits and debt of those magnitudes would choke off private investment as the government absorbs ever increasing amounts of resources from markets, pricing out and crowding out private productive investment spending. The ensuing economic downfall would likely lead to a precipitous financial crisis. Recent experiences in financial markets demonstrate that shifts in market sentiments and asset prices can occur quickly and be executed, through automatic electronic orders, even faster. According to the recent Financial Crisis Inquiry Report (2011), quoting Federal Reserve (Fed) Chairman Ben Bernanke concerning the speed of the crisis: “… out of maybe the 13, 13 of the most important financial institutions in the United States, 12 were at risk of failure within a period of a week or two.” [3] Given the level of debt that the U.S. has accumulated, the nation faces a growing risk of sudden reversal of sentiment in the global market for its debt. Any sudden loss of confidence can, with bank-run rapidity, lead to spikes in interest rates that would choke off economic activity and any chance for sustained economic recovery.

Spending Bad – Confidence

#### Deficit spending kills investor confidence—spending cuts solve

US Budget Committee 11 U.S. Senate Budget Committee Republican, responsible for drafting Congress’ annual budget plan and for monitoring the federal budget, 5/12/11, “Spending Cuts And Economic Growth: What Does The Cross-Country Empirical Evidence Show?,” U.S. Senate Budget Committee Republican, http://budget.senate.gov/republican/public/index.cfm/committee?p=committee-history

What might a debt crisis mean for the United States? CBO paints the following picture: In a fiscal crisis, investors would lose confidence in the government’s ability to manage its budget, and the government would thereby lose its ability to borrow at affordable rates. It is possible that interest rates would rise gradually as investors’ confidence declined, giving legislators advance warning of the worsening situation and sufficient time to make policy choices that could avert a crisis. But as other countries’ experiences show, it is also possible that investors would lose confidence abruptly and interest rates on government debt would rise sharply. The exact point at which such a crisis might occur for the United States is unknown, in part because the ratio of federal debt to GDP is climbing into unfamiliar territory. If the United States encountered a fiscal crisis, the abrupt rise in interest rates would reflect investors’ fears that the government would renege on the terms of its existing debt or that it would increase the supply of money to finance its activities or pay creditors and thereby boost inflation. To restore investors’ confidence, policymakers would probably need to enact spending cuts or tax increases more drastic and painful than those that would have been necessary had the adjustments come sooner. [4]

#### Unsustainable spending kills investor confidence and causes fiscal crisis

Senate Committee on Finance 12 US Senate Committee on Finance, 6/5/12, “Hatch on CBO’s Long-term Budget Outlook,” US Senate Committee on Finance, http://www.finance.senate.gov/newsroom/ranking/release/?id=920faaa9-33ba-4e2f-9f81-6cdac51f4a68

U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, said today that the Congressional Budget Office’s (CBO) Long-Term Budget Outlook should serve as a stark reminder of the urgent need to tackle out-of-control spending driven by the nation’s unsustainable entitlement programs. Hatch called on President Obama to confront the crisis and demonstrate real leadership to put America back on a sustainable fiscal path. “This report’s findings are chilling: debt reaching 200 percent of our economy and potentially causing a full blown financial crisis; health care spending rising unabated to record levels; and Medicare and Social Security on a glide path to insolvency,” Hatch said. “Driven by unsustainable spending, America has reached a dangerous crossroads that demands immediate action, but the President is nowhere to be found. He’s decided that instead of leading, he’ll play politics and blame everyone else for our weak economy, for the debt, and for our high unemployment rate. But the American people elected the President to lead, and it’s well past time for him to provide the leadership taxpayers deserve to reform our entitlement programs dominating the federal budget, to tackle our debt that threatens our economic security, and to ensure that every American taxpayer doesn’t face the largest tax increase in history by the end of the year.” Below are several key findings from CBO’s report that was released today: Unsustainable debt: “Federal debt would grow rapidly from its already high level, exceeding 90 percent of GDP in 2022. After that…[d]ebt as a share of GDP would exceed its historical peak of 109 percent by 2026, and it would approach 200 percent in 2037,” and that is a “…clearly unsustainable path for federal borrowing.” Impact of record debt on the economy: As a result of this level of debt, “[r]eal [Gross National Product] GNP would be reduced by 4 ½ percent in 2027 and by about 13 ½ percent in 2037, according to CBO’s central estimates.” Interest payments on the debt: “As debt grew, so would net federal spending on interest, which would rise from about 1 ½ percent of GDP today to ten percent by 2037.” Need for timely policy changes to put us on a sustainable course: “The explosive path of federal debt under the alternative scenario underscores the need for large and timely policy changes to put the federal government on a sustainable fiscal course.” Growing debt increases risk of fiscal crisis: “Growing debt would increase the probability of a sudden fiscal crisis, during which investors would lose confidence in the government’s ability to manage its budget and the government would thereby lose its ability to borrow at affordable rates.”

Spending Bad – Confidence

#### Federal debt risks investor confidence

Congressional Budget Office, 7-27-10 <http://www.cbo.gov/publication/21625>

Beyond those gradual consequences, a growing level of federal debt would also increase the probability of a sudden fiscal crisis, during which investors would lose confidence in the governments ability to manage its budget, and the government would thereby lose its ability to borrow at affordable rates. It is possible that interest rates would rise gradually as investors confidence declined, giving legislators advance warning of the worsening situation and sufficient time to make policy choices that could avert a crisis. But as other countries experiences show, it is also possible that investors would lose confidence abruptly and interest rates on government debt would rise sharply. The exact point at which such a crisis might occur for the United States is unknown, in part because the ratio of federal debt to GDP is climbing into unfamiliar territory and in part because the risk of a crisis is influenced by a number of other factors, including the governments long-term budget outlook, its near-term borrowing needs, and the health of the economy. When fiscal crises do occur, they often happen during an economic downturn, which amplifies the difficulties of adjusting fiscal policy in response. If the United States encountered a fiscal crisis, the abrupt rise in interest rates would reflect investors fears that the government would renege on the terms of its existing debt or that it would increase the supply of money to finance its activities or pay creditors and thereby boost inflation. To restore investors confidence, policymakers would probably need to enact spending cuts or tax increases more drastic and painful than those that would have been necessary had the adjustments come sooner.

#### Cuts solve – signals change and increases household wealth

Robert Perotti, PhD in Economics from MIT and Full Professor of Economics and Universita Bocconi, 11, “The ‘Austerity Myth’: Gain Without Pain?”, November, <http://www.nber.org/chapters/c12652.pdf>

Second, if the answer to the first question is in the affirmative, how useful is the experience of the past as a guide to the present? For instance, if fiscal consolidations were expansionary in the past because they caused a steep decline in interest rates or inflation, it is unlikely that the same mechanism can be relied on in the present circumstances, with low inflation and interest rates close to zero. Or, if consolidations were expansionary mainly because they were associated with large increases in net exports, this mechanism is obviously not available to a large group of countries highly integrated between them. That private consumption should boom when government spending falls would come as no surprise to believers in a standard neoclassical model with forward looking agents. Although in that model alternative time paths of government spending and distortionary taxation can create virtually any response of private consumption, from negative to positive, the basic idea is straightforward; lower government spending means lower taxes and higher households’ wealth, hence higher consumption. This is sometimes dubbed the “confidence channel” of fiscal consolidations. 2 Lower taxes also mean less distortions, hence they can lead to higher output and investment. More generally, a large fiscal consolidation may signal a change in regime in a country that is in the midst of a recession, and may boost investment through this channel. In open economies alternative effects may be at play. A fiscal consolidation might reinforce and make credible a process of wage moderation, either implicitly or by trading explicitly less labor taxes for wage moderation; this in turn feeds into a real effective depreciation and boosts exports. Or, it might reinforce the decline in interest rates, by reducing the risk premium or by making a peg more credible. These alternative channels were highlighted for instance in Alesina and Perotti (1995) and (1997) and Alesina and Ardagna (1998).

Spending Bad – Confidence

#### Spending kills confidence – Europe proves

Veronique de Rugy, Ph.D, senior research fellow Mercatus Center at George Mason University, columnist for Reason magazine, 9-10 http://reason.org/news/printer/austerity-agonistes

Across Europe, governments are announcing new austerity packages of spending cuts and higher taxes rather than Obama-style stimulus spending. In response, American economists such as Paul Krugman and Brad DeLong are warning that these policies will throw Europe back into a depression and should be avoided at all costs in the United States. “The next time you hear serious-sounding people explaining the need for fiscal austerity,” Krugman wrote in The New York Times in July, “try to parse their argument. Almost surely, you’ll discover that what sounds like hardheaded realism actually rests on a foundation of fantasy, on the belief that invisible vigilantes will punish us if we’re bad and the confidence fairy will reward us if we’re good.” One crucial point Krugman leaves out is that most European Union member states have no alternative. Countries that rely heavily on foreign investors—such as Greece, France, Ireland, Italy, and Spain—must cut spending to avoid being shut off from the global capital markets. Contrary to common belief, investors don’t judge sovereign default risks based on public debt as a percentage of gross domestic product. Instead, bond professionals grade on a curve, assessing one country’s fiscal behavior against another’s. When investors lose confidence in a government’s fiscal rectitude relative to its competitors, they withdraw, and the snubbed country suffers. Capital being a scarce good, the result is increased interest rates and a higher price for debt. One of the key signaling devices for international investors is how a government behaves under financial duress—how it balances the demands of its debtors with those of its welfare recipients. Announcements of lower spending and higher taxes tell investors a country is willing to go to great lengths not to default on its debt obligations. If the government instead focuses on preserving its welfare state and public employee benefits, investors know default is more likely and will shy away from that country’s bonds. Japan has the world’s biggest debt as a percentage of GDP, at 227 percent, nearly four times the economist-recommended 60 percent ceiling. It has gotten away with its carelessness without risking default because the country relies more heavily than most on domestic investors to fund its follies. The United States, despite a dangerous debt burden relative to GDP (66 percent) and a structural deficit among the highest of developed countries (almost 4 percent), has so far also escaped investor censure, thanks to the perception that the dollar remains the safest currency in the world. European countries don’t have that luxury. But the benefits of austerity go far beyond signaling investors. Goldman Sachs economists Ben Broadbent and Kevin Daly, surveying the data of 44 large fiscal adjustments across the globe since 1975, concluded in a 2010 report that cutting annual spending by 1 percent triggers a net 0.6 percent in economic growth. As we will see below, this is a good deal compared to the $1.10 reduction in GDP we get for each $1 spent by the government to stimulate the economy. Lower spending reduces the fear of higher taxes, which leads to an increase in consumer and business demand and growth. The notion that austerity is bad and stimulus is good rests on the Keynesian theory that if government spends a lot of money, that money will create more value in economic growth. This purported increase in gross domestic product is what economists call the “multiplier effect.” It’s a nice story, but like most fairy tales, it has scant basis in reality. In a 2010 paper published by George Mason University’s Mercatus Center (where I work), economists Robert Barro and Charles Redlick showed that in the best-case scenario, a dollar of government spending produces much less than a dollar in economic growth—between 40 and 70 cents. If that was the rate of return on our private-sector investments, America would soon cease to be a leading economic force. Barro and Redlick also looked at the economic impact of raising taxes to pay for spending increases. They found that for every $1 in tax-financed spending, the economy actually shrinks by $1.10. In other words, greater spending financed by tax increases damages the economy. The stimulus isn’t working, because the economic theory it is based on is fundamentally flawed. The findings from my own quarterly reports on stimulus spending (mercatus.org/publication/stimulus-facts-data) further illustrate why these packages don’t work. My analysis is based on the tens of thousands of reports from stimulus recipients published on recovery.gov each quarter, along with economic and political data from the Bureau of Labor Statistics, the Census Bureau, GovTrack.us, and other sources. My most recent analysis found that the total number of jobs the government attributed to stimulus spending as of April was 682,000. Factoring in stimulus dollars spent up to that point, the average cost of these jobs was $282,000. That’s a lot of money. Worse, four-fifths of these jobs were in the public sector. This outcome is far afield from the administration’s original promise that the stimulus would create 3.5 million jobs over two years, 90 percent of them in the private sector. A 2002 paper in the Economic Policy Journal, written by the French economists Yann Algan, Pierre Cahuc, and Andre Zylberberg, looked at the impact of public employment on overall labor market performance. Using data for a sample of OECD countries from 1960 to 2000, they found that, on average, the creation of 100 public jobs eliminated about 150 private-sector jobs, decreased by a slight margin overall labor market participation, and increased by about 33 the number of unemployed workers. Their explanation was that public employment crowds out private employment and increases overall unemployment by offering comparatively attractive working conditions. Basically, public jobs, especially ones that also exist in the private sector in fields such as transportation and education, offer higher wages and benefits, require low effort, and therefore crowd out many private jobs. When these new employees are paid with taxes it negatively impacts the economy. The data released by the Bureau of Labor Statistics in June, then, were bad news. (See the chart.) They showed that since the passage of the stimulus bill, the private sector has lost 2.55 million jobs while the federal government gained 416,000. The understandable temptation to take action in a time of recession should not lead lawmakers down unproductive paths. Stimulus by government spending doesn’t work. European and American governments have tried it without success. Now is the time to tighten spending, no matter what some American economists might say.

Spending Bad – Confidence

#### Deficit reduction key to investor confidence and a strong economy

Thornburgh ’11 (Dick Thornburgh, former U.S. Attorney General and two-term governor of Pennsylvania, 7/20/11, “Deficits Need Balanced-Budget Amendment Fix: Dick Thornburgh,” Bloomberg, pg online @ http://www.bloomberg.com/news/2011-07-21/deficits-need-balanced-budget-amendment-fix-dick-thornburgh.html)

Second, critics will argue that the adoption of a balanced- budget amendment wouldn’t solve the deficit problem overnight. This is absolutely correct, but begs the issue. Serious supporters of the amendment recognize that a phasing-in of five to 10 years would be required. During this interim period, however, budget makers would have to meet declining deficit targets in order to reach a final balanced budget by the established deadline. As pointed out by former Commerce Secretary Peter G. Peterson, such “steady progress toward eliminating the deficit will maintain investor confidence, keep long-term interest rates headed down and keep our economy growing.” Third, it will be argued that such an amendment would require vast cuts in social services, entitlements and defense spending. Not necessarily. True, these programs would have to be paid for on a current basis rather than heaped on the backs of future generations. Difficult choices would have to be made about priorities and program funding. But the very purpose of the amendment is to discipline the executive and legislative branches, not to propose or perpetuate vast spending programs without providing the revenue to fund them.

#### Excessive government spending hurts investor confidence

Sharon Wrobel, 11/22/07, business writer for the Jerusalem Post, “Higher gov’t spending could jeopardize investor confidence”, http://www.jpost.com/Business/BusinessNews/Article.aspx?id=82842

Economists warned on Wednesday that increasing the government's annual spending ceiling in the 2008 budget, as proposed by a new bill this week, could damage international investor confidence and threaten the positive momentum spurring economic growth. Labor MK Avishay Braverman submitted a private bill on Tuesday to increase the spending growth target of the 2008 state budget by 2.5 percent, or NIS 2 billion, instead of the 1.7% originally set by the Finance Ministry. "After the government already passed the 2008 budget in a first reading, changes to the spending ceiling would have a very severe impact on the markets and damage investor confidence of the international community," Prof. Rafi Melnick, Dean of the Lauder School of Government, Diplomacy and Strategy at the Interdisciplinary Center Herzliya and former senior economist at the Bank of Israel told The Jerusalem Post. "This is not the right time for Israel to deviate from investors' expectations, a time when there is much uncertainty over the state of the global economy, which is poised to slow down and when borrowing money could become more expensive." Prof. Melnick added that relative to other economies, Israel's economy was very stable and is growing at a fast pace; driven by foreign investor confidence and adherence to fiscal discipline, which the government would not want to jeopardize. Discussing the bill proposal at the Knesset Finance Committee this week, Braverman argued that in a situation such as now in which the economy is prospering and enjoying a budget surplus, money should be allocated to serve socio-economic issues such as investment into welfare, schools and hospitals. According to Braverman, the bill was backed by 69 of the 120 members of parliament. "Braverman's proposal to raise government spending by two thirds of the growth rate is based on a procyclic policy- one that moves in the same direction as the economy, which has proven in the past to be destabilizing, while government spending growth of 1.7% pertains to a countercyclic rule and one that moves in the opposite direction as the economy is stabilizing," Melnick said. Since the beginning of the year, the government has registered a budget surplus of NIS 8.7b. "2007 is likely to conclude with a budget surplus reaching up to 0.5% of GDP. This is in contrast to an original budget deficit target of 2.9% of GDP," Dr. Gil Bufman, chief economist at Bank Leumi wrote in a recent economic update. Other economists raised skepticism over the bill proposal. "What's important is not so much the height of the spending ceiling, but the structure of the budget. If spending is being raised to invest into infrastructure to improve schools, education and welfare, then we might see an economic benefit but not if money is spent on raising benefits," said Shlomo Maoz, chief economist at Excellence Nessuah. Only a few weeks ago, representatives of the international credit rating agency Standard & Poor's came to Israel to meet with Prof. Stanley Fischer, the governor of the Bank of Israel, and Finance Minister Ronnie Bar-On, for a review of Israel's economy. Fischer has been boasting about the growth of the local economy warranting an upgrade of Israel's credit rating, saying that debt-to-GDP ratio had fallen to 80%, the economy has not been affected by the US sub-prime mortgage crisis and that Israel was a candidate for membership in the OECD. S&P is in the process of reviewing Israel's credit rating and is expected to publish its update by mid-February. "Fiscal performance is an important component, which has an impact on our rating," VÃ©ronique Paillat-Chayrigues, credit analyst at S&P told the Post. "It's never good news if expenditures are increased. We would consider a downgrade of Israel's rating in the case of significant deviations from the fiscal policy expectations set by the Finance Ministry, although there are other components which determine the rating." In July, S&P warned that the country's credit rating outlook could be at risk if the government failed to maintain budget discipline. S&P warned that it would lower Israel's credit rating from "positive" to "stable" if the 2008 budget deviates from fiscal policy lines set by the government between 2005 and 2007. "Our positive outlook on the Israeli rating incorporates our expectation that fiscal strengthening will remain a key political priority and that the debt burden will fall at a regular pace. Should these expectations be misplaced, the outlook on the ratings could revert to 'stable,'" S&P cautioned.

Spending Bad – Confidence

#### A spending cap will boost investor confidence – Georgia proves

Helena Bedwell, 10/15/09, reporter for Bloomberg Business & Financial News, “IMF Says Georgian Spending Cap Will Boost Investor Confidence”, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aXcUhNAqCN28

Oct. 15 (Bloomberg) -- Georgian President Mikheil Saakashvili’s plan to cap government spending, budget deficits and state debt will boost investor confidence in the former Soviet republic’s economy, according to the IMF. Saakashvili’s proposed Economic Liberty Act “will reinforce the government’s credibility and have a positive impact on investment,” Edward Gardner, the International Monetary Fund’s senior resident representative in Georgia, said in an interview in the capital Tbilisi today. Foreign investment fell to $92.2 million in the second quarter from $605.4 million in the year-earlier period as Georgia struggled to recover from an August 2008 war with Russia and the global economic slump. Georgia’s $12.8 billion economy is shrinking for the first time since the so-called Rose Revolution in 2003 that swept Saakashvili to power. The government forecasts a contraction of 1.5 percent in 2009 and 2 percent growth in 2010. The economy may rebound in the fourth quarter, a year after it entered a recession, though 2009 foreign investment won’t exceed $1 billion, compared with $2 billion initially forecast by the government, Finance Minister Kakha Baindurashvili said on Oct. 6. Gardner said the IMF had “always projected no more than $1 billion in investment.” He agreed with Baindurashvili that the economy may resume growth in the fourth quarter. To achieve this, “you need quite a considerable pick-up in the second half of the year,” he said. In addition to spending and debt caps, Saakashvili called for referenda for tax changes and a ban on creating new regulatory agencies. His proposals must be approved by parliament.

#### Massive spending increases hurts investor confidence

The Bank for International Settlements, organization of central banks, 6/26 (June 26th 2011, “Overview of the economic chapters,” http://www.bis.org/publ/arpdf/ar2011e\_ov.htm)

Over the past year, the global economy has continued to improve. In emerging markets, growth has been strong, and advanced economies have been moving towards a self-sustaining recovery. But it would be a mistake for policymakers to relax. From our vantage point, numerous legacies and lessons of the financial crisis require attention. In many advanced economies, high debt levels still burden households as well as financial and non-financial institutions, and the consolidation of fiscal accounts has barely started. International financial imbalances are re-emerging. Highly accommodative monetary policies are fast becoming a threat to price stability. Financial reforms have yet to be completed and fully implemented. And the data frameworks that should serve as an early warning system for financial stress remain underdeveloped. These are the challenges we examine in this year's Annual Report. Interrelated imbalances made pre-crisis growth in several advanced countries unsustainable. Rapidly increasing debt and asset prices resulted in bloated housing and financial sectors. The boom also masked serious longterm fiscal vulnerabilities that, if left unchecked, could trigger the next crisis. We should make no mistake here: the market turbulence surrounding the fiscal crises in Greece, Ireland and Portugal would pale beside the devastation that would follow a loss of investor confidence in the sovereign debt of a major economy.Addressing overindebtedness, private as well as public, is the key to building a solid foundation for high, balanced real growth and a stable financial system. That means both driving up private saving and taking substantial action now to reduce deficits in the countries that were at the core of the crisis.

**Government cuts improve stock market**

Columbia Tribune, 7/20/11, “‘Gang of Six’ progress helps stocks rebound”, http://www.columbiatribune.com/news/2011/jul/20/gang-of-six-progress-helps-stocks-rebound/

Strong profits and a bipartisan plan to lift the U.S. debt limit drove a stock market rebound yesterday. Stock indexes rose after Coca-Cola, IBM and other companies reported better second-quarter earnings. The indexes added to their gains in the afternoon after President Barack Obama backed a proposal by six senators that would cut debt by $3.7 trillion over the next decade and raise the country’s $14.3 trillion debt ceiling. The Dow Jones industrial average posted its largest one-day jump this year. “The stock market had been looking for a reason to have a relief rally, said Burt White, chief investment officer at LPL Financial in Boston. “And it looks like they got the start of one today. “

Inflation

Government stimulus leads to massive inflation

Cochrane 11 (John H. Cochrane, Myron S. Scholes Professor of Finance University of Chicago Booth School of Business, “Inflation and Debt,” 2011, http://faculty.chicagobooth.edu/john.cochrane/research/papers/Cochrane\_Inflation\_and\_Debt\_National\_Affairs.pdf)

For several years, a heated debate has raged among economists and policymakers about whether we face a serious risk of inflation. That debate has focused largely on the Federal Reserve—especially on whether the Fed has been too aggressive in increasing the money supply, whether it has kept interest rates too low, and whether it can be relied on to reverse course if signs of inflation emerge. But these questions miss a grave danger. As a result of the federal government’s enormous debt and deficits, substantial inflation could break out in America in the next few years. If people become convinced that our government will end up printing money to cover intractable deficits, they will see inflation in the future and so will try to get rid of dollars today—driving up the prices of goods, services, and eventually wages across the entire economy. This would amount to a “run” on the dollar. As with a bank run, we would not be able to tell ahead of time when such an event would occur. But our economy will be primed for it as long as our fiscal trajectory is unsustainable. Needless to say, such a run would unleash financial chaos and renewed recession. It would yield stagflation, not the inflation-fueled boomlet that some economists hope for. And there would be essentially nothing the Federal Reserve could do to stop it. This concern, detailed below, is hardly conventional wisdom. Many economists and commentators do not think it makes sense to worry about inflation right now. After all, inflation declined during the financial crisis and subsequent recession, and remains low by post-war standards. The yields on long-term Treasury bonds, which should rise when investors see inflation ahead, are at half-century low points. And the Federal Reserve tells us not to worry: For example, in a statement last August, the Federal Open Market Committee noted that “measures of underlying inflation have trended lower in recent quarters and, with substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time.” But the Fed’s view that inflation happens only during booms is too narrow, based on just one interpretation of America’s exceptional postwar experience. It overlooks, for instance, the stagflation of the 1970s, when inflation broke out despite “resource slack” and the apparent “stability” of expectations. In 1977, the economy was also recovering from a recession, and inflation had fallen from 12% to 5% in just two years. The Fed expected further moderation, and surveys and long-term interest rates did not point to expectations of higher inflation. The unemployment rate had slowly declined from 9% to 7%, and then as now the conventional wisdom said it could be further lowered through more “stimulus.” By 1980, however, inflation had climbed back up to 14.5% while unemployment also rose, peaking at 11%. Over the broad sweep of history, serious inflation is most often the fourth horseman of an economic apocalypse, accompanying stagnation, unemployment, and financial chaos. Think of Zimbabwe in 2008, Argentina in 1990, or Germany after the world wars.

Investment

#### Deficit spending lowers demand for domestic assets and investment

Ball and Mankiw 95 Laurence Ball, Professor of Economics at Johns Hopkins University, And N. Gregory Mankiw, Professor of Economics at Harvard University, 9/2/95, “What Do Budget Deficits Do?”, pp. 101-103, Budget Deficits and Debt: Issues and Options

Why might the demand for a country’s assets fall? There are two distinct but complementary stories about how a rising national debt could lead to lower demand for domestic assets. The first story emphasizes the effect of deficits on a country’s net-foreign-asset position. As we have discussed, budget deficits tend to produce trade deficits, which a country finances by selling assets abroad. Yet there may be limits to the quantity of domestic assets foreigners are willing to hold. For various reasons (such as lack of information, exchange-rate risk, or sheer xenophobia), international diversification is far from perfect. This fact is consistent with the finding of Feldstein and Horioka (1980) that a country’s saving roughly balances its investment over long periods. As a country’s net-foreign-asset position deteriorates, foreign investors may become less and less willing to purchase additional domestic assets. A second story is that a rising level of government debt makes investors fear government default or a similar policy aimed at holders of domestic assets. Unlike the first story, this story is relevant even if a country has not reached a negative net-foreignasset position. And in this story, domestic as well as foreign investors flee domestic assets. In speculating about a loss of investor confidence, one is naturally led to draw on the experience of the debt crisis in less developed countries (LDC) during the 1980s. (The case of Mexico in 1994 is less relevant, because it involves imprudent monetary and exchange-rate policy as well as debt.) In the LDC debt crisis, capital inflows in the form of bank loans dried up when countries began having trouble servicing their debts, leading to fears of widespread default. It is tempting to imagine that this experience is not relevant to countries like the United States—that rich countries would never default. But Orange County, California is even richer than the United States, and it is about to default on its debt. Orange County voters, turning down a tax increase needed to honor the debt, appear to reject the idea that they should pay for their government’s mistakes. It is easy to imagine such arguments at the national level—or at least a fear on the part of investors that such arguments will arise. There is, however, a reason that the LDC debt crisis is an imperfect guide to hard landings in the United States or European countries. The Latin American debt was external: it was owed to foreigners. Thus the direct effect of default was a loss to foreigners, making default a relatively attractive way out of a fiscal crisis. The same is true for Orange County: most of its debt was owned outside of the county. In the United States, by contrast, most of the national debt is owned by American citizens. Since an internal debt makes default less tempting, it is likely to delay a hard landing: it takes a higher level of debt to spook investors. The fact that a debt is internal also affects the nature of the prospective policies that might spark a hard landing. If the debt-income ratio spins out of control, something must be done or default is unavoidable. And it might remain impossible politically to raise income taxes sufficiently. One possible outcome is a general tax on wealth. The government might require owners of its bonds to “share in the sacrifice” through partial default, but it would also tax the holders of other assets. The tax could extend to foreign owners of domestic assets to reduce the burden on domestic citizens. An unsustainable path of debt and a worsening net foreign asset position could lead investors to fear other unpleasant consequences as well. Extensive foreign ownership of U.S. assets could lead to restrictions on capital outflows. Perhaps as debt grows and wages fall relative to those of other countries, political outrage will produce a government that increases interference in the economy. Many U.S. politicians, for example, are tempted to blame domestic problems on Japanese trade practices; a trade war is not an unthinkable result of a general decline in living standards. Similarly, many less developed countries have unhappy histories in which economic problems create political pressures for policies that discourage investment and make the problems even worse. Fear of these outcomes—or just a belief that something bad must happen if debt continues to grow— could lead to a fall in the demand for domestic assets.

Spending Bad - Investment

#### Long-term deficit spending reduces investment and productivity

Ball and Mankiw 95 Laurence Ball, Professor of Economics at Johns Hopkins University, And N. Gregory Mankiw, Professor of Economics at Harvard University, 9/2/95, “What Do Budget Deficits Do?” pp. 100-101, Budget Deficits and Debt: Issues and Options

The effects described so far begin as soon as the government begins to run a budget deficit. Suppose, as is often the case, that the government runs deficits for a sustained period, building up a stock of debt. In this case, the accumulated effects of the deficits alter the economy’s output and wealth. In the long run, an economy’s output is determined by its productive capacity, which, in turn, is partly determined by its stock of capital. When deficits reduce investment, the capital stock grows more slowly than it otherwise would. Over a year or two, this crowding out of investment has a negligible effect on the capital stock. But if deficits continue for a decade or more, they can substantially reduce the economy’s capacity to produce goods and services. The flow of assets overseas has similar effects. When foreigners increase their ownership of domestic bonds, real estate, or equity, more of the income from production flows overseas in the form of interest, rent, and profit. National income—the value of production that accrues to residents of a nation—falls when foreigners receive more of the return on domestic assets. Recall that budget deficits, by reducing national saving, must reduce either investment or net exports. As a result, they must lead to some combination of a smaller capital stock and greater foreign ownership of domestic assets. Although there is controversy about which of these effects is larger, this issue is not crucial for the impact on national income. If budget deficits crowd out capital, national income falls because less is produced; if budget deficits lead to trade deficits, just as much is produced, but less of the income from production accrues to domestic residents. In addition to affecting total income, deficits also alter factor prices: wages (the return to labor) and profits (the return to the owners of capital). According to the standard theory of factor markets, the marginal product of labor determines the real wage, and the marginal product of capital determines the rate of profit. When deficits reduce the capital stock, the marginal product of labor falls, for each worker has less capital to work with. At the same time, the marginal product of capital rises, for the scarcity of capital makes the marginal unit of capital more valuable. Thus, to the extent that budget deficits reduce the capital stock, they lead to lower real wages and higher rates of profit.

Interest Rates

#### Increased government spending will raise interest rates

Reed Garfield, 3/27/95, senior economist for Joint Economic Committee of the Congress of the U.S., “Government Spending and Economic Growth”, http://www.house.gov/jec/fiscal/budget/spending/spending.htm

The growth of plant and equipment, or capital investment, is negatively impacted by government spending. Simply put, government spending "crowds out" private investment. When government uses resources, there are fewer resources for private purposes. Temporarily, government spending and private investment can be complementary. Government's grab for resources can be met through reduction in savings or capital inflows from abroad. In the long-run, private investment must fall as government increases spending. Government may invest the resources it controls in productive areas, but political forces are less likely than private markets to allocate resources where the returns are the highest. The state invests resources where the political demands are greatest not where the profit opportunities are large. Government spending also can raise interest rates. Higher interest rates discourage private sector investment because it ends up costing the investor more over the long run. As interest rates rise, the returns to investment fall. Capital projects that made economic sense at lower interest rates are no longer viable. All these effects serve to lower the long-term growth rate of the capital stock. Rent-Seeking Economic growth is adversely impacted when the government imposes itself through spending and regulations. As more resources are channeled through the political process, the opportunities for rent-seeking increase. Rent-seeking is the manipulation of the political process for personal gain. Individuals, or special interests, attempt to create government-sanctioned monopolies or impose costs upon other people without those people receiving the full, or any, benefit from the action. Rent-seekers expend government resources to capture these monopoly gains. The resources expended on rent-seeking are a net loss to society. As the state grows, it provides increasing opportunities for transfers of rents. It also increases the profitability of rent-seeking. Expanding the opportunity for rent-seeking increases waste and permanently lowers the growth rate of the economy. The productivity of rent-seeking activity is zero, or negative, for the economy because rent-seeking reduces potential economic output. Conclusion Some government spending is crucial for a well-functioning economy. However, currently the United States and most developed countries' governments spend excessively which reduces economic growth.[3] In other words, as governments divert resources away from private entrepreneurs, jobs, investment, and productivity decline which ultimately slows down the economy.

#### Government spending will continue to push interest rates way up: empirically proven by Nigeria

Nigerian Business Community, 5/5/11, Business Community Platform for Nigeria, “Government borrowing, spending push interest rates way up”, http://www.nigerianpro.com/content/government-borrowing-spending-push-interest-rate-upwards

The Central Bank of Nigeria (CBN) has said that as long as the federal government continues to patronize the bond market, it would be difficult to achieve low interest rates. CBN deputy governor, economic policy, Sarah Alade, said while the central bank is striving to achieve an inclusive economy that would capture more Nigerians, that effort was being made difficult by the huge borrowing and expenditure of government. According to her, government needs to begin to control its level of spending in order for the real economy to have access to cheap funds. "In terms of interest rate being high, when government borrows money, offering banks higher rates than the private sector can offer, banks naturally lend to government. So as long as the Debt Management Office keeps selling bonds, this expansionary fiscal policy, and interest rate will remain high." She said when control is placed on government spending, then ordinary Nigerians can enjoy low interest rate. Speaking at the presentation of the regional outlook for sub-Saharan Africa by the International Monetary Fund in Lagos on Tuesday, Mrs Alade said the central bank was working at improving access to finance for Nigerians by reforms of the payment system. "We are thinking about agency banking where you use the post office, so that more people will be able to save and receive money. For access to finance, we are doing a lot of things," she said. Permanent secretary in the ministry of finance, Danladi Kifase who represented the finance minister, Olusegun Aganga, said government has already embarked on measures that would cut down on its expensive and improve the quality of its expenditure. "Government is determined to bring the budget back to balance. We are working to diversify our revenue base away from oil and gas by strengthening the tax base. The use of performance-based budgeting will help toward delivering efficiency in spending," the minister said. He said the establishment of the sovereign wealth fund was geared towards ensuring discipline in government spending and to ensure that excess revenue are saved for judiciously applied. According to Mr Kifase, government needs to continue to spend money in order to keep the economy running. "We cannot keep money in the bank when people need roads. The problem is the quality of spending." He said government would improve on its expenditure to achieve growth in the economy.

Mismanagement

#### Governments misuse funds – optimal involvement won’t happen

Clemens et. al(Director of Research at the Pacific Research Institute) October 2010

(Jason, Niels Veldhuis is the Fraser Institute President and one of Canada’s most-read private-sector economists, Julie Kaszton is a research fellow at the Pacific Research Institute, “No Bang for the Taxpayer’s Buck: Why California Must Reform Spending and Trim Government,” http://www.pacificresearch.org/docLib/20101013\_CAProsp\_3\_F%284%29.pdf)

A broad summary of the research on the economic effects of government spending shows that many governments operate where they are not needed. The resources expended, along with the taxes to finance them, do not contribute to economic growth. Government beyond the optimal level contributes little, if anything, to economic prosperity and social progress. At a little more than 40 percent of GDP, total government spending in the United States is clearly much greater than any of the specific estimates for economic-growth maximization or social progress.

The government mismanages the economy – empirically it produces unintended negative consequences

Peter Foster is a staff writer for the National Post, 8/26/09, “Keynesian road to ruin”, Proquest

The U.S.'s "cash for clunkers" program ended this week amid a frenzy of paperwork and widespread dealer complaints about Washington's sloth in getting those proverbial cheques in the mail. Nevertheless, President Obama has called the scheme -- under which car buyers received up to US$4,500 for trading in their gas guzzlers -- "successful beyond anybody's imagination." But surely anybody with the slightest economic imagination could have forecast that the program would be wildly popular. Its likely "success" could have been gauged simply by looking across the Atlantic. Similar schemes in Europe have also been big hits, both with the public and to national budgets. Germany's, for example, was among those expanded and extended. But then Wolfgang Franz, chairman of German Chancellor Angela Merkel's council of independent economic advisors, noted with admirable candour that "Every decent economist would agree that this decision is economic nonsense." Good point. How economically challenged does one have to be to believe that this program could put the auto industry on the "road to recovery" without putting the economy more broadly on the road to ruin? The U.S. Car Allowance Rebate System, CARS (do bureaucrats get bonuses for coining annoying acronyms?), which started last month, was due to run until November. The original US$1-billion budget disappeared in a week and was topped up by another US$2-billion, which disappeared as of yesterday. As the Post's auto writer David 'Motor Mouth' Booth noted a couple of weeks ago (in a column that put most naive economics reporters to shame), this policy was based on the kind of rash and desperate incentives that had helped put GM and Chrysler under in the first place! It's difficult to know how to categorize such policy lunacy: Cargo cult economics? Single-entry bookkeeping? The Broken Window Fallacy? The cargo cult was based on mistaking form for substance (as in primitive tribes last century observing that airplanes were good for trade, so imagining that prosperity would follow if they built one out of sticks and shoots in the jungle!). Similarly, CARS was based on the notion that since spending is part of a healthy economy, stimulating spending must be good! Which brings us to single-entry bookkeeping, because it is widely ignored that the "stimulus" has to be paid for later. Every credit needs a debit. Then Frederic Bastiat's Broken Window Fallacy comes into play because, again, nobody seems to be taking account of where money might have been spent if it hadn't been diverted towards replacing deliberately broken cars. Bastiat was a Frenchman, so another relatively recent event might be used to illuminate his point: that of rioting youths torching cars. They too, were "stimulating" auto sales. In fact, all these numbskull notions are subsumed under the master fallacy that is now, yet again, stalking the globe: Keynesianism, the policy of wise government macro-management that most observers thought had been buried in the 1970s. The rebirth of Keynesianism is in fact symptomatic of policy bankruptcy. Still, a drowning wonk will grab at a straw, or even a traded-in two-ton pickup. Robert Lucas, one of several prominent Nobel economists to disassemble the fallacies of Keynesianism, noted last year, "I guess everyone is a Keynesian in a foxhole." However -- to follow Professor Lucas' reference back to its roots -- while belief in God can certainly do no harm when facing death, because if you're wrong you won't be around to kick yourself, belief in Keynesianism is different, because it has real world consequences. In the meantime, and inevitably, cash for clunkers has produced an array of unintended and perverse results. The increasingly-less Big Three were concerned from the beginning that people would buy non-American cars with their Obamavouchers, and sure enough, just 41% of cars sold under the scheme came from GM, Ford or Chrysler. The big winners have been Toyota and Honda, whose Corolla and Civic have been, respectively, the biggest sellers. This is perceived as (temporary) good news for the Canadian plants of the Japanese manufacturers, which again is ironic because the Harper government has so far resisted the bleating of Canadian auto manufacturers that Canada is "missing out" on the opportunity to waste more taxpayers' money on top of the horrendous costs of "saving" GM and Chrysler jobs. The Harper government has certainly dabbled in dumb bureaucratic schemes, such as "feebates" and the "ecoAUTO" program. Also, earlier this year Ottawa introduced a cash for clunkers scheme in the form of a modest $300 rebate (or a bicycle voucher) to "Retire Your Ride." Critics called the program a "wet noodle," but they were missing the point. Wet policy noodles are good. The less the program had been a wet noodle, the more it would have been an improvised exploding economic device, like all Keynesian policy clunkers. Meanwhile, starting this week, the tumbleweeds will again be rolling though U.S. car dealerships.

\*\*Tradeoff Adv

1NC Tradeoff

\*RPS

1. No solvency – their evidence all assumes a national RPS standard – Laskow is only talking about creation of RPS standards by individual states

2. RPS won’t solve without comprehensive energy policy change

Fershee 8 **(**Joshua, Professor of Law, University of North Dakota School of Law, “Changing Resources, Changing Market: The Impact of a National Renewable Portfolio Standard on the U.S. Energy Industry,” Jan 2008, http://works.bepress.com/joshua\_fershee/2)

Renewable energy has great potential for expanded economic development, improved national security, lower electricity prices, and reductions in greenhouse gas emissions. And, while a national RPS is one way to help realize this potential, it should also be clear that for a national RPS to lead to more than moderate change, a comprehensive national energy policy is necessary. That is not to say that all questions must be answered before moving forward. In fact, without a national RPS in place, it may be impossible to determine the potential of renewable energy because even a moderately increased market for renewable energy could lead to significant technological advancements. All the planning in the world will not necessarily translate into effectiveness in the marketplace. At some point, an idea must be tested to find out if it will actually work.

**3. RPS causes backlash against renewable – turns warming**

Apt et al. 08 (Jay Apt, executive director, Electricity Industry Center, Tepper School of Business, Carnegie Mellon University & Distinguished Service Prof., Dept of Engineering & Public Policy, Carnegie Mellon University; Lester B. Lave, Higgins Professor of Economics, Carnegie Mellon University; Sompop Pattanariyankool, Ph.D. student in economics, Tepper School of Business, Carnegie Mellon University, “A National Renewable Portfolio Standard? Not Practical”, Issues in Science & Technology Online, Fall, 2008, http://www.issues.org/25.1/apt.html)

Renewable energy sources are a key part of the nation’s future, but wishful thinking does not provide an adequate foundation for public policy. The national RPS that gathered 159 cosponsors in the last Congress would be expensive and difficult to attain; it could cause a backlash that might doom renewable energy even in the areas where it is abundant and economical. Consider the numbers. Past mandates and subsidies have increased wind’s share of generated electric energy to 0.8% of total U.S. generation and geothermal’s share to 0.4%. Generation from photovoltaic cells and ocean waves and currents totals less than 0.02%. Wood and municipal waste provide 1.3%, and conventional hydroelectric 6% (but large hydroelectric power is generally excluded from RPS calculations). The near-term potential for acquiring significant additional generation from any of the renewable sources except wind is small. Thus, a renewable portfolio standard requiring 15 to 30% of electricity from renewable sources requires that wind generation be expanded at least 15-fold and perhaps more than 30-fold. The timeframes for reaching these production goals are very short. Eighteen states require that by 2015 at least 10% of their electricity must come from renewable sources. California and New York require 25%. Satisfying the state mandates would require the production and siting of hundreds of thousands of wind turbines. Because there is little wind power near large population centers, tens of thousands of miles of new transmission lines would have to be built within the next few years. Not only can transmission costs double the cost of delivered power, but the median time to obtain permission and build long-distance transmission lines has been 7 years—when they can be built at all. A Wall Street executive responsible for financing transmission lines stated that of 35 lines he has been involved with at an advanced stage, 80% were never built. As Massachusetts has already discovered, implementing an RPS is far more difficult than passing popular legislation. The proposed wind farm off Cape Cod is stalled, and Massachusetts is badly behind in meeting its RPS. Even beyond siting the wind farms, states and the federal government would have to expedite permitting and obtaining the land and permission to build transmission lines, as well as provide the resources to review interconnection applications quickly. Although the public supports renewable energy in the abstract, many groups object vociferously to wind farms in particular places and to transmission lines nearly everywhere.

\*WATER

(Their internal link is so terrible I literally shouldn’t have to block this out.)

1. Hahahahahhahahahahhahahahahahahahaha

2. No internal link – The Hydros card talks about diseases like asthma, arthritis, and dry skin – can’t solve for the deadly diseases like HIV their impacts are predicated off of.

3. No solvency – can’t prevent airborne diseases, STDs, etc – all the warrants in their Daswani ev re: third world mega-cities, rainforest destruction, and genetic mutations still apply post-plan

4. No disease can kill us all – it would have to be everything at once

Gladwell 95 (Malcolm, The New Republic, 7/17/95 and 7/24/95, “The Plague Year”, Lexis)

What would a real Andromeda Strain look like? It would be highly infectious like the flu, spread through casual contact. But it would also have to be structured in such a way as to avoid the kind of selection bias that usually exists against virulent strains. For that reason, it would need to move stealthily through its host, infecting so silently that the victim would not know to take precautions, and so slowly that the victim would have years in which pass on the infection to someone else. The Andromeda Strain, in short, the virus that really could kill 80 or 90 percent of humanity, would be an airborne version of HIV. In fact, doomsday types have for years been conjuring up this possibility for the end of mankind. The problem, however, is that it is very difficult to imagine how such a super-virus could ever come about. For a start, it is not clear how HIV could become airborne and still be lethal. (This was the argument of Howard Temin, the late Nobel Prize-winning virologist.) What makes HIV so dangerous is that it seeks out and selectively kills the key blood cells of the human immune system. To be airborne, it would have to shift its preference to the cells of the respiratory system. (Ebola, which is not nearly so selective, probably doesn't need to change personality to become airborne.) How, then, could it still cause aids? Why wouldn't it be just another cold virus? Then there is the problem of mutation. To become airborne, HIV would have to evolve in such a way as to become more durable. Right now the virus is highly sensitive to changes in temperature and light. But it is hardly going to do any damage if it dies the moment it is coughed into the air and exposed to ultraviolet rays. HIV would have to get as tough as a cold virus, which can live for days on a countertop or a doorknob. At the same time HIV would have to get more flexible. Right now HIV mutates in only a limited manner. The virus essentially keeps changing its clothes, but its inner workings stay the same. It kills everyone by infecting the same key blood cells. To become airborne, it would have to undergo a truly fundamental transformation, switching to an entirely different class of cells. How can HIV make two contradictory changes at the same time, becoming both less and more flexible? This is what is wrong with the Andromeda Strain argument. Every infectious agent that has ever plagued humanity has had to adopt a specific strategy, but every strategy carries a corresponding cost, and this makes human counterattack possible. Malaria is vicious and deadly, but it relies on mosquitoes to spread from one human to the next, which means that draining swamps and putting up mosquito netting can all but halt endemic malaria. Smallpox is extraordinarily durable, remaining infectious in the environment for years, but its very durability, its essential rigidity, is what makes it one of the easiest microbes to create a vaccine against. aids is almost invariably lethal because its attacks the body at its point of great vulnerability, that is, the immune system, but the fact that it targets blood cells is what makes it so relatively uninfectious. I could go on, but the point is obvious. Any microbe capable of wiping us all out would have to be everything at once: as contagious as flu, as durable as the cold, as lethal as Ebola, as stealthy as HIV and so doggedly resistant to mutation that it would stay deadly over the course of a long epidemic. But viruses are not, well, superhuman. They cannot do everything at once. It is one of the ironies of the analysis of alarmists such as Preston that they are all too willing to point out the limitations of human beings, but they neglect to point out the limitations of microscopic life forms.

RPS Exts

Major Studies leave many questions about RPS solvency

Fershee 8 **(**Joshua, Professor of Law, University of North Dakota School of Law, “Changing Resources, Changing Market: The Impact of a National Renewable Portfolio Standard on the U.S. Energy Industry,” Jan 2008, http://works.bepress.com/joshua\_fershee/2)

D. The Great Unknown: Operational and Infrastructure Implications Considering the major operational impacts on electric utilities is exceedingly difficult. Many of the studies discussed in Part II provide significant caveats related to the assumptions used in developing the respective models. The outcomes of the currently available studies are so broad that the results seem to add little more than quantified speculations, at least in terms of making specific predictions about the implications of a national RPS. That is, the studies provide a lot of numbers to consider, but the results indicate that the impact of a national RPS could be revolutionary or exceedingly moderate. For instance, the study from Woods MacKenzie indicates that a national RPS would lead to such significant amounts of renewable energy that consumers could save as much as $100 billion on their electric bills.127 If this is to become a reality, it will mean a fundamental change in how utilities operate.

No Need for CP – most states already have an RPS

Fershee 8 **(**Joshua, Professor of Law, University of North Dakota School of Law, “Changing Resources, Changing Market: The Impact of a National Renewable Portfolio Standard on the U.S. Energy Industry,” Jan 2008, http://works.bepress.com/joshua\_fershee/2)

From a practical perspective, consumer impacts of a national RPS would be limited, although not insignificant. Important in considering the likely consumer impact of a national RPS is that many consumers (indeed, roughly half of the country) are already subject to some form of RPS. As such, the question is not a decision between a national RPS and no RPS; instead, the question is whether all consumers will be subject to an RPS or just some.189 For those consumers not currently buying electricity under an RPS, a state RPS may be pending.190 Further, as one study advocating a federal RPS stated, “Not only does reliance on state-based action make for an uncertain regulatory environment for potential investors, it creates inherent inequities between ratepayers in some states that are paying for ‘free riders’ in others.”191 The study explained that renewable energy generation has a free-rider problem because “everyone benefits from the environmental advantages of renewable energy.”192 As such, private companies might invest millions of dollars in researching and developing clean energy technologies, yet be unable to recover the full profit of their investments.193 To the extent this is accurate, consumers not under an RPS, even those with less renewable generation resources in their state, would reap the benefits of technologies developed under state RPS programs, without paying their fair share.

RPS means more warming - increased natural gas usage

Fershee 8 **(**Joshua, Professor of Law, University of North Dakota School of Law, “Changing Resources, Changing Market: The Impact of a National Renewable Portfolio Standard on the U.S. Energy Industry,” Jan 2008, http://works.bepress.com/joshua\_fershee/2)

A long-term reduction in natural gas costs as a result of a mandatory national RPS could lead to increased consumer use of natural gas. In fact, even without a national RPS, future residential heating applications are expected to continue to drive residential demand for natural gas.196 “Between 1991 and 1999, 66 percent of new homes, and 57 percent of multifamily buildings constructed used natural gas heating. In 2003, 70 percent of new single family homes constructed used natural gas.”197 If natural gas prices do, in fact, continue to decline as a result of a national RPS, this trend can only be expected to continue.

**RPS trades off with energy efficiency**

Apt et al. 08 (Jay Apt, executive director, Electricity Industry Center, Tepper School of Business, Carnegie Mellon University & Distinguished Service Prof., Dept of Engineering & Public Policy, Carnegie Mellon University; Lester B. Lave, Higgins Professor of Economics, Carnegie Mellon University; Sompop Pattanariyankool, Ph.D. student in economics, Tepper School of Business, Carnegie Mellon University, “A National Renewable Portfolio Standard? Not Practical”, Issues in Science & Technology Online, Fall, 2008, http://www.issues.org/25.1/apt.html)

An RPS is essentially a narrowband solution to a broadband problem. By placing an inordinate focus on a limited number of renewable energy sources, legislators are neglecting numerous other options that can make significant contributions to the larger social goal of an adequate supply of clean, low-carbon, reliable, and affordable electricity. A prime example of a strategy that deserves more attention is energy efficiency. In comparison with other developed nations, the United States is a profligate user of energy. For example, Americans use more than twice as much energy per capita and per dollar of gross domestic product as do Denmark and Japan. The comparison across nations or over time indicates a high potential for increased U.S. energy efficiency. Experience in states such as California shows that aggressive policies can substantially reduce the growth of electricity demand. Aggressive efficiency standards for appliances and buildings, subsidizing efficient lighting, a five-tier electricity pricing structure with prices that start at 11.6 cents/kWh and go up to 34.9 cents/kWh for residential customers with high consumption, and incentive plans that reward utilities for lowering electricity use have led residential use per capita in California to grow only 4% from 1980 to 2005, while use in the rest of the United States grew 89%. The per capita demand in the commercial sector in California grew by 37% over that period, much less than the 228% growth in the rest of the country. California used 4% more electricity per dollar of gross state product in 2005 than in 1980, whereas the rest of the country used 40% more. A new approach now in the early stages of implementation in California and elsewhere is changing from charging the same price for electricity at all times of the day to a system in which the price varies to reflect the actual cost of power at that time. On hot summer afternoons, inefficient and expensive generators are turned on to satisfy the additional demand; they may run for only a few dozen hours in a year, but the cost of building and maintaining them means that the cost of that peak electricity is very high. If customers were forced to pay the actual price at the time they use electricity, they would be motivated to shift some of their usage to lower-price hours, which would reduce the need for some expensive peaking capacity. An economic model designed to predict consumer response to real-time pricing found that in the mid-Atlantic states, peak load would be reduced by 10 to 15%. But the model also found that total demand would increase by 1 to 2% as consumers took advantage of lower rates at off-peak hours. The shift to increased nighttime electric use would be a good match for wind’s production profile but would not be a good fit for solar power. One potential downside of real-time pricing is that it may increase pollution emissions in certain regions of the country if customers switch their use from daytime, when natural gas is the predominant generation source for meeting peak demand, to the night, when coal dominates. Policies to promote energy efficiency could clearly make a large contribution to reducing CO2 emissions from electricity generation. However, the experience of California and other energy-conserving states indicates that implementing energy efficiency takes time and resources. An effective program requires actions that take years, such as replacing appliances and installing better insulation and windows. Although aggressive energy efficiency measures might lower electricity demand in states where the population is not growing, for most of the nation population is likely to grow faster than efficiency can be improved, so that total energy demand will continue to grow.

**RPS fails to reduce emissions and leads to grid disruption and blackouts**

Apt et al. 08 (Jay Apt, executive director, Electricity Industry Center, Tepper School of Business, Carnegie Mellon University & Distinguished Service Prof., Dept of Engineering & Public Policy, Carnegie Mellon University; Lester B. Lave, Higgins Professor of Economics, Carnegie Mellon University; Sompop Pattanariyankool, Ph.D. student in economics, Tepper School of Business, Carnegie Mellon University, “A National Renewable Portfolio Standard? Not Practical”, Issues in Science & Technology Online, Fall, 2008, http://www.issues.org/25.1/apt.html)

A national RPS is a bad idea for three reasons. First, “renewable” and “low greenhouse gas emissions“ are not synonyms; there are several other practical and often less expensive ways to generate electricity with low CO2 emissions. Second, renewable sources such as wind, geothermal, and solar are located far from where most people live. This means that huge numbers of unpopular and expensive transmission lines would have to be built to get the power to where it could be used. Third, since we doubt that all the needed transmission lines would be built, a national RPS without sufficient transmission would force a city such as Atlanta to buy renewable credits, essentially bribing rural states such as North Dakota to use their wind power locally. However, the abundant renewable resources and low population in these areas mean that supply could exceed local demand. Although the grid can handle 20% of its power coming from an intermittent source such as wind, it is well beyond the state of the art to handle 50% or more in one area. At that percentage, supply disruptions become much more likely, and the highly interconnected electricity grid is subject to cascading blackouts when there is a disturbance, even in a remote area.

**Blackouts lead to market crash**

Bech & Garratt 10 (Morten L. Bech, Federal Reserve Bank of New York & Rod Garratt, University of California, Santa Barbara, “Illiquidity in the Interbank Payment System following Wide-Scale Disruptions”, July 21, 2010, <http://www.econ.ucsb.edu/~garratt/unpublished/widescale.pdf>)

The events of September 11, 2001 and to a lesser extent the North American blackout of August 14, 2003 highlighted the fact that parts of the financial system are vulnerable to wide-scale disruptions. Moreover, the events underscored the fact that the financial system consists of a complex network of interrelated markets, infrastructures, and participants, and the inability of any of these entities to operate normally can have wide-ranging effects even beyond its immediate counter-parties. Not surprisingly, the financial industry and regulators are devoting considerable resources to business continuity measures and planning in order to strengthen the resiliency of the U.S. financial system. The primary objective is to minimize the immediate systemic effects on the financial system of large scale shocks. At the apex of the U.S. financial system are a number of critical financial markets that provide the means for both domestic and international financial institutions to allocate capital and manage their exposures to liquidity, market, credit and other types of risks. These markets include Federal funds, foreign exchange, commercial paper, government and agency securities, corporate debt, equity securities and derivatives. Critical to the smooth functioning of these markets are a set of wholesale payments systems and financial infrastructures that facilitate clearing and settlement. Operational difficulties involving these entities or their participants can create difficulties for other systems, infrastructures and participants. Such spillovers might cause liquidity shortages or credit problems and hence potentially impair the functioning and stability of the entire financial system.

**C/A econ impact?**

\*\*Solvency

1NC Solvency

NIB fails to increase investment – bureaucratic delays, lack of investors, political resistance

Pethokoukis 7/14/12

(James Pethokoukis, American Enterprise Institute, “The CBO just poured cold water on Obama’s idea for a national infrastructure bank,” 7-14-12, <http://ricochet.com/main-feed/The-CBO-just-poured-cold-water-on-Obama-s-idea-for-a-national-infrastructure-bank>)

President Obama has criticized congressional Republicans for opposing his idea to create a national “infrastructure bank” to finance highway and rail construction. The WaPo describes how the whole thing would work : The proposal, modeled after a bipartisan bill in the Senate, would take $10 billion in start-up money and identify transportation, water or energy projects that lack funding. Eligible projects would need to be worth at least $100 million and provide “a clear public benefit.” The bank would then work with private investors to finance the project through cheap long-term loans or loan guarantees, with the government picking up no more than half the tab — ideally, much less — for any given project. … Administration officials have, in turn, tried to allay fears about taxpayer losses by noting that the loans would only go toward projects that have “a dedicated revenue stream,” such as toll roads, to repay the loans. The bank would be managed by an independent seven-member board, with no more than four members from either party. But a new report from the Congressional Budget Office seems skeptical of the idea in practice, at least as it concerns surface transportation projects: “At least initially, however, an infrastructure bank would probably generate neither significant new revenues for surface transportation nor significant new interest from private-sector investors, when considered as a share of current investment in surface transportation infrastructure.” Among the problems, according to CBO: a) most current highway spending is for projects too small to meet the minimum size requirements commonly proposed for an infrastructure bank; and b) an NIB might merely shift projects from being funded by state governments to the federal government, resulting in no net increase in investment. But the biggest drawback is that while NIB proponents like the Obama White House sell it as some kind of non-political, technocratic institution that would pick projects on merit, that goal probably wouldn’t survive the NIB’s first contact with political reality in Washington. The CBO: Proponents of an infrastructure bank envision an independent federal entity that would select projects on the basis of technical rather than political factors. Although establishing an infrastructure bank outside of DOT might change some of the forces affecting its decisionmaking or its organizational efficacy, any entity created and funded by the Congress would be subject to similar political pressures and federal administrative procedures. A national infrastructure bank might turn into a crony capitalist’s delight and a pork barreler’s dream come true.

Status quo solves transportation infrastructure

Cooper 11 (Donna Cooper is a Senior Fellow at the Center for American Progress. “Not Fixing Our Infrastructure, Not Creating Jobs: Conservatives in Congress Are to Blame for Both Dismal Outcomes,” 11-9-11, <http://www.americanprogress.org/issues/2011/11/infrastructure_jobs.html>)

More level-headed Republican leaders at the state level are aghast and taking action. Just two weeks ago, Mary Fallin, the Republican governor of Oklahoma, announced that under her watch, the 706 structurally deficit bridges in her state will be repaired using state funds. And Republican Gov. Rick Snyder of Michigan is now the champion of a vehicle registration fee increase to pay for a massive increase in the level of state funding for infrastructure improvements. Even House Republican Leader John Boehner (R-OH) has given permission to the chairman of the Transportation Committee, Rep. John Mica (R-FL), to look for ways to avoid cutting transportation funding in fiscal year 2012, which began last month—never mind that the House Subcommittee on Transportation, Housing and Urban Development already passed a 34 percent cut of transportation funding in the appropriations bill for FY 2012.

No solvency – infrastructure foundations fail, empirics prove – ARRA

Utt 11 (Ronald D. Utt is the Morgan Senior Research Fellow in Economic Policy at the Heritage Foundation, “Infrastructure ‘bank’ doomed to fail,” The Washington Times, 9-14-11, [http://www.washingtontimes.com/news/2011/sep/14/utt-infrastructure-bank-doomed-to-fail](http://www.washingtontimes.com/news/2011/sep/14/utt-infrastructure-bank-doomed-to-fail/) | JS)

President Obama remains enamored of an “infrastructure bank,” an idea flogged, in one shape or another, for several years now. All of the proposals floated to date involve creating a new federal bureaucracy that would provide loans and grants for construction or repair projects sought by state or local governments. In some proposals, those funds would be provided via the congressional appropriations process. In others, the bank simply would borrow the money. But no matter what the source of the cash, this hard fact remains: An infrastructure bank would do little to spur the economic recovery — and nothing to create new jobs. Such a bank has all the liabilities of the American Revitalization and Investment Act of 2009 (ARRA). You’ll recall that this $800 billion “stimulus” included $48.1 billion for transportation infrastructure. Yet, as the president acknowledged recently and the Heritage Foundation predicted, the funded projects have been very slow to get under way and have had little impact on economic activity. Why is an infrastructure bank doomed to fail? For starters, it’s not really a bank in the common meaning of the term. The infrastructure bank proposed in the president’s 2011 highway reauthorization request, for example, would provide loans, loan guarantees and grants to eligible transportation infrastructure projects. Its funds would come from annual appropriations of $5 billion in each of the next six years. Normally, a bank acts as a financial intermediary, borrowing money at one interest rate and lending it to creditworthy borrowers at a somewhat higher rate to cover the costs incurred in the act of financial intermediation. That would not be the case here. Grants are not paid back. As a former member of the National Infrastructure Financing Commission observed, “Institutions that give away money without requiring repayment are properly called foundations, not banks.” Infrastructure bank bills introduced by Sen. John Kerry, Massachusetts Democrat, and Rep. Rosa L. DeLauro, Connecticut Democrat, illustrate the time-consuming nature of creating such a bank. Both bills are concerned — appropriately — with their banks’ bureaucracy, fussing over such things as detailed job descriptions for the new executive team; how board members would 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. This all suggests that it will take at least a year or two before the bank will be able to cut its first grant or loan check. Indeed, the president’s transportation “bank” proposal indicates just how bureaucracy-intensive such institutions would be. It calls for $270 million to conduct studies, administer the bank and pay the 100 new employees required to run it. In 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 — 2½ years after the enactment of ARRA — 38 percent of the transportation funds authorized were still unspent, thereby partly explaining ARRA’s lack of impact. The president’s fixation on an infrastructure bank as a means of salvation from the economic crisis at hand is — to be polite about it — **a dangerous distraction and a waste of time**. It also is a proposal that has been rejected consistently by bipartisan majorities in the House and Senate transportation and appropriations committees. Those rejections have occurred for good reason. Based on the ARRA’s dismal and remarkably untimely performance, an infrastructure bank likely would yield only modest amounts of infrastructure spending by the end of 2017 while having no measurable impact on job growth or economic activity. And whatever it did manage to spend would have to be borrowed, only adding to the deficit. That’s no way to meet the economic challenges confronting the nation.

Public-private partnerships bad – put taxpayer at stake for risky investments

Loris and Spencer 11 (Nicolas D. Loris is a Policy Analyst and Jack Spencer is Research Fellow in Nuclear Energy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. “The Department of Energy Should Not Be the Green Banker,” The Heritage Foundation, Backgrounder, No. 2613, October 6, 2011, <http://thf_media.s3.amazonaws.com/2011/pdf/bg2613.pdf>)

When the federal government provides a loan guarantee, it enters into a contract with private creditors to assume the debt if the borrower defaults. According to the DOE, the purpose is to “allow the Federal Government to share some of the financial risks of projects that employ new technologies that are not yet supported in the commercial marketplace or where private investment has been inhibited.” 2 If a company defaults on a federally backed loan guarantee, the taxpayer is on the hook. This is not an appropriate role for the federal government. Two existing federal loan guarantee programs are of dubious value and have questionable objectives. Under Section 1703 of the Energy Policy Act of 2005, DOE has provided billions of dollars in loan guarantees for technologies that “avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases.” 3 Section 1705 of the American Reinvestment and Recovery Act, more commonly known as the stimulus bill, added $8 billion to support additional loan guarantees, 4 including funding for the notorious Solyndra project.

EXT – SQ Solves

NIB takes decision making out of the hands of state officials – squo solves best

Inhofe 10 (James M. Inhofe, senior United States Senator from Oklahoma, ranking member and former chairman of the United States Senate Committee on Environment and Public Works, "Innovative Project Finance,” Hearing, September 28, 2010, <http://epw.senate.gov/public/index.cfm?FuseAction=Hearings.Statement&Statement_ID=8cee4317-6930-454a-8ad4-39395bf7cb7e>

Another way to leverage non-federal funds is a loan program contained in the current highway program called TIFIA. Although it took some time to really get going, TIFIA now is very popular and recently received applications for 10 times the amount it can lend. It is used in many situations, including as a component of PPP financing or by states to supplement more traditional financing. Clearly, this is a successful program that must be dramatically expanded. I will end on a final note about infrastructure banks, which is a very hot topic these days. First of all, we have government infrastructure banks for transportation: at the federal level we have TIFIA and at the state level we have State Infrastructure Banks which are capitalized by the federal government. What most proponents of a new infrastructure bank want is a mechanism to give out more grants. 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. The only thing you are going to do is move decision making from States to US DOT officials in Washington-an outcome I do not support.

EXT – Fails: Laundry List

NIB fails – laundry list

Istrate and Puentes 09 (Emilia, Senior Research Analyst at the Metropolitan Policy Program and Robert, Senior Fellow and Director, Metropolitan Infrastructure Initiative, Investing for Success: Examining a Federal Capital Budget and a National Infrastructure Bank, Brookings, December 2009, http://www.brookings.edu/~/media/research/files/reports/2009/12/10%20infrastructure%20puentes/1210\_infrastructure\_puentes.pdf)

Filling the capital structure of infrastructure projects. Although the United States has the deepest capital markets in the world, they are not always providing the full array of investment capital needed —especially for large infrastructure projects with certain credit profiles. This has been even more obvious during the current recession, with the disruptions in the capital markets. An NIB could help by providing more flexible subordinate debt for big infrastructure projects. Generally bonds get investment-grade ratings, and have ready market access, only if they are senior obligations with secure repayment sources. For more complicated project financings that go beyond senior debt, there is a need for additional capital, such as equity capital or subordinated debt. However, this market gap is relatively small relatively to federal investment. An NIB would build upon the current Transportation Infrastructure Finance and Innovation Act (TIFIA) by providing subordinated debt to public or private entities in leveraging private co-investment. However, an NIB is not a silver bullet for the problems of the federal investment. An entity that is not self-sufficient over time and relies on Congress appropriations, by definition, will be under Congress’ influence. In this case, it will be hard to entirely remove the political criterion from the selection process. If NIB is a shareholder-owned corporation, its cost of borrowing would be higher and the entity might experience similar problems to those of Fannie Mae and Freddie Mac. Lack of a clear federal role, performance based selection criteria, and a lack of emphasis on loan repayment, may render an NIB into another federal earmarks program. These issues are discussed below. Political interference in the selection process. An NIB, as envisaged by recent proposals, would be under congressional influence. It would receive annual appropriations from Congress and the board would have to submit a report to the president and the Congress at the end of each fiscal year. Evidence from the federal transportation program shows that congressional directives sometimes choose projects which are not a priority and that would not have been chosen in a competitive selection process. Talking about changing the U.S. transportation policy into performance driven decisionmaking, former U.S. Department of Transportation official Tyler Duvall articulated the problem: “The objective of depoliticizing transportation decisions by using the political process is a tough challenge.” Debt and cost of borrowing. The NIB would add to the federal debt and budget deficit if it were to use debt to finance its activities and if there were not cuts in federal spending taken elsewhere. There is also a trade-off between independence from political influence and cost of borrowing. If an NIB is a federal agency, it may draw upon Treasury’s low interest rates to finance its activities. If it is a shareholder–owned entity, it would incur higher costs of borrowing than Treasury, so the loans going to recipients would have to be at higher interest rates Loan repayment. An issue of discussion is the revenue source required to repay an NIB loan. There is a concern is that only revenue producing projects, such as toll roads, would be able to obtain funding from an NIB. The TIFIA awards track record shows that while tolls are the main revenue source, there are alternatives. Awardees may use other sources of funding to reimburse the loan or secure the loan guarantee, such as availability payments. The Washington Metropolitan Area Transit Authority secured a loan guarantee with its gross revenues as well as payments provided by the local area governments to support its Capital Improvement Program. Size of projects. Although the 2007 Dodd-Hagel bill referred to a $75 million threshold for awards, the current proposals do not mention any size. The size of projects is often considered as a proxy for the expected effect. A low threshold size might signal that the money is intended to be spread around to satisfy as many projects as possible. If that’s the case, some entities might not consider applying for the funding, given the large cost to prepare the application for a project. Ultimately, the size of projects will depend on the funding available to an NIB and the perceived federal role in directly funding infrastructure projects. Sectors. There is also a concern that an NIB would favor transportation over other infrastructure modes, due to potentially larger projects and associated revenue streams. The wastewater and drinking water advocates are worried that water projects would not be able to compete with transportation, because the water projects have a localized effect and usually do not reach the size of transportation construction projects. Overlap with other federal programs. The mandate of an NIB in practice would overlap with the mandates of other existing programs. There are two major issues arising from this problem: how would an NIB use the existing agency expertise and how would other federal agencies relate to this new entity? If the sharing-of-expertise is accomplished through detailing personnel from other agencies, the other federal agencies may have indirect control over NIB. The issue of coordination with other agencies is a thornier one. Even current federal agencies do not have a great record at coordinating their programs. What it is not. Independent of any proposal design, an NIB is no panacea for the problems of the federal investment process. It is not a solution for the current federal investment programs. An NIB would be focused only on its own projects, which would be financed through new federal investment. It is not a revenue source, but a financing mechanism. It is not a replacement of the current formula based grants or direct federal funding in infrastructure.

NIB fails –

Pethokoukis 7/14/12

(James Pethokoukis, American Enterprise Institute, “The CBO just poured cold water on Obama’s idea for a national infrastructure bank,” 7-14-12, <http://ricochet.com/main-feed/The-CBO-just-poured-cold-water-on-Obama-s-idea-for-a-national-infrastructure-bank>)

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In a great article in The New Atlantis , Adam White — who recently did a podcast with AEI — takes a hard, historical look at infrastructure banks and sees Obamacrat proposals as suffering from several flaws that have plagued these: First, infrastructure bank proposals rarely offer any advance indication of exactly which projects, or which kind of projects, would actually be supported. … By not defining in advance the types of projects that would be funded and the public good that would be achieved, the administration’s proposal would only exacerbate the public’s traditional suspicion that government-supported infrastructure is just pork barrel, intended more to benefit the well-connected than the national interest. Also, since an infrastructure bank would rely heavily on private industry to drive the process, it might be susceptible to the problems that pervaded the nineteenth-century railroad programs. Then, as today, policymakers presumed that public-private partnership would deliver the best of both worlds: the expertise of private enterprise in identifying and carrying out the best possible projects, and the resources of the federal government in supporting those projects. But for railroads, as Carter Goodrich observed, “mixed enterprise came close to representing simply the private control of public investment,” especially when project promoters were able to secure government financial backing without first taking on a substantial financial stake of their own. Finally, an infrastructure bank would do nothing to transform today’s regulatory landscape, which offers too many opportunities for environmental activists and others to tie up even environmentally sound projects in interminable litigation … None of the major infrastructure bank proposals seriously grapples with the problem of regulation.

NIB fails to stimulate economy – administrative delays & costs

Utt 11 (Ronald. D. Utt, Herbert and Joyce Morgan Senior Research Fellow at The Heritage Foundation, “The Limited Benefits of a National Infrastructure Bank,” 10-30-11, The Heritage Foundation, hosted @ The Hawaii Reporter, http://www.hawaiireporter.com/?p=41695)

Would an Infrastructure Bank Contribute to Jobs and Stimulate the Economy? For some advocates—especially the President—these banks are seen as mechanisms to propel the economy forward out of the lingering recession into an era of greater prosperity and more jobs. Sadly, all evidence indicates that this just isn’t so. As far back as 1983, the General Accounting Office (now the Government Accountability Office) reviewed an earlier infrastructure-based stimulus program and observed that although the program was enacted during the worst of the recession, “implementation of the act was not effective and timely in relieving the high unemployment caused by the recession.” Specifically, the GAO found that: Funds were spent slowly and relatively few jobs were created when most needed in the economy. Also, from its review of projects and available data, the GAO found that (1) unemployed persons received a relatively small proportion of the jobs provided, and (2) project officials’ efforts to provide em­ployment opportunities to the unemployed ranged from no effort being made to work­ing closely with state employment agencies to locate unemployed persons. [5] Infrastructure-based stimulus programs have been a disappointment, in large part because of time delays in getting programs underway, projects identified and approved, and money spent. More recently, supporters of the American Recovery and Reinvestment Act (ARRA) claimed that it would focus on shovel-ready projects, but USDOT recently reported to this committee that as of July 2011—two and a half years after the enactment of the ARRA—just 61 percent of the authorized transportation funds had been spent. Perhaps contributing to this is the fact that the Federal Railroad Administration required 12 months to set up a mechanism to receive, review, and approve rail infrastructure projects authorized by the ARRA. In both of these cases, the stimulus funds were being spent through existing federal, state, and local channels by departments, managers, and employees with many years of experience in the project approval business. In large part, these delays are not due to any particular institutional failing but simply to the time it takes to establish guidelines and rules for project submission, for outside parties to complete the request, and for USDOT to review the many requests submitted and pick the most promising, perhaps with modifications, and fulfill the contractual details of awarding the contract. Once the award is made to state and local entities, they in turn must draw up the RFP (and perhaps produce detailed engineering plans as appropriate), put the contract out for bid, allow sufficient time for contractors to prepare bids, review submitted bids, and finally accept the winning contract. It is at this point that money can be spent on the project, and the time that elapses from the beginning to the end of the beginning can easily exceed a year or more. In the case of an infrastructure bank, such delays will be much longer—perhaps even double that described above. In the case of the above example, the assumption is that the newly authorized stimulus money would flow through an institutional “infrastructure” of well-established channels staffed by experienced people. In the case of the proposed infrastructure banks, no such administrative structure exists, and one will have to be created from scratch once the enabling legislation is enacted. In the case of some of the proposals, this creation process could take a while. President Obama’s most recent plan, for example, first requires the selection, recommendation, and Senate confirmation of a seven-person bipartisan board appointed by the President. The President will also appoint, and the Senate confirm, a Chief Executive Officer who in turn will select the bank’s senior officers—Chief Financial Officer, Chief Risk Officer, Chief Compliance Officer, General Counsel, Chief Operation Officer, and Chief Lending Officer—subject to board approval. The Chief Lending Officer will be responsible “for all functions relating to the development of project pipelines, the financial structuring of projects, the selection of infrastructure projects to be reviewed by the board, and related functions.” So once all of this administrative effort is completed and the bank is ready to go, then the process of fulfillment, as described in the paragraph just prior to the preceding paragraph, would then be in effect. As is obvious, dependence upon this prospective bank will further delay the time in which the project money would be spent, but in the process, it would also incur substantial administrative expenses that might better be used for actual infrastructure repair and investment.

EXT – Bureaucracy Sucks

NIB fails to solve problems & corrupts the system

Yost 11

(Keith, Staff Columnist, “No national infrastructure investment bank: Infrastructure investment is a state responsibility,” 9-20-11, MIT’s The Tech, Vol. 131, issue 38, <http://tech.mit.edu/V131/N38/yost.html>)

That leaves just one question: who is right here? Is an infrastructure bank an idea whose time has come, or is it a dud? At first glance, a national campaign to invest in infrastructure isn’t a bad proposition. The returns to investment on infrastructure aren’t very impressive, but with the government able to borrow money at two percent interest, and with labor and materials costs at extreme lows, it doesn’t take a very high return to justify infrastructure spending. On deeper inspection however, **a national infrastructure bank is a fatally flawed idea**, for one simple reason: forcing the citizens of Texas to pay for a high speed rail line from San Diego to Sacramento is bad government. It invites corruption, pork barrel politics, and misallocation of our society’s resources. The citizens of, say, Ohio are and will always be in a better position to decide whether it is worth the money to repair a bridge or school in their state. Offering to let them pay for their projects with someone else’s money is not going to lead to better decision-making— instead, it will lead states to cut their own infrastructure spending and turn their beggars cup to the federal government. It will incentivize states to represent their infrastructure as worse than it actually is, and pretend that solutions are cheaper than they actually are. And because it isn’t their money at stake, states will have even less inclination than usual to make sure that the projects are managed correctly. The real key to a state’s economic success won’t be the wise decision-making of its leaders, it will be its ability to lobby the federal government for special treatment and trade favors with the party in power. Perhaps in a few instances, investment in infrastructure at the national level makes sense. Air traffic control, or an interstate network make sense as matters for the national government to manage. But bridges, schools, high speed rail lines, and the vast majority of the projects Obama touts as within the purview of his national infrastructure campaign are best managed at the state or local level. It’s a conclusion so obvious that the idea of national control **raises immediate suspicion**. Does Obama plan to use the bank to bestow patronage on his supporters (particularly labor unions)? Or did he really manage to forget that state governments already have the power to levy taxes and make repairs? Democratic activists are thrilled with Obama’s supposedly new “toughness.” But getting tough is only a good strategy if you’ve got an idea that’s actually worth fighting for. Two weeks from now, every leading Republican is going to have worked out the obvious counter-argument to a national infrastructure bank, and two weeks after that they’re going to have integrated the bank into their stump speeches as yet another example of intellectually bankrupt federal overreach.

Restrictions and red tape preclude short-term job creation & bureaucracy dooms long-term solvency

McIntyre 11

(Douglas A. McIntyre, partner at 24/7 Wall St., LLC and has previously been the Editor-in-Chief and Publisher of Financial World Magazine, “Why an Infrastructure Jobs Bank Won’t Work,” 9-6-11, http://247wallst.com/2011/09/06/why-an-infrastructure-jobs-bank-won%E2%80%99t-work/)

One of the core proposals President Obama will make to Congress this week is the creation of an infrastructure bank that will provide funds to repair tens of thousands of miles of U.S. roads and bridges. It will, like any other large government program that seeks to solve problems nationwide, face the same kind of bureaucracy that made past programs, like the 2008 stimulus and TARP, ineffective or unmeasurable. It is relatively easy to assume that an infrastructure bank would require applications from private construction firms. These companies would need to get permits to work on highways and bridges. The construction also would have to be done to local or federal specifications, which is another part of the chain to initiate a project. Workers can be hired at that point. That process, and the additional job of finding and financing equipment in some cases, could add several more months to job creation. In all, it would not be unfair to assume, the effects of the work of an infrastructure bank may not be felt for more than a year. Unfortunately for the economy, and those out of work, there are 14 million unemployed people in the U.S., and nearly half of those out of work have been so for over half a year. It is impossible to judge how many of these people have the skills needed to work on construction crews. Probably not many. And, training those who are untrained and moving them to the locations where they can work would be challenging. Other plans the Administration will propose to increase hiring and consumer spending have only been rumored. The most likely of these is tax cuts for the middle class. If the extension of Bush tax cuts is an indication, Americans are as likely to pay bills or save as they are to go on shopping sprees. Without a plan that will encourage businesses to add jobs immediately, the unemployment situation will get worse as increasing numbers of people move into the category of the long-term jobless who have begun to run out of financial resources altogether.

EXT – No Projects

No solvency – no projects would fit NIB requirements

Puro 7/12/12 (Sarah, Budget Analysis Division at CBO, “Infrastructure Banks and Surface Transportation,” July 12 2012, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/07-12-12-InfrastructureBanks.pdf>)

Over time, project sponsors might develop more proposals tailored to receive support from an infrastructure bank. At least initially, however, an infrastructure bank would probably generate neither significant new revenues for surface transportation nor significant new interest from private-sector investors, when considered as a share of current investment in surface transportation infrastructure (see Table 1). Number of New Large-Scale Projects. Most current highway spending is for projects too small to meet the minimum size requirements commonly proposed for an infrastructure bank. (Several proposals would set minimum costs at $25 million for rural projects and $100 million for other projects.) The majority of total nationwide capital spending on highways by all levels of government is not for the construction of new routes, bridges, or lanes but for road repair, safety improvements, or other, smaller projects that would typically not meet the size requirements. Among the projects involving new construction, relatively few projects (about 4 percent of those funded through the FHWA’s programs, representing about 15 percent of the funding requested in 2007) are large or complex enough even to require an environmental impact statement. 14 And the projects considered large enough for assistance from an infrastructure bank are probably a subset of those needing such a statement. An infrastructure bank might induce state and local governments to develop more proposals for large projects. However, state and local priorities for transportation infrastructure are influenced by factors besides a project’s costs, so establishing an infrastructure bank might not lead to many more proposals for large projects. The Congress also could choose to reduce the required minimum project size or make eligible for funding all projects for which the benefits exceed the costs by a set amount. However, smaller projects would generally have smaller benefits for the general public.

AT – P3s

Public-private partnerships devastate bank integrity

Anand 11

(Anika Anand, MSNBC, “Bank plan would help build bridges, boost jobs: Bill gains traction, but foes fear another Fannie-Freddie disaster,” 7-6-11, <http://www.msnbc.msn.com/id/43606379/ns/business-eye_on_the_economy/t/bank-plan-would-help-build-bridges-boost-jobs/#.UA9CkLTOx8s>)

"The bank would focus on the project as the number one issue, rather than constituents and politics as the number one focus," he said. Opponents of the BUILD Act question this supposed political neutrality. One skeptic is Rep. John Mica, R-Fla., chairman of the House Transportation and Infrastructure Committee, whose support of the bill is considered critical. “The Senate proposal empowers Washington decision-making and administrative earmarks,” he wrote in an e-mail. “We plan to give states more authority and take approval out of federal hands by empowering state infrastructure banks.” There are currently a handful of state infrastructure banks, although it’s more difficult for them to cross state borders and bring municipalities together to fund national-scale projects. Opponents also point to public-private infrastructure projects that have drawn public criticism, such as the $3.8 billion Indiana Toll Road, which was leased to foreign private investors. “The issues with public-private partnerships and infrastructure banks is that these are just simply another way to collect revenue,” said Todd Spencer, executive vice president of the Owner-Operator Independent Drivers Association, who is critical of the Indiana Toll Road. “The American public, or me for example, have no real faith in the integrity of how those monies would be used.”

Federal control puts financial responsibility on taxpayers

Anand 11

(Anika Anand, MSNBC, “Bank plan would help build bridges, boost jobs: Bill gains traction, but foes fear another Fannie-Freddie disaster,” 7-6-11, <http://www.msnbc.msn.com/id/43606379/ns/business-eye_on_the_economy/t/bank-plan-would-help-build-bridges-boost-jobs/#.UA9CkLTOx8s>)

Manuel Lazerov, founder of private investment firm American Infrastructure Investors, opposes a national bank for different reasons. He insists private equity firms have plenty of money to invest in infrastructure projects without federal help. He doesn't trust the government to get involved and is concerned that the bank will turn into a mess like mortgage giants Freddie Mac and Fannie Mae, which had to be bailed out by the federal government to the tune of $160 billion. “There was the implicit understanding that these were quasi-government institutions, but in no way were those obligations part of the U.S. government,” Lazerov said. “If there was a loss, there was a loss. But the taxpayer wouldn’t be on the hook for that money. As you can see that’s the way it ended up.” Jason Delisle of the progressive New American Foundation, said the Fannie-Freddie comparison is a red herring. “Fannie and Freddie were never on government books,” he said. “They were private companies, and they were never on the budget. But this bank would be on the government books to begin with.”

Federal agencies need massive restructuring to implement and maintain public-private partnerships – plan can’t solve long-term

Likosky et al. 11 ( Michael Likosky: senior fellow at NYU’s Institute for Public Knowledge, directs the Center on Law & Public Finance at the Social Science Research Council, Josh Ishimatsu, senior fellow at the Center on Law & Public Finance. Joyce L. Miller is senior fellow at the Center on Law & Public Finance and a board member of the New York State Empire State Development Corporation, June 2011, “RETHINKING 21ST - CENTURY GOVERNMENT: PUBLIC-PRIVATE PARTNERSHIPS AND THE NATIONAL INFRASTRUCTURE BANK, <http://www.ibtta.org/files/PDFs/Rethinking%2021st%20Century%20Government-%20Public%20Private%20Partnerships%20and%20the%20National%20Infrastructure%20Bank.pdf> | JS)

Given the increasing utilization of public-private partnerships to address pressing problems while weathering a long-term budgetary crisis, it is productive to focus attention on making them work better. We see three key recurring challenges for our federal agencies as they implement and refine partnerships: 1. Increase Capacity to Assess, Structure, and Oversee Projects Because partnership programs engender a shift in the role and function of government and introduce complex financial and contractual instruments, public agencies often lack the capacity to assess, structure, and oversee projects. To realize the full benefits of public-private partnerships, this capacity must be put in place across the federal government. 2. Improve Interagency Coordination Many of our most pressing economic and societal challenges require policy solutions that integrate a range of sectors, including water, transportation, and energy. However, our federal agencies typically operate in sector-based silos, which often leads to uncoordinated sector-specific policies that only aggravate existing problems. To maximize the efficiencies offered by public-private partnerships, there must be increased knowledge sharing and coordination among agencies. 3. Improve Relations Between Federal Agencies and State and Local Governments, Private Firms, and Nonprofits Projects can stall because a partner cannot withstand criticism or else digs in its heels or because of a lack of adequate funds. For public-private partnerships to be viable over the long term, agencies must act as player-coach to coalesce combatants as a team, recognize the unique contributions of each player, and explore solutions that leverage non-financial resources to make public budgets stretch further.

Infrastructure bank bad – guarantees wasteful centrist decisionmaking

Campbell 11 (K.E. Campbell, staff writer at American Thinker, “Infrastructure bank an bad idea,” 9-4-11, <http://www.americanthinker.com/blog/2011/09/infrastructure_bank_a_bad_idea.html#ixzz21aq6Z4f5>)

It is an infrastructure bank. The idea, under different names, has been around for several years. The government-owned entity would provide funding for, primarily, transportation projects through federally funded loans, guarantees, and grants and "leverage" those funds to "attract significant private-sector investment." Tax payers would initially capitalize and ultimately underwrite the "bank" (a misnomer, as banks do not award grants). In theory, the concept has certain merits, but the reality, especially in the grips of big government ideologues, would be something different. To call for such an entity is to admit governments' past failures and improvidence in this critical area, highlighting the untold amounts squandered on non-critical if not wasteful, even unconstitutional, expenditures. Recall that the massive, $800 billion "stimulus" bill in 2009 was sold largely on the premise of funding much-needed infrastructure improvements and repairs. For centuries, this country has financed most of its local, state and federal infrastructure through our existing governmental bodies and taxing authorities--without an infrastructure bank--via regular appropriations, municipal bond markets, and other means. Ronald Utt, Ph.D, of the Heritage Foundation thinks the idea of an infrastructure bank is "a dangerous distraction and a waste of [Obama's] time." Paul Roderick Gregory of Forbes believes such an institution "would simply be a political slush fund and encourage wasteful spending by political cronies." Conn Carroll of the Washington Examiner describes the proposed bureaucracy as "just another stimulus boondoggle." House Republicans are suspicious that such a bank "is nothing more than a vehicle for more stimulus spending, disguised as "capital investment."" Picture a kind of TARP/stimulus/Fannie Mae Frankenstein. Big, federally directed and funded infrastructure projects are currently viewed by many on the American left as a panacea to the ailing economy and to their guy's re-election chances. That belief, writes Chris Edwards of Cato Institute, is a "liberal fairy tale, detached from the actual experience of most federal agencies over the last century." As Carroll put it, "When [infrastructure spending] decisions are made at the federal level, politics, not cost-benefit analysis, dictates what gets funded." The track records of our country's existing governmental "banks," like the Federal Reserve, Fannie Mae, and Freddie Mac, don't bode well for a national infrastructure bank. Like most "public-private partnerships," the associated risks would be borne solely or disproportionately by the public. Further, granting decision-making authority to unelected bureaucrats rather than elected officials is a bad idea (though neither is perfect). A national infrastructure bank would be an embodiment of statism, central authority, deficit spending, and social engineering (think "green jobs" and union favoritism) in the form of a new, eternal and ever-expanding federal bureaucracy. It is exactly what we don't need.

AT – Loan Guarantees

Loan guarantees put taxpayer at stake for risky investments

Loris and Spencer 11 (Nicolas D. Loris is a Policy Analyst and Jack Spencer is Research Fellow in Nuclear Energy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. “The Department of Energy Should Not Be the Green Banker,” The Heritage Foundation, Backgrounder, No. 2613, October 6, 2011, <http://thf_media.s3.amazonaws.com/2011/pdf/bg2613.pdf>)

When the federal government provides a loan guarantee, it enters into a contract with private creditors to assume the debt if the borrower defaults. According to the DOE, the purpose is to “allow the Federal Government to share some of the financial risks of projects that employ new technologies that are not yet supported in the commercial marketplace or where private investment has been inhibited.” 2 If a company defaults on a federally backed loan guarantee, the taxpayer is on the hook. This is not an appropriate role for the federal government. Two existing federal loan guarantee programs are of dubious value and have questionable objectives. Under Section 1703 of the Energy Policy Act of 2005, DOE has provided billions of dollars in loan guarantees for technologies that “avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases.” 3 Section 1705 of the American Reinvestment and Recovery Act, more commonly known as the stimulus bill, added $8 billion to support additional loan guarantees, 4 including funding for the notorious Solyndra project.

P3s with loan guarantees are terrible – encourage bad investments & taxpayers carry the risk

Loris and Spencer 11 (Nicolas D. Loris is a Policy Analyst and Jack Spencer is Research Fellow in Nuclear Energy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. “The Department of Energy Should Not Be the Green Banker,” The Heritage Foundation, Backgrounder, No. 2613, October 6, 2011, <http://thf_media.s3.amazonaws.com/2011/pdf/bg2613.pdf>)

Although the status of many loan guarantees is either conditional or recently closed, the first loans granted by DOE illustrate some of the problems with the program. The solar company Solyndra received one of the first stimulus loan guarantees— a $535 million loan. During a visit to the plant in 2010, President Obama said, “Companies like Solyndra are leading the way toward a brighter and more prosperous future.” 6 In 2010, Solyndra closed one of its facilities and canceled its initial public offering. In August 2011, Solyndra filed for Chapter 11 bankruptcy and laid off its 1,100 workers. The company is now under criminal and congressional investigations into how it secured the loan guarantee, and Solyndra owes the taxpayers $527 million. Solyndra is not the only “green” company having financial troubles. First Wind Holdings, another loan guarantee recipient, withdrew its initial public offering. 7 In these instances, the reason for providing financing was unclear because they were not economically viable endeavors. When the government makes decisions best left to the market, it increases the opportunity for and likelihood of crony capitalism, corruption, and waste. Loan guarantees artificially make even dubious projects appear more attractive and lower the risk of private investment. For instance, private investors sunk $1.1 billion into Solyndra. Much of the private financing came after the Department of Energy announced Solyndra was one of 16 companies eligible for a loan guarantee in 2007. 8 Private investors look at loan guarantees as a way to substantially reduce their risk. Even if a project seems to be a loser but has a huge upside (especially if complemented with other policies like a federal clean energy standard), private companies can invest a smaller amount if the government will back the loan. If the project fails, they still lose money, but the risk was worth it. Without the loan guarantee, these projects would probably not have been pursued, and that is why they fail. Subsidizing Winners In other cases, private financing was available so there was no need for preferential financing. For instance, Nordic Windpower received private funding in 2007, two years before the company received its loan guarantee. 9 Google invested $100 million in Shepherds Flat Wind Farm. 10 Although that investment was made after the loan guarantee, Google determined it to be a worthwhile investment. If that is the case, then the project should not need a loan guarantee. Even if a project with a federally backed loan is successful, attributing the project’s success to the loan guarantee is a huge assumption. Venture capitalists and other investors, who have much more expertise and knowledge than government bureaucrats in making investment decisions, are in a better position to determine which ideas and businesses have the most potential. Without the loan guarantee, projectts with the least promise would either not attract investment or simply fail, freeing capital for risky, but more promising ventures. In contrast, a government loan guarantee program ensures that the public pays for the failures while the private sector reaps the benefits of any successes. Loan Guarantees Distort the Market Proponents of loan guarantees who argue that these programs come at minimal cost and are not subsidies ignore the fact that CEDA loans cause the same harm as direct government subsidies by distorting normal market forces and encouraging dependence on the government. By subsidizing a portion of the actual cost of a project through a loan guarantee, the government is allocating resources away from more-valued uses to less-valued uses. In essence, these guarantees and loans direct labor and capital away from more competitive projects. CEDA loans cause the same harm as direct government subsidies by distorting normal market forces and encouraging dependence on the government. A loan guarantee program signals to the energy producer that the project does not need to be competitive. Rather, the green bank simply has to like it. This reduces the incentive for the energy investor or business to manage risk, innovate, and increase efficiency, and it crowds out other innovative energy projects that do not receive loan guarantees. While a loan guarantee or a below-market loan may be good for the near-term interests of the individual recipient, it is not good for taxpayers or long-term competitiveness.

\*\*Democracy Turn

1NC

Public-private partnerships avoid transparency and accountability, undermining democracy

Redlin 5

(Blair Redlin, CUPE Research, “Secretive, risky, unaccountable: How Public-Private Partnerships are bad for democracy,” Parkland Institute Conference, 1-27-05, <http://cupe.ca/public-private-partnerships/Secretive_Risky_Unaccount1>)

Contracts with terms that stretch over several decades are being entered into for a vast array of government projects and services. What does this change portend for democratic values and democratic governance? Because P3s are, first and foremost, commercial relationships, they are fundamentally changing the values and processes of democratic governments. The thesis of this presentation is that P3s are undermining democratic public institutions because the commercial relationships are inherently secretive, unaccountable and often very risky. Further, the commercial, business nature of these contracts is turning normal public priorities and values upside down. Public administrative values such as responsibility of staff to elected officials, accountability to the public of elected officials, transparency, public consultation, openness, and Parliament’s “power of the purse” have increasingly been supplanted by concepts such as “investor confidence”; “commercial confidentiality”; “stability for investors”; “proprietary ownership of information and assets”; “commercial sensitivity”; “protection of shareholders” and “competitive procurement rules”. The language change reflects a change in priorities and process. But first, before I explain how that is so, some definitions. What are public-private partnerships? They are ventures in which the private business sector becomes the lead actor in the provision of public infrastructure and services. The form of P3s varies, but they generally entail private financing, design, construction, operation, maintenance and even ownership of public services, facilities or infrastructure. Often, P3s involve the private sector lending funds for a public project and the public sector leasing facilities back by providing regular payments for the life of a specified contract. These contracts are generally very lengthy, usually for a term of 25 to 40 years. These lengthy terms themselves erode aspects of democratic decision-making, since a multi-decade contract by one government of a particular stripe may bind future governments for decades into the future. A child in Grade 8 today will be 50 years old by the time the contract for a Richmond/Airport/Vancouver rapid transit P3 has concluded. P3s are quite different from normal design and build construction contracts between a public sector owner and a private sector constructor because they use the private sector for provision of operating services, financing and key decision making about issues such as cost. Any public service or infrastructure is a candidate for P3s, including health care, education, water, electricity, transportation, municipal services and more.

We must prevent every violation of liberties or risk destroying civilization.

Petro 1974 (Sylvester, Professor of Law at Wake Forest, “Civil Liberty, Syndicalism, and the NLRA Symposium: National Labor Policy and the National Labor Relations Act,” TOLEDO LAW REVIEW, Spring 1974, p. 480)

However, one may still insist, echoing Ernest Hemingway – “I believe in only one thing: liberty.”107 And, it is always well to bear in mind David Hume’s observation: “It is seldom that liberty of any kind is lost all at once.” Thus, it is unacceptable to say that the invasion of one aspect of freedom is of no import because there have been invasions of so many other aspects. That road leads to chaos, tyranny, despotism, and the end of all human aspiration. Ask Solzhenitsyn. Ask Milovan Djilas. In sum, if one believes in freedom as a supreme value and the proper ordering principle for any society aiming to maximize spiritual and material welfare, then every invasion of freedom must be emphatically identified and resisted with undying spirit.

2NC Card

Redlin 5

(Blair Redlin, CUPE Research, “Secretive, risky, unaccountable: How Public-Private Partnerships are bad for democracy,” Parkland Institute Conference, 1-27-05, <http://cupe.ca/public-private-partnerships/Secretive_Risky_Unaccount1>)

There are a wide variety of problems with P3s, which I won’t have time to go into today. Problems ranging from the higher cost of private versus public borrowing; diversion of public funds to profits; inequities caused by user fees; international trade treaty concerns; inadequate risk transfer; service quality concerns; debt being hidden, but not reduced and many more. But – for today – let me set those concerns aside to focus exclusively on democracy and accountability concerns: In October of 2002, a very revealing presentation on P3s was made to the Council of the District of North Vancouver by lawyers John Haythorne and Sandra Carter, from the firm of Bull, Housser and Tupper. The presentation featured a list of procedural, policy and legal challenges related to P3s. Among the obstacles identified were policies requiring public consultation and approval. One presentation slide was entitled “Inherent Diseases” which outlined some of the areas the private sector finds problematic in dealing with the public sector – including that with the public sector there is an emphasis on “process”; “stakeholders”; “transparency”; and “public justification”. The slide explained that these things are “often a threat to the success of the project”. (1) “Inherent diseases”? What do you think? Are transparency and public justification inherent diseases of democracy? **Here are some recent – often alarming, sometimes absurd – examples of the way P3s have caused private, commercial priorities to supplant the “inherent diseases” of democracy.** Three years ago – before the decision was made to proceed with the $2 billion Richmond/Airport/Vancouver rapid transit P3 (R.A.V.), the accountancy and investment advisory firm of PriceWaterhouseCoopers was hired to do a financial feasibility study and business case analysis of the proposed project. The decision making body in this case was “TransLink”, the regional transportation authority for the Lower Mainland. The Board of TransLink consists of elected Mayors and Councillors from around the region. The PriceWaterhouseCoopers report contained key information about the financial viability of the whole proposal. Despite requests, project staff adamantly refused to provide a copy of this report to TransLink Directors, who were charged with making the decision about whether to go ahead or not, because the report contained information which – if revealed – might provide a competitive advantage to potential bidders. Protection of the procurement process trumped provision of key information to elected decision-makers. (2)

\*\*SIB CP\*\*

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Text: The 50 states and relevant territories should establish and fund infrastructure banks with the purpose of funding transportation infrastructure in the United States through an Interstate Compact including burden sharing.

State infrastructure banks solve case, spur private investment, and avoid politics

Freemark 12 (Yonah Freemark writes on cities and transportation at The Transport Politic, “The Big Fix: How to Pay for America’s Infrastructure,” Reuters, 1-2-12, <http://www.theatlanticcities.com/politics/2012/01/solution-americas-infrastructure-woes/845/>)

America's transportation infrastructure is in desperate need of an update, and most politicians would agree that more funding should be dedicated the nation’s highways and mass transit systems. Yet there is little consensus about where to find those new funds and Democrats and Republicans disagree stridently over whether Washington should increase its role. One potentially fertile place for compromise may be in the form of state infrastructure banks, which have gained support from both the left and right in recent months. These public agencies, provided some government funds, would be designed to encourage significant private investment. And they would do so with little interference from the national government. "I-banks" could lend states, municipalities, and perhaps even private sector agencies a significant portion of project funds that would later be paid back through user fees, public-private partnerships, or dedicated taxes. The idea is to get more transportation projects under construction without significantly expanding the national deficit. And the idea is not particularly new: Infrastructure banks have been on the radar since 1995, when state banks were initially authorized to receive federal funds. Now, more than thirty states have them in operation. But most operate on a small scale, and are unprepared to fund large-scale projects. They are also strongly tilted toward highway infrastructure, not multimodal needs. Yet recent proposals have been much more ambitious. President Obama has made the case strongly throughout his first term that a national bank run by the U.S. Department of Transportation would be most effective, since it would be staffed by experts and backed by the federal government. A proposal announced by the White House earlier this year would put $10 billion in the coffers of such an agency. Democrats in the Congress introduced a bill to fund such an organization in October, but John Mica (R-FL), chairman of the Committee on Transportation and Infrastructure, has said that he would refuse to endorse such a concept. Mica suggests that states are up to the task and that Washington’s involvement would get in the way. Some Democrats have articulated a compromise. Senator Ron Wyden (D-OR), for instance, introduced a bill that would pass one billion dollars to each state to set up their own infrastructure banks. A review of the current work of state infrastructure banks, though, raises the question of whether state governments are ready to significantly expand their infrastructure banks. Consider the experience of five state infrastructure banks in Florida, Ohio, Oregon, Pennsylvania, and Texas. Total investments have ranged from $60 million in Oregon to $1.1 billion in Florida, which are about a decade old on average. In the case of Pennsylvania, which has had a bank since 1998 and loaned a total of $132 million in 13 years, a $1 billion allocation from Washington such as has been suggested by Senator Wyden would represent a rapid eight-fold increase in spending. The limited funding from state infrastructure banks thus far results from a confluence of supply and demand. One example - Pennsylvania’s bank currently receives up to $30 million annually from the state budget, according to the agency. Hugh McGowan, the manager of the state bank, says that "it is a very popular program" but that annual applications had never reached $30 million. In most states studied, the vast majority of infrastructure bank funds has gone to roads projects, indicating that the commitment of the federal government to multi-modality - 20 percent of federal surface transportation spending generally goes to public transit - has not been followed through in the states. Texas has loaned virtually none of its $477 million total to transit, while Ohio, Oregon, and Pennsylvania have devoted just two to four percent of their funding to bus and rail improvement projects. Only Florida stands out, with 11 percent of its loans going to transit, thanks to major investments in projects like the SunRail commuter line. McGowan, of the Pennsylvania bank, said that "there are no maximums or minimums" for the types of projects approved, one problem might be that few transit agencies apply for aid. In Ohio, Ohio Department of Transportation Press Secretary Steve Faulkner agreed. "Any type of transportation project is eligible for state infrastructure bank funding" he says. "So, the number of transit loans is a direct result of the corresponding number of transit applications received." The state infrastructure banks are making sound financial choices when it comes to the projects they sponsor. Kane, of Florida, told me that the state’s program had never "experienced any default on repayments." Ohio’s Faulkner said "all loans - with the exception of two - were repaid." In both cases, the defaulter was a private developer.

Solvency

This card is the shit

Edwards 11 (Chris Edwards is the director of tax policy studies at the Cato Institute and the editor of [www.downsizinggovernment.org](http://www.downsizinggovernment.org). “Infrastructure projects to fix the economy? Don’t bank on it,” The Washington Post, October 21 2011, http://www.washingtonpost.com/opinions/infrastructure-projects-to-fix-the-economy-dont-bank-on-it/2011/10/18/gIQAgtZi3L\_story.html)

In a recent television ad for her network, MSNBC host Rachel Maddow stands below the Hoover Dam and asks whether we are still a country that can “think this big” — Hoover Dam big. The commercial is built on the assumption that American greatness is advanced by federal spending on major infrastructure projects. If I had my own television commercial, I’d stand in front of the wreckage of Idaho’s Teton Dam,which, like the Hoover Dam, was built by the federal Bureau of Reclamation. The Teton Dam was based on shoddy engineering and a flawed economic analysis. It collapsed catastrophically in 1976, just a year after it was built. Increased infrastructure spending has significant support in Washington these days. President Obama wants a new federal infrastructure bank, and some members of both parties want to pass big highway and air-traffic-control funding bills. The politicians think these bills will create desperately needed jobs, but the cost of that perceived benefit is too high: Federal infrastructure spending has a long and painful history of pork-barrel politics and bureaucratic bungling, with money often going to wasteful and environmentally damaging projects. 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 irrigation water to farmers in the West — so they could grow crops that often compete with more efficiently grown crops in the East. Taxpayers are double losers from all this infrastructure. They paid to build it, and now they are paying to clean up the environmental damage. In Florida, for example, the Corps’ projects, along with federal sugar subsidies, have harmed the Everglades. So the government is helping to fund a multibillion-dollar restoration plan. In the West, federal irrigation has increased salinity levels in rivers, necessitating desalination efforts such as a $245 millionplant in Yuma, Ariz. And in a large area of California’s San Joaquin Valley, federal irrigation has created such toxic runoff that the government is considering spending up to $2 billion to fix the damage, according to some estimates. When the federal government “thinks big,” it often makes big mistakes. And when Washington follows bad policies, such as destroying wetlands or overbuilding dams, it replicates the mistakes nationwide. Today, for instance, Reclamation’s huge underpricing of irrigation water is contributing to a water crisis across much of the West. Similar distortions occur in other areas of infrastructure, such as transportation. The federal government subsidizes the construction of urban light-rail systems, for example, which has caused these systems to spring up across the country. But urban rail systems are generally less efficient and flexible than bus systems, and they saddle cities with higher operating and maintenance costs down the road. Similar misallocation of investment occurs with Amtrak; lawmakers make demands for their districts, and funding is sprinkled across the country, even to rural areas where passenger rail makes no economic sense because of low population densities. When the federal government is paying for infrastructure, state officials and members of Congress fight for their shares of the funding, without worrying too much about efficiency, environmental issues or other longer-term factors. The solution is to move as much infrastructure funding as we can to the state, local and private levels. That would limit the misallocation of projects by Congress, while encouraging states to experiment with lower-cost solutions. It’s true that the states make infrastructure mistakes as well, as California appears to be doing by subsidizing high-speed rail. But at least state-level mistakes aren’t automatically repeated across the country. The states should be the laboratories for infrastructure. We should further encourage their experiments by bringing in private-sector financing. If we need more highway investment, we should take notes from Virginia, which raised a significant amount of private money to widen the Beltway. If we need to upgrade our air-traffic-control system, we should copy the Canadian approach and privatize it so that upgrades are paid for by fees on aviation users. If Amtrak were privatized, it would focus its investment where it is most needed — the densely populated Northeast. As for Reclamation and the Corps, many of their infrastructure projects would be better managed if they were handed over to the states. Reclamation’s massive Central Valley irrigation project, for example, should be transferred to the state of California, which is better positioned to make cost and environmental trade-offs regarding contentious state water issues. Other activities of these two agencies could be privatized, such as hydropower generation and the dredging of seaports. The recent infrastructure debate has focused on job creation, and whether projects are “shovel ready.” The more important question is who is holding the shovel. When it’s the federal government, we’ve found that it digs in the wrong places and leaves taxpayers with big holes in their pockets. So let’s give the shovels to state governments and private companies. They will create just as many jobs while providing more innovative and less costly infrastructure to the public. They’re ready.

National oversight corrupts state demands and invites pork barrel politics – state infrastructure banks solve best

Yost 11

(Keith, Staff Columnist, “No national infrastructure investment bank: Infrastructure investment is a state responsibility,” 9-20-11, MIT’s The Tech, Vol. 131, issue 38, <http://tech.mit.edu/V131/N38/yost.html>)

That leaves just one question: who is right here? Is an infrastructure bank an idea whose time has come, or is it a dud? At first glance, a national campaign to invest in infrastructure isn’t a bad proposition. The returns to investment on infrastructure aren’t very impressive, but with the government able to borrow money at two percent interest, and with labor and materials costs at extreme lows, it doesn’t take a very high return to justify infrastructure spending. On deeper inspection however, **a national infrastructure bank is a fatally flawed idea**, for one simple reason: forcing the citizens of Texas to pay for a high speed rail line from San Diego to Sacramento is bad government. It invites corruption, pork barrel politics, and misallocation of our society’s resources. The citizens of, say, Ohio are and will always be in a better position to decide whether it is worth the money to repair a bridge or school in their state. Offering to let them pay for their projects with someone else’s money is not going to lead to better decision-making— instead, it will lead states to cut their own infrastructure spending and turn their beggars cup to the federal government. It will incentivize states to represent their infrastructure as worse than it actually is, and pretend that solutions are cheaper than they actually are. And because it isn’t their money at stake, states will have even less inclination than usual to make sure that the projects are managed correctly. The real key to a state’s economic success won’t be the wise decision-making of its leaders, it will be its ability to lobby the federal government for special treatment and trade favors with the party in power. Perhaps in a few instances, investment in infrastructure at the national level makes sense. Air traffic control, or an interstate network make sense as matters for the national government to manage. But bridges, schools, high speed rail lines, and the vast majority of the projects Obama touts as within the purview of his national infrastructure campaign are best managed at the state or local level. It’s a conclusion so obvious that the idea of national control **raises immediate suspicion**. Does Obama plan to use the bank to bestow patronage on his supporters (particularly labor unions)? Or did he really manage to forget that state governments already have the power to levy taxes and make repairs? Democratic activists are thrilled with Obama’s supposedly new “toughness.” But getting tough is only a good strategy if you’ve got an idea that’s actually worth fighting for. Two weeks from now, every leading Republican is going to have worked out the obvious counter-argument to a national infrastructure bank, and two weeks after that they’re going to have integrated the bank into their stump speeches as yet another example of intellectually bankrupt federal overreach.

State banks avoid federal red tape & solve faster

Plautz 11 (Jason Plautz covers transportation and energy issues in Washington, D.C. – freelance writer for Sports Illustrated, National Journal and Greenwire, “In I-Bank Debate, States Provide Successful Model,” 9-8-11, <http://www.nytimes.com/gwire/2011/09/08/08greenwire-in-i-bank-debate-states-provide-successful-mod-49268.html?pagewanted=all>)

National vs. state level With successful test cases like those in Oregon and Kansas, it is obvious why the White House would want to create a bank on the national level. The loans can be used to draw in private partners for large projects, putting more people to work. But some policymakers are wary of the added bureaucracy and political complications the federal government's involvement would carry with it. Under a transportation reauthorization proposal from House Transportation and Infrastructure Chairman John Mica (R-Fla.), a national proposal would be replaced with expanded authority for state infrastructure banks, which Mica said would free up more money faster. Even some of the recipients of state money agree. "I don't see any advantage to a national bank," Gilmour said. "I'm concerned that there's been a disconnect at the federal level between those benefiting from transportation investments and those paying for them. ... I can't make my debt payment to ODOT with more debt." Gilmour, who worked for the Oregon DOT for 26 years, added that he tried to do very little with the federal government because federal red tape can add up to 30 percent of time and cost to a project. Former transportation official Orski, who now publishes a transportation newsletter, said the national bank has an advantage in that it can help large, multi-state projects. But, he added, those types of projects are rare and might be better handled through existing structures. "There is a widespread sentiment both in the House and Senate, rather than creating a new federal fiscal bureaucracy, we ought to strengthen and expand existing financial instruments, primarily TIFIA," he said, referring to the popular Transportation Infrastructure Finance and Innovation Act loan program.

State infrastructure banks are “the right way to go”

Salam citing Freemark 12

(Reihan Salam, associate editor at The Atlantic, research associate at the Council on Foreign Relations, Fellow at the New America Foundation, Yonah Freemark is an independent researcher currently working in France on comparative urban development as part of a Gordon Grand Fellowship from Yale University, from which he graduated in May 2008 with a BA in architecture. He writes about transportation and land use issues for The Transport Politic and The Infrastructurist. “Yonah Freemark on State Infrastructure Banks,” 1-4-12, The Agenda, <http://www.nationalreview.com/agenda/287217/yonah-freemark-state-infrastructure-banks-reihan-salam>)

Yonah Freemark asks whether state infrastructure banks might succeed where efforts to create a national infrastructure bank have failed. Sen. Ron Wyden, one of the most innovative Democratic policymakers, has called for federal grants to promote the establishment of state infrastructure banks, perhaps as an acknowledgment of the virtues of decentralization. Yonah, who instinctively favors national solutions, seems somewhat skeptical after profiling the modest achievements of five existing state infrastructure banks. “I am increasingly convinced that state-based rather than federal approaches to improving the quality of infrastructure are the right way to go, but that this should flow from a revival of competitive rather than cartel (or cooperative) federalism. That is, instead of offering federal grants for the establishment of state infrastructure banks, let’s do something more drastic, e.g., either nationalize Medicaid or block grant the program, thus containing a crippling cost driver for state governments, and then allow states to pursue a wide range of different economic development strategies, some of which will be infrastructure-centric, others of which will be more human-capital-centric, etc. This is, of course, an oversimplification of very complex issues.”

State banks solve better – federal approval is slow and increases costs

Gifford 10 (Jonathan L. Gifford, Professor and Associate Dean for Research @ George Mason University School of Public Policy, “STATE INFRASTRUCTURE BANKS: A VIRGINIA PERSPECTIVE,” November 24, 2010, <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1714466>)

SIBs also develop ongoing relationships with the cities, counties and special districts that own and operate infrastructure in their states. This ongoing relationship adds value by helping such entities learn how to access the funding available from the SIB, and hence to accelerate and expand the delivery of infrastructure in the state. One variant type of SIB is a “state-­‐only” SIB that receives capitalization and/or ongoing revenue only from the state, and not from the federal government. If the SIB lends for pro-­‐ jects that receive no federal funding, then federal “strings” – such as labor, environmental, 5 and “Buy America” requirements – do not attach. The absence of such strings can reduce project costs considerably, as well as speeding project completion. Moreover, a SIB can also accelerate project delivery by providing timely funding. Federal funding and credit sources can add months or even years to a project because the federal administrative process can be very slow, and sometimes political. A project’s costs can increase significantly while it waits for federal approval. While delay does not always in-­‐ crease project costs, unanticipated changes in project financing and uncertain processes for securing funding can create unnecessary barriers to project delivery. SIB loans can play a variety of roles in a project’s financing. Most simply, a SIB loan might provide 100% of a project’s costs. More typically, project financing is provided from a number of sources, including project-­‐specific bonds, federal contributions, SIB loans, and contributions from state tax and trust funds. To the extent a project is financed by loans and secured by toll or other revenue, the loans may be structured in such a way that some loans are “superior” to others, so that they are paid off first. A SIB loan might be “subordi-­‐ nated” to other loans to reduce project costs, because bond markets demand lower interest rates from debts that are superior, other things being equal. A SIB loan might also allow deferred payment, so that interest accumulates and repayment commences only after a passage of up to 5 years or more after completion of the project or the facility is open and collecting tolls.

SIBs solve best – federal funds lack flexibility to improve metropolitan transportation infrastructure

Christman and Riordan 11

(Anastasia, senior policy analyst at the National Employment Law Project, and Christine, policy analyst at NELP, “State Infrastructure Banks: Old Idea Yields New Opportunities for Job Creation,” Dec 2011, <http://www.nelp.org/page/-/Job_Creation/State_Infrastructure_Banks.pdf?nocdn=1>)

 Many lawmakers and economists in Washington, D.C. have advocated the creation of a national infrastructure bank (NIB) to kick-start investments in the country’s aging roads, bridges, water systems, transit systems, airports and other infrastructure. This NIB, as proposed in the Senate and by the White House, would provide financial assistance to infrastructure projects that contributed to regional or national economic growth, demonstrated a clear public benefit, led to job creation, offered value to taxpayers, and mitigated environmental concerns. 1 The federal assistance would be used to leverage private investment, and would be paid back through user fees or other dedicated revenue sources. Supported by parties as diverse as the Chamber of Commerce and the AFL-CIO, the idea has nevertheless become politically charged in Washington. 2 Getting stalled-out in D.C. doesn’t mean advocates for better financing for infrastructure have to sit on their hands. Indeed, in state houses across the country, lawmakers are having robust debates about infrastructure projects, and several cities have taken bold moves to identify innovative infrastructure funding mechanisms. 3 **The fact is that infrastructure is a profoundly local issue and is a key determinant of a community’s standard of living**. 4 As former Pennsylvania Governor Ed Rendell noted in a U.S. Congressional hearing on infrastructure, “Visible or not, properly functioning infrastructure provides us with the reliability and predictability that we as Americans have come to expect from modern daily life.” 5 Everyday Americans feel the effects of deteriorating physical assets close to home in the form of traffic delays, unsafe drinking water, inadequate public transportation and unpredictable electrical power. Local lawmakers recognize this: in a 2011 survey, more than three-quarters of U.S. mayors identified the need to prioritize maintenance of current roads and streets over building new highways, and almost half indicated a need to grow public transit capacity. 6 State and local governments and their constituents already carry much of the burden of funding these critical resources. Nationally, “transportation” is typically the third-largest state expenditure after “education” and “public welfare.” 7 Since the Cold War era, local governments have invested more than $1.25 trillion in water and sewer investments. 8 As the National Conference of State Legislatures has pointed out, “Local governments—including counties, townships and municipalities—provide approximately 30 percent of total surface transportation funding and own 77 percent of the nation’s roadway miles.” 9 Yet, federal funding streams through the National Surface Transportation Act or the Federal Highway Trust Fund send money to the states without requirements to consider the infrastructure needs of cities and metropolitan areas. As a 2008 policy brief from the National Conference of Mayors noted, “[O]f the more than $42 billion annually flowing to states for surface transportation investment, only six percent of available funds are directed to decision-makers in the nation’s metropolitan areas.” 10 Unfortunately, traditional sources of state funding aren’t doing the job. Through 2010, nineteen U.S. states cut transportation funding, 11 and in 2011 another six states followed suit. 12 To truly address the infrastructure shortcomings that affect our communities most acutely, we need state-level solutions that include input from local lawmakers and local constituents. Even in the absence of an NIB, two-thirds of state legislatures have already embraced the concept of the infrastructure bank. Since the 1990s, various federal bills have authorized states to create their own state infrastructure banks (SIBs) to finance priority projects. In this brief, we will elaborate on the different types of SIBs that exist today, share some interesting projects that have been funded with SIBs, and posit some best practices that advocates in any state could be urging lawmakers to adopt. An SIB, if designed with enough flexibility in applicable projects and with opportunities for local advocates and lawmakers to weigh in on priorities, can be an effective tool for repairing the ill effects of decades of neglect to our communities’ transportation networks, water systems and power grids.

SIB regulations protect environmental and economic interests

Christman and Riordan 11

(Anastasia, senior policy analyst at the National Employment Law Project, and Christine, policy analyst at NELP, “State Infrastructure Banks: Old Idea Yields New Opportunities for Job Creation,” Dec 2011, <http://www.nelp.org/page/-/Job_Creation/State_Infrastructure_Banks.pdf?nocdn=1>)

Advocates should also be aware that SAFETEA-LU itself includes provisions that call for a planning process that protects and enhances the environment, promotes energy conservation, improves the quality of life, and promotes consistency between state and local economic development plans. Additionally, it requires that metropolitan planning organizations (MPOs) develop a plan to ensure that all interested parties “have reasonable opportunities to comment on the contents of the transportation plan.” 27 All urbanized areas with a population of more than 50,000 are required to have an MPO, one of the core functions of which is to engage the general public and other affected constituencies in developing an overall transportation plan. 28 Furthermore, federal law states that funds allocated to provide assistance to a project in an urbanized area of the state (with more than 200,000) can be used “only if the metropolitan planning organization designed for such area concurs, in writing, with the provision of such assistance.” 29 Thus, at least in urbanized areas, community advocates may be able to participate in developing plans through the MPO and thus ensure that SIB funds are only used to advance projects that conform to those plans.

SIBs can fund local projects that would be rejected by NIB

Christman and Riordan 11

(Anastasia, senior policy analyst at the National Employment Law Project, and Christine, policy analyst at NELP, “State Infrastructure Banks: Old Idea Yields New Opportunities for Job Creation,” Dec 2011, <http://www.nelp.org/page/-/Job_Creation/State_Infrastructure_Banks.pdf?nocdn=1>)

State-Funded SIBs Several states—Kansas, Ohio, Georgia, Florida and Virginia—have established SIBs using only state funds. This also allows them to do projects “off the highway,” including helping local governments pay for 100-percent local projects. For example, Ohio’s state-funded SIB is authorized to fund “any public or private transportation project as determined by the director of transportation,” including public transit, aviation, rail, tunnels or parkways. 30 Kansas found that its federally-funded SIB couldn’t fund the projects that its rural population needed. “We can cover huge projects or a small community,” said the manager of the state-funded Kansas Transportation Revolving Fund. 31 The Ohio state-funded SIB manager notes that her institution “has assisted every transportation mode except a water project since its creation.” 32 However, even with a state-funded SIB, selection criteria or requirements for local matching dollars can stunt interest in the financing program; for example, Georgia’s requirement that only projects that can be funded by the motor fuels tax can qualify 33 means that in the spring of 2011, three years after establishing its SIB, Georgia had made only one loan and had more than $30 million in transportation funds sitting idle. 34 In order for a state-funded SIB to consider the greatest number of projects, advocates may want to recommend enabling legislation that blends a variety of funding sources to ensure flexibility.

AT: Coordination

States can jointly coordinate infrastructure banks

Beimborn 99 (Dr. Edward, former director of the Center for Urban Transportation Studies at UW-Milwauke, “An Overview: Land Use and Economic Development in Statewide Transportation Planning”, June, http://www4.uwm.edu/cuts/lu/lu-7.pdf)

A state usually needs new legislation to create an SIB, which designates authority over the financial management of the funds. 1 In addition, there may be specific legal or administrative barriers to SIB implementation that must be addressed. The legal needs of SIB customers are also considerations. FHWA recommends that enabling legislation be as flexible as possible, and it has written model legislation to guide states. SIB’s can be housed entirely within the state DOT, be jointly administered by two or more state agencies or be administered by an independent agency.

Federal funding encourages wasteful, inefficient spending – reclaiming of state authority solves

Edwards and DeHaven 10 (Chris Edwards is the director of tax policy studies at Cato and editor of www.DownsizingGovernment.org. He is a top expert on federal and state tax and budget issues. Before joining Cato, Edwards was a senior economist on the congressional Joint Economic Committee, a manager with PricewaterhouseCoopers, and an economist with the Tax Foundation. Tad DeHaven is a budget analyst on federal and state budget issues for the Cato Institute. Previously he was a deputy director of the Indiana Office of Management and Budget. DeHaven also worked as a budget policy advisor to Senators Jeff Sessions and Tom Coburn “Privatize Transportation Spending,” The Washington Times, 6-17-10, <http://www.cato.org/publications/commentary/privatize-transportation-spending>)

Rising federal control over transportation has resulted in the political misallocation of funds, bureaucratic mismanagement and costly one-size-fits-all regulations of the states. The solution is to devolve most of DOT's activities back to state governments and the private sector. We should follow the lead of other nations that have turned to the private sector to fund their highways, airports, air traffic control and other infrastructure. The first reform is to abolish federal highway aid to the states and related gasoline taxes. Highway aid is tilted toward states with powerful politicians, not necessarily to the states that are most in need. It also often goes to boondoggle projects like Alaska's "Bridge to Nowhere." Furthermore, federal highway aid comes with costly regulations like the Davis-Bacon labor rules, which raise state highway costs. For their part, the states should seek out private funding for their highways. Virginia is adding toll lanes on the Capitol Beltway that are partly privately financed, and Virginia is also home to the Dulles Greenway, a 14-mile private highway in operation since 1995. Ending federal subsidies would accelerate the trend toward such innovative projects. Another DOT reform is to end subsidies to urban transit systems. Federal aid favors light rail and subways, which are much more expensive than city buses. Rail systems are sexy, but they eat up funds that could be used for more flexible and efficient bus services. Ending federal aid would prompt local governments to make more cost-effective transit decisions. There is no reason why, for example, that cities couldn't reintroduce private-sector transit, which was the norm in U.S. cities before the 1960s.

AT: Funding

Doesn’t take out solvency – SIBs draw financing from state, local, and private sources

GAO 96 (Government Accountability Office, “State Infrastructure Banks: A Mechanism to Expand Federal Transportation Financing”, October, http://www.gpo.gov/fdsys/pkg/GAOREPORTS-RCED-97-9/pdf/GAOREPORTS-RCED-97-9.pdf)

Some states also told us that in addition to completing individual projects faster, a SIB may provide the flexibility to complete a financial package for worthwhile projects that may be lower on the state’s priority list because of their cost, demographic reasons, or political changes in priorities. For example, a major new road may simply be too costly to build, given that many small competing projects could be built with the same state funding. But if the project is financed in part from other sources, such as a local community and private investors, less state funds are needed, which in turn, may permit a state to fund more roads on its priority list.

“Revolving fund” solves funding issues – SIBs are more financially efficient than NIB

Slone 11

(Sean, CSG Senior Transportation Policy Analyst, “State Infrastructure Banks,” Tuesday, July 5, 2011, <http://knowledgecenter.csg.org/drupal/content/state-infrastructure-banks>)

State infrastructure banks can help states stretch their state and federal dollars and meet the demands of financing large, impactful, long-term infrastructure projects. When government agencies and authorities must seek yearly grants and allocations to finance projects, the completion of those projects can be delayed for months or years. State infrastructure banks can identify, promote and lend money to creditworthy transportation projects to ensure they’re built within a reasonable timeframe and in a financially sustainable way. And because these banks act as a “revolving fund,” more projects can ultimately be financed. When bonding is used to finance a project, the bonds are usually one of two types: revenue or general obligation. Revenue bonds often are used to finance infrastructure projects that have the ability to produce revenue through their operations; for example, new highway lanes that can be tolled or public transit facilities on which fares can be collected. These types of bonds are typically guaranteed by the project revenues, but not by the full faith and credit of a state, city or county. General obligation bonds, on the other hand, are backed by the full faith and credit of the issuing authority. These are used to finance projects that rely on government’s general revenues, such as income, sales and property tax revenue. Cities, counties and states pledge these revenues to issue the bonds and repay them. But the revolving fund aspect of a state infrastructure bank means states can lend funds for projects and receive loan repayments, which can be returned to the system for more project loans. The funding also can be turned into much larger credit lines, multiplying transportation investment capacity. When transportation projects are financed in a traditional way, funds from a state department of transportation or the federal Highway Trust Fund are spent and two types of risk are assumed. Projects are at risk of delay as state officials wait for the state or federal funds to become available, which may increase the costs and delay the project’s benefits. Secondly, states face the risk that a poorly selected project will fail to produce social or economic benefits and tie up scarce capital resources that could have gone to other potentially more successful projects. Both of those risks are diminished with state infrastructure bank financing. First, projects don’t have to wait for funding and delays and cost overruns are avoided. Secondly, a state infrastructure bank has a built-in project evaluation process. Projects are assessed based on their financial viability, which provides a level of economic discipline that is not always present with traditional state project funding. Better, more benefit-producing projects can be the result.

Competitiveness NB

SIB private investment solves best – federal banks ignore local issues

TNS 11 (Targeted News Service, “Taking Matters in Their Own Hands: States Can Create Infrastructure Jobs, Despite Federal Funding Slowdown”, 12-19-11, lexis)

States and cities are struggling to repair crumbling roads, paralyzing traffic congestion, unsafe water systems and poorly maintained public buildings, even as they face diminishing infrastructure funding from the federal government. With an estimated $2.2 trillion needed for infrastructure investment over the next five years in the United States, lawmakers are looking for innovative new ways to finance improvements. A new briefing paper from the National Employment Law Project explores an underused state financing mechanism and highlights best practices and ideas for lawmakers and community activists seeking innovative strategies to fund infrastructure improvements. "State infrastructure banks, if done right, can be a valuable tool for funding projects that will improve our communities and put people to work. Creating institutions in our states that can take on our transportation challenges now, while borrowing is inexpensive and repair rather than replacement is still an option, is just common sense. Making the effort to prioritize projects that will do the most good by limiting pollution, increasing mobility and employing those in our hardest hit communities means that we're not only fixing today's problems, but preparing for a vibrant and competitive economy in the future," said Christine Owens, executive director of the National Employment Law Project. Just last week, New York State's governor announced plans for a state-level infrastructure bank to finance critical public projects. The new NELP report, published as a complement to its larger recovery agenda, outlines the history of state infrastructure banks, explains federal funding and oversight of these banks, and highlights best practices from the states for project selection, community engagement and revenue enhancement. "Infrastructure is experienced as a local issue, whether it's being stuck in traffic trying to get to work or depending on clean water when we turn on the kitchen tap. But all too often under current funding structures, local leaders and community members don't determine how infrastructure money is spent. We need flexible, accountable and transparent state institutions to be responsive to local needs," said Owens. While two-thirds of US states have legislation authorizing a state infrastructure bank, only five states account for more than 87 percent of federally-funded state infrastructure bank lending. The briefing paper also delineates the differences between federally-funded and state-funded state infrastructure banks, both in terms of the types of projects they can finance and the regulatory framework they operate within. Throughout the paper, NELP highlights legislative language and on-the-ground practices that promote fiscal responsibility and public accountability for advocates and lawmakers who seek to create or improve their own state's infrastructure bank. Owens continued, "Americans continue to face the twin crises of unemployment and the declining quality of our public assets. Infrastructure spending can create millions of quality jobs even as it supports local businesses and maintains a high standard of living. The many examples of successful state infrastructure banks demonstrate that state and local lawmakers don't have to wait for Washington, DC, to get these projects moving."

Politics NB

Counterplan avoids link to politics

Laing 11

(Keith Laing is a journalist who has covered government and politics at the local, state and national levels. He currently works for The Hill newspaper in Washington, D.C., where he covers transportation policy in Congress and manages The Hill‘s Transportation blog, “Mica opposes Obama’s call for national infrastructure bank,” The Hill, 9-8-11, <http://thehill.com/blogs/transportation-report/highways-bridges-and-roads/180481-gop-chairman-opposes-obamas-call-for-national-infrastructure-bank>)

The Republican chairman of the House Transportation and Infrastructure Committee said Thursday evening that he is opposed to the call for a national infrastructure bank President Obama made in his speech to a joint session of Congress. Rep. John Mica (Fla.) said he thought Congress should encourage individual states to create their own infrastructure banks, arguing as he has in the past that it would give them more flexibility to design transportation projects that fit their own needs. “While the President reconfirmed that our highways are clogged and our skies are congested, his well delivered address provided only one specific recommendation for building our nation’s infrastructure,” Mica said in a news release. “Unfortunately, a National Infrastructure Bank run by Washington bureaucrats requiring Washington approval and Washington red tape is moving in the wrong direction. A better plan to improve infrastructure is to empower our states, 33 of which already have state infrastructure banks.”

AT: Perm

Perm doesn’t solve – government money crowds out American investors

Pelican 11 (Luke, policy fellow at the Competitive Enterprise Institute, Luke focuses on technology policy. He received his J.D. from the University of Michigan and his LL.M. in Space and Telecommunications Law from the University of Nebraska. “No Money, No Sense: On the Infrastructure Bank,” 10-12-11, <http://www.openmarket.org/2011/10/12/no-money-no-sense-on-the-infrastructure-bank>)

Defenders of the proposal claim the bank is necessary to put Americans back to work. The president, in calling for Congress to pass his American Jobs Act and the infrastructure bank plan included within it, proclaimed it is time to “build an economy that lasts.” But as my colleague Wayne Crews observed, the infrastructure bank idea is fruitless idea: Government money is a trap, with labor and environmental strings attached. It promises to crowd out, reduce and degrade American infrastructure. America does desperately need “infrastructure wealth”; we need it just as we need financial wealth, real estate wealth, manufacturing and service wealth, and health-care wealth. But like all wealth creation, the root is enterprise and property rights. Indeed, the course necessary to move the country out of the economic doldrums does not involve a new federal infrastructure bank, but instead lies in removing obstacles to infrastructure development and wealth creation by:

SIBs are key to stimulate private investment in US infrastructure – federal projects don’t solve

GAO 96 (Government Accountability Office, “State Infrastructure Banks: A Mechanism to Expand Federal Transportation Financing”, October, http://www.gpo.gov/fdsys/pkg/GAOREPORTS-RCED-97-9/pdf/GAOREPORTS-RCED-97-9.pdf)

Ten of the states we surveyed viewed SIBs’ ability to attract private funds as providing some or great benefit. Private investment has not traditionally been involved in transportation projects because of the general lack of authority under federal law and because of some states’ legislative and constitutional restrictions on giving or lending state funds to private entities to build and operate roads. A SIB may increase private investment by reducing the risk to the private investors. Credit enhancements, such as a loan guarantee, would help to ensure that federal and/or state funds committed to the project will be there when the bills come due. Members of the infrastructure finance community told us that one common fear among investors is that the political commitment and funds planned for a given project will not materialize because of competing state priorities. Even a relatively small government investment could increase the private sector’s confidence. For example, California officials believe that state SIB investments of only 10 percent equity in some projects will give private lenders and investors the confidence to participate in funding the remaining 90 percent of the cost. Private investment can help close the gap for transportation needs that may otherwise go unmet or be forestalled for years. For instance, Oklahoma’s SIB application explained that there are a number of growth industries in the state, all of which require enhanced transportation. For example, the southeast quadrant, the state’s poorest quadrant, supports a growing food-processing industry and is experiencing an influx of hog farms, feed plants, and poultry-processing facilities. But further industry development depends on substantial improvements to the rural transportation network. State officials view a SIB as a vehicle to help facilitate private investment from businesses that would benefit from an improved transportation network.

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Text: The United States federal government should substantially expand the Transportation Infrastructure Finance and Innovation Act.

Expansion of TIFIA solves the aff better and avoids link to politics – GOP opposes creation of new bureaucracy but supports expansion of their own program

Snyder 11

(Tanya Snyder became Streetsblog's Capitol Hill editor in September 2010 after covering Congress for Pacifica and public radio, “Why Create an Infrastructure Bank When We Could Just Expand TIFIA?”, 10-28-11, <http://dc.streetsblog.org/2011/10/28/why-create-an-infrastructure-bank-when-we-could-just-expand-tifia/>)

There’s been a lot of adulation heaped upon the TIFIA loan program lately. Both houses of Congress are ready to increase funding for the program nine times over, from $100 million to $1 billion a year – despite warnings from outside groups that there may not be enough eligible projects to use up all that money. The TIFIA program has been around since 1998 but money pressures have led to a steep uptick in applications over the past few years. Some have criticized it for its lack of transparency in decision-making and suggested that it might be more effective housed outside of USDOT and functioning independently. “Is TIFIA the first perfect federal program?” Nevertheless, Congressional Republicans have thrown their full support behind the program, mainly as a counterweight to the president’s proposed infrastructure bank. Consistent with their desire to limit the growth of the federal bureaucracy, they resist the idea of creating an entirely new entity, even though the bank would be independent from the government, a la the Export-Import Bank. There are two competing infrastructure bank bills in the Senate and a new one introduced earlier this week in the House. The Senate is planning to vote next week on a bill to spend $50 billion on infrastructure with another $10 billion in seed money for a bank – pieces of President Obama’s jobs bill, which has been dismembered for separate votes. Next week’s bill isn’t expected to pass. Indeed, many members think TIFIA is the way to go. At a House Transportation Committee hearing earlier this month, nearly every Republican present spoke out in favor of expanding TIFIA instead of creating a new bank. Chair John Mica asked why a bank was needed when “we have a successful example” in TIFIA. Highways and Transit Subcommittee Chair John Duncan (R-TN) went as far as to ask, “Is TIFIA the first perfect federal program?” He noted, “Everyone has had glowing comments about TIFIA, and it’s a program that I support as well.” Geoffrey Yarema of Nossaman LLP (a law firm specializing in public-private partnerships for infrastructure projects) told Duncan TIFIA wasn’t perfect but that it did have 12 years of solid experience. He suggested it be “right-sized” by adding staff and he wants to “change it from a discretionary decision-making process that has the potential for being politicized – and some would say the reality of being politicized – to a first-come-first-served program.” That change, however, would eliminate the part of TIFIA reformers like most: The fact that it has the power to encourage innovation and goal-oriented, performance-based strategic transportation planning. Yarema also noted that the Treasury “has actually made money off the TIFIA program,” as opposed to many other federal programs that end up costing taxpayers. He’s all in favor of casting off the idea of an infrastructure bank. “We already have a national infrastructure bank for transportation,” he said. “It’s called TIFIA.” One thing he and other transportation advocates like about TIFIA is that it’s only for transportation. While the Rockefeller-Lautenberg infrastructure bank proposal in the Senate is transportation-only (at least at first), the dominant I-bank proposal is the Kerry-Hutchison version, which would include other forms of infrastructure like energy and water treatment. Yarema admitted that some may see the breadth of scope as a strength of the bank concept, but he was concerned that “transportation would be in there competing for loans, not just with other transportation projects, but with dams and levees and ports and all kinds of infrastructure.”

Solvency

TIFIA solves case

Puro 7/12/12 (Sarah, Budget Analysis Division at CBO, “Infrastructure Banks and Surface Transportation,” July 12 2012, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/07-12-12-InfrastructureBanks.pdf>)

What Existing Options Might Meet the Goals of an Infrastructure Bank? A program with many of the characteristics of an infrastructure bank already exists within DOT: the Transportation Infrastructure Finance and Innovation Act program. The TIFIA program provides loans, loan guarantees, or lines of credit to help finance complex, large-scale transportation projects deemed significant to a region or the nation. Applicants’ projects are weighed against those of others to determine which receive financing. TIFIA provides flexible repayment terms and potentially more favorable interest rates than applicants could secure in private capital markets for up to one-third of a project’s costs. 27 As an alternative to establishing a federal infrastructure bank, the Congress could broaden the TIFIA program to achieve many of the same goals. TIFIA can offer credit assistance for projects that can achieve an investment-grade rating and that can repay a loan with project-generated funds. The scope of that assistance could be adjusted to better support applications from municipalities that include multiple projects. Nevertheless, all aspects of a project would have to meet federal requirements to proceed under TIFIA, just as they would under an infrastructure bank, and only a limited number of projects are likely to be able to generate revenues that could be used to repay a TIFIA loan. Most projects receiving TIFIA loans have been able to leverage those loans and receive additional financing. Since its inception in 1998, TIFIA has received about $600 million in budget authority. 28 That budget authority supported almost $8 billion in initial project assistance that will be repaid over time. That assistance, in turn, supported projects costing about $30 billion in total; for those projects, the private sector and state and local governments contributed most of the funding. Since 2008, the TIFIA program has received more applications for funding than it has funds available, but not all of those projects have been eligible for a TIFIA loan or ready to proceed to construction. 29 In 2010, projects submitted letters of interest for about $12.5 billion worth of credit assistance from TIFIA. However, a letter of interest does not ensure that a project’s economics make it eligible for a TIFIA loan. If all of those projects were suitable, that volume would translate to a little less than $1.3 billion in budget authority, assuming a subsidy rate of 10 percent. If, in contrast, only half of the projects met the eligibility requirements for TIFIA and were feasible, the Congress would need to appropriate about $600 million to meet all of the demand. In all likelihood, the fraction of projects meeting the eligibility requirements is lower, however. On the basis of its assessment of the demand for credit assistance, the National Surface Transportation Infrastructure Financing Commission recommended that the Congress authorize $300 million a year for credit assistance through TIFIA (see Figure 1). 30

TIFIA program is already structured to leverage private funds for transportation infrastructure

Yarema 11

(Geoffrey, chair of the Infrastructure Practice Group at Nossaman LLP, Congressional Documents and Publications, House Transportation and Infrastructure Subcommittee on Highways and Transit Hearing - "National Infrastructure Bank: More Bureaucracy and More Red Tape,” 10/12/2011, [http://dialog.newsedge.com/portal.asp?site=2007100814443105593225&searchfolderid=pg2007100814522209759333&block=default&portlet=ep&nzesm=on&syntax=advanced&display=Major+Law+Firms&action=sitetopics&mode=realtime&nzenb=left&criteria=%5Btopic%3Dlawfirms%5D&searchID=730376&datetime=%5Bt-minus%3D7%5D&hdlaction=story&storyid=%5Bstoryid=t1NMufwrglH-uoda-fntpxiOesfpy9ieqqJp\_0B3sH0YAFwUnVeZyiXeksAa\_o0NWO4P1u4wdHo5O6-b50X5AQ\*\*%5D&rtcrdata=on&epname=EFORE&](http://dialog.newsedge.com/portal.asp?site=2007100814443105593225&searchfolderid=pg2007100814522209759333&block=default&portlet=ep&nzesm=on&syntax=advanced&display=Major+Law+Firms&action=sitetopics&mode=realtime&nzenb=left&criteria=%5Btopic%3Dlawfirms%5D&searchID=730376&datetime=%5Bt-minus%3D7%5D&hdlaction=story&storyid=%5Bstoryid=t1NMufwrglH-uoda-fntpxiOesfpy9ieqqJp_0B3sH0YAFwUnVeZyiXeksAa_o0NWO4P1u4wdHo5O6-b50X5AQ**%5D&rtcrdata=on&epname=EFORE&))

As the Subcommittee is well aware, the role of the federal government in delivering large transportation infrastructure projects is changing. Historically, the function of the federal government has been to provide both funding and to regulate how that funding is spent. Today, federal resources for transportation infrastructure fall far short of need and the expectation that the federal government would or could fix the nation's aging surface transportation system with a direct infusion of federal dollars is fading. Compelled by these very real fiscal constraints, the federal government has been moving away from the traditional, apportionment-based funding paradigm and toward a credit assistance and incentives-based model that leverages fewer federal dollars to maximize local, state and private contributions to finance large transportation projects of regional and national significance. B. The Evolution Is Already Underway. This shift in thinking about the federal government's role in financing transportation infrastructure is evidenced by one of the key components of President Obama's proposed Jobs Act: the much-buzzed about national infrastructure bank. The concept, as the President has explained it, would be to use federal dollars to leverage private investment to finance large public works projects. The President has touted the ability of an infrastructure bank to harness substantial private and other non-Federal dollars for capital-intensive projects, including transportation projects that are critical to mobility, goods movement and economic growth. Frankly, I couldn't agree more. I couldn't agree more because, as far as transportation projects are concerned, we already have a national infrastructure bank - it's called TIF1A. Authorized by the Transportation Infrastructure Finance and Innovation Act, the TIFIA program has been providing federal credit assistance to large-scale highway, transit and rail projects since 1998. In the 12 years that the U.S. Department of Transportation (the "USDOT") has been administering the TIFIA program, we have seen how effective federal offerings of tow-cost financing can be in accelerating the delivery of qualified projects - projects that generate significant economic benefits, implement new technologies and attract private and non-Federal investment. Under TIFIA, the USDOT helps project sponsors, including state departments of transportation, transit operators, local governments and private entities, to assemble project capital by providing long-term financial assistance in the form of secured loans, loan guarantees and letters of credit. Currently, TIFIA credit assistance is available to finance only 33% of the eligible costs of a project, the applicant needing to demonstrate the creditworthy means of repaying the TIFIA loan and funding the remaining two-thirds of eligible project costs from private investment, commercial loans, federal-aid highway or transit grants. In this way, TIFIA loans provide foundational financing that encourages public sponsors to identify and dedicate project funding from non-federal sources. Costs the U.S. Treasury incurs to provide TIFIA credit assistance typically amount to about 10% of the face value of the credit provided. Therefore, every $1 of TIFIA credit subsidy creates $10 in the face amount of a loan, which in turn, helps finance a $30 project. In terms more proportional to the scale of project eligible for TIFIA assistance, $100 million in federal credit subsidy can result in $1 billion in federal loans to support a $3 billion project. With this unique level of leverage, TIFIA helps build major projects of regional and national significance at a relative bargain price to the federal government.

CP faster --- has years of empirical successes

Yarema 11

(Geoffrey, chair of the Infrastructure Practice Group at Nossaman LLP, Congressional Documents and Publications, House Transportation and Infrastructure Subcommittee on Highways and Transit Hearing - "National Infrastructure Bank: More Bureaucracy and More Red Tape,” 10/12/2011, [http://dialog.newsedge.com/portal.asp?site=2007100814443105593225&searchfolderid=pg2007100814522209759333&block=default&portlet=ep&nzesm=on&syntax=advanced&display=Major+Law+Firms&action=sitetopics&mode=realtime&nzenb=left&criteria=%5Btopic%3Dlawfirms%5D&searchID=730376&datetime=%5Bt-minus%3D7%5D&hdlaction=story&storyid=%5Bstoryid=t1NMufwrglH-uoda-fntpxiOesfpy9ieqqJp\_0B3sH0YAFwUnVeZyiXeksAa\_o0NWO4P1u4wdHo5O6-b50X5AQ\*\*%5D&rtcrdata=on&epname=EFORE&](http://dialog.newsedge.com/portal.asp?site=2007100814443105593225&searchfolderid=pg2007100814522209759333&block=default&portlet=ep&nzesm=on&syntax=advanced&display=Major+Law+Firms&action=sitetopics&mode=realtime&nzenb=left&criteria=%5Btopic%3Dlawfirms%5D&searchID=730376&datetime=%5Bt-minus%3D7%5D&hdlaction=story&storyid=%5Bstoryid=t1NMufwrglH-uoda-fntpxiOesfpy9ieqqJp_0B3sH0YAFwUnVeZyiXeksAa_o0NWO4P1u4wdHo5O6-b50X5AQ**%5D&rtcrdata=on&epname=EFORE&))

C. TIF1A Offers Significant Advantages That Can Be Realized Today While promoting the concept of a national infrastructure bank, the President has rightly noted that "building a world class transportation system is part of what made us an economic superpower." I would suggest, however, that building a new bureaucracy to improve that system is an entirely avoidable diversion of limited federal resources. Instead, we should use the TIFIA program to help restore our nation's transportation infrastructure and regain the competitive advantage of a mobile economy. 1. Use Our Existing Tools Unlike a newly-conceived national infrastructure bank, TiFIA - and all of the necessary authorizations and organizations required to implement and administer it - already exists. By using TIFIA to help finance improvements to the nation's surface transportation system, we avoid incurring the costs, delays and bureaucratic struggles inherent in creating a brand new governmental institution. The TIFIA program already has in place an established decision-making process, administrative regulations, a dedicated staff, guiding policies and procedures, and a successful 12-year track record as an institution. In a phrase, TIFIA is a proven, valuable and essential commodity. 2. Turn the Backlog into Blueprints - Now What the TIFIA program also has, as discussed in more specific detail below, is a backlog of applications for nationally significant projects totaling nearly $30 billion. Although we do not typically think of an inventory of unrequited demand as an asset, the existing backlog means that the TIFIA program is already positioned to quickly help finance billions of dollars in new projects that might otherwise be delayed or deferred due' to their size, complexity or the unpredictability of their revenue streams. These are large projects of regional or national significance that are cleared or are close to obtaining environmental clearance, have project sponsors assembling state, local and private capital to substitute for the diminished availability of federal tax dollars, and provide critical improvements to passenger and freight mobility in this country. With additional resources, TIFIA could get more projects currently stalled at the proposal stage to their groundbreaking ceremonies - and in short order. 3. Focus on Transportation In addition to transportation infrastructure, the President's proposed national infrastructure bank would entertain applications for financing assistance from projects ranging from dams and levees to energy efficiency enhancements and transmission lines. What we conclude from the breadth of infrastructure classes that would be eligible to apply for the bank's maximum $10 billion volume of annual loans and loan guarantees, is that transportation will be fighting for this limited resource in much the same way constituencies of diverse interests and conflicting agendas fight over the General Fund. TIFIA resources are dedicated to highways and transit projects. With TIFIA serving as the "national infrastructure bank" for transportation projects, the struggle for federal assistance among other forms of infrastructure would be eliminated. 4. Create Jobs The projects financed through TIFIA will create jobs in enormous numbers -and quickly. According to the FHWA, 28,000 jobs are created for every billion dollars in transportation construction. If TIFIA were funded only to the extent of its existing $30 billion backlog, it could create nearly one million jobs.

Expanding TIFIA solves – creation of NIB only takes decision making out of the hands of state officials

Inhofe 10 (James M. Inhofe, senior United States Senator from Oklahoma, ranking member and former chairman of the United States Senate Committee on Environment and Public Works, "Innovative Project Finance,” Hearing, September 28, 2010, <http://epw.senate.gov/public/index.cfm?FuseAction=Hearings.Statement&Statement_ID=8cee4317-6930-454a-8ad4-39395bf7cb7e>)

Another way to leverage non-federal funds is a loan program contained in the current highway program called TIFIA. Although it took some time to really get going, TIFIA now is very popular and recently received applications for 10 times the amount it can lend. It is used in many situations, including as a component of PPP financing or by states to supplement more traditional financing. Clearly, this is a successful program that must be dramatically expanded. I will end on a final note about infrastructure banks, which is a very hot topic these days. First of all, we have government infrastructure banks for transportation: at the federal level we have TIFIA and at the state level we have State Infrastructure Banks which are capitalized by the federal government. What most proponents of a new infrastructure bank want is a mechanism to give out more grants. 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. The only thing you are going to do is move decision making from States to US DOT officials in Washington-an outcome I do not support.

Expanding TIFIA solves – creates jobs fast

Guilmino 12 (Brad, Chief Financial Consultant for HNTB Corporation, an employee-owned infrastructure firm serving public and private owners and contractors, “Now is TIFIA’s Time,” February 2012, <http://www.hntb.com/sites/default/files/issues/TIFIA_2012_0.pdf>)

Current momentum needs to culminate in increased funding, and soon. Even without a multi-year transportation bill, TIFIA is something elected officials, engaged voters and smart investors can all get behind. The United States must adopt — and expand — alternative financing solutions like TIFIA that aren’t costly to the government and allow greater participation by the private sector. TIFIA is a proven winner. And it's a safe bet for American taxpayers. To date — within a program that is intended to take on risk — 24 of 25 projects have remained solvent. And, while one project in Southern California did go into bankruptcy, TIFIA participation in the South Bay Expressway has remained intact. This was accomplished through a "springing lien" provision, which gave a level of seniority to taxpayer dollars that would not normally have been granted given the size of loan committed. In fact, every project funded within TIFIA gets a reserve that covers a risk premium, which goes to the U.S. Treasury to protect against the risk of borrower defaults. Greg Hulsizer, former chief executive of South Bay, has said, "The risk here was clearly transferred to the private sector." Some transit advocates have expressed concern regarding the Senate’s proposed elimination of selection criteria that create a preference for projects that help maintain or protect the environment. While their dedication is admirable, such worries are misplaced. With so much additional money on the table, there will be room for many different types of transportation projects. Remember, $1 billion annually will trigger $10 billion in loans. The current TIFIA backlog — totaling 44 applications and $8 billion in projects — could be cleared in the first year. In addition, streamlining the program allows more money to flow to more projects more quickly, driving job creation and economic development. Los Angeles Mayor Antonio Villaraigosa has expressed his support for expanding the program. His vision for completing 30 years worth of LA Metro transit projects in the next 10 years will need to rely in part on TIFIA support. In fact, LA Metro has advocated for allowing a master credit agreement with TIFIA to secure loan commitments on a number of related projects at one time. By the way, along with good transit projects, don't we also want to see good road projects being built?

Expansion key – popular with Obama and Congress

Guilmino 12 (Brad, Chief Financial Consultant for HNTB Corporation, an employee-owned infrastructure firm serving public and private owners and contractors, “Now is TIFIA’s Time,” February 2012, <http://www.hntb.com/sites/default/files/issues/TIFIA_2012_0.pdf>)

"We need TIFIA" According to the Federal Highway Administration, which handles the program, each dollar of federal funds can provide up to $10 in TIFIA credit assistance, and leverage $30 of overall investment in transportation infrastructure. In other words, annually the current program's $110 million of credit premium is turned into $1.1 billion of federally-support loans, and go a third of the way toward leveraging private loans. TIFIA can provide an additional debt source to capital markets and offer flexible repayment terms and more favorable interest rates. Bonding and debt capacity are optimized. The cost of capital is measurably lower. This is particularly important at a time when money available for infrastructure investments has been in short supply. The credit and liquidity crisis has made it extremely difficult to obtain debt — the capital markets simply aren't as flexible as they used to be. In fact, TIFIA has been crucial to the successful financing of almost all P3 projects brought to market in the United States since it was introduced. It provides "low cost" debt, eliminating or at least vastly reducing the public shortfall all complex transportation projects have. One recent example was a $418 million loan to help the North Texas Tollway Authority to pay for the construction of the final phase of Texas State Highway 161 in Dallas County. Last November at an infrastructure investment forum hosted by the U.S. Chamber of Commerce, Virginia Secretary of Transportation Sean Connaughton emphatically endorsed the program. "We need TIFIA," he said. "In fact our Midtown Tunnel project would not have been able to move forward if it wasn't for TIFIA. And the same thing with the Beltway project, and the same thing, hopefully, on the 95 HOT Lanes project we're moving forward, as well." TIFIA is so popular among transportation agencies that it's vastly oversubscribed. Demand for credit assistance regularly exceeds TIFIA's budget authority. In 2011, requests totaled $14 billion in loans, 14 times more than what the program could support. At a time when the gas tax is in decline and available funds are dwarfed by the country's need for simple maintenance and repair projects, let alone new capacity, TIFIA must be expanded. And on this, if not the details, Congress and President Barack Obama agree.

TIFIA is best – spurs bond incentives and increases credit ratings

Sanchez 01 (Humberto Sanchez covers the Senate for Roll Call. Prior to joining, he covered the budget and appropriations process for Congress Daily and now NJ Daily for three years. Humberto previously worked at the Bond Buyer covering state and local budget and finance issues. He also covered the Securities and Exchange Commission for Dow Jones Newswires. He holds a B.A. in philosophy from James Madison University and is also an alumnus of States News Service. “Maglevs future hinges upon success of funding strategies”, 1-22-2001, Bond Buyer, pp. 6-6. http://search.proquest.com/docview/407210745?accountid=14667)

Federal funds are a keystone because they are needed to help the winning project receive an investment-grade credit rating -- backing that is considered crucial for any project to be able to use tax- exempt financing, which the Maryland and Pittsburgh projects "have in the works," according to a source close to the situation. " The grant is a kind of equity, which helps to leverage the debt financed portion of the project costs and gives bond holders some additional cushion to protect them," said Chee Mee Hu, a managing director with Moody's Investors Service. Another source of funding would probably come from the Transportation Infrastructure Finance and Innovation Act, which provides loans, loan guarantees, and lines of credit to toll roads, mass transit, and other kinds of surface transportation projects that typically have price tags of more than $100 million. TIFIA, as the program is known, is generally expected to spur more bond issuance because it is designed to promote and accelerate projects that, to a large extent, are financed with debt. In some cases, however, the federal assistance may offset the need for bonding, experts have said. TIFA assistance would provide further incentive for bond buyers because, depending on certain variables, it could serve as a credit- enhancing mechanism. "For projects as big as maglev, you're going to want to tap as many sources as possible," Hu said.

Politics NB

Expansion of TIFIA popular in Congress where NIB is unpopular

Plautz 11 (Jason Plautz covers transportation and energy issues in Washington, D.C. – freelance writer for Sports Illustrated, National Journal and Greenwire, “In I-Bank Debate, States Provide Successful Model,” 9-8-11, <http://www.nytimes.com/gwire/2011/09/08/08greenwire-in-i-bank-debate-states-provide-successful-mod-49268.html?pagewanted=all>)

Former transportation official Orski, who now publishes a transportation newsletter, said the national bank has an advantage in that it can help large, multi-state projects. But, he added, those types of projects are rare and might be better handled through existing structures. "There is a widespread sentiment both in the House and Senate, rather than creating a new federal fiscal bureaucracy, we ought to strengthen and expand existing financial instruments, primarily TIFIA," he said, referring to the popular Transportation Infrastructure Finance and Innovation Act loan program.

TIFIA popular with Republicans and House leaders who oppose the plan

Patton 11

(Oliver B. Patton, Washington Editor, Trucking Magazine, “Infrastructure Bank Going Nowhere,” 10-13-11, <http://www.truckinginfo.com/news/news-detail.asp?news_id=74979>)

Transportation and Infrastructure Committee Chairman John Mica convened a hearing yesterday on President Obama's proposal to create a national infrastructure bank, and opened the event by making the situation perfectly clear. "I'm afraid that the national infrastructure bank is dead on arrival in the House," he said. There followed two hours of testimony from four out of five witnesses on why **the bank makes no sense: It's expensive, it takes too long to set up, it adds bureaucracy, and its purpose is better served by programs that already are in place**. The bank is one element of the jobs bill Obama is pushing. Based in part on a Senate proposal by Democrats John Kerry and Mark Warner and Republican Kay Bailey Hutchison, it would provide $10 billion to leverage private and public investment in regional and national infrastructure projects. The infrastructure bank also has been discussed as a possible provision in the next federal highway program. As Mica made clear, the House has no interest. There's more support on the Senate side, where Barbara Boxer, D-Calif., chairman of the Senate Environment and Public Works Committee, has said she wants to have an infrastructure bank. So far, however, such a provision is not included in the Senate's draft legislation. The sole proponent of the bank among the witnesses at yesterday's hearing, Scott Thomasson of the Progressive Policy Institute, remarked that the Republican reaction to the proposal is a symbol of partisan divide in Congress. Thomasson noted that business leaders, including the U.S. Chamber of Commerce, support the bank. "A properly structured national infrastructure bank is an innovative and sound investment tool that represents the next step in the evolution of federal financing programs for transportation, energy and other infrastructure projects," he said in his statement. The Republican majority on the committee, and the other witnesses, think it makes more sense to improve current financing methods such as state infrastructure banks and the Transportation Infrastructure Finance and Innovation Act federal credit program. "Rather than create a new national agency, send the money to the states," said Mica. He said 33 states already have infrastructure banks, and most don't have enough money to finance them.

Expansion Solves

TIFIA needs more funding and less restrictions – demand is higher than ever

Dutton 09

(Audrey, reporter for The Bond Buyer, “Is TIFIA Tapped Out?: High Demand Taxes Program's Coffers, Bond Buyer, 1-7-09: pp. 1., http://search.proquest.com/docview/407092105?accountid=14667)

WASHINGTON - The current financial crisis that has caused Treasury rates to plummet has created a boom in demand for a 10-year-old federal program that offers low-interest loans, pegged to Treasury rates, to transportation departments and private investors. But there is no longer enough funding in the TIFIA program to meet the growing demand, according to transportation experts and market participants. As lawmakers try to find cures for infrastructure financing woes, Congress may increase the amount of financing authority available under the Transportation Infrastructure Finance and Innovation Act program, sources said in recent interviews. The program is coming up short of funds because Congress rescinded about $257 million of its carry-over budget authority during the last fiscal year, which ended on Sept. 30, when TIFIA was not fully subscribed. Because the budget authority constitutes only a small portion of the financing that would be available, the program potentially lost more than $2 billion of total financing capacity, at a time when it was about to become one of the least expensive methods of financing transportation projects. "The unfortunate timing of this year is that more applications began to come in, and some of these large projects were clearing the development phase and getting ready to get financed, when TIFIA budget authority was rescinded," said Bryan Grote, co-founder of Mercator Advisors LLC and the former Transportation Department official who headed the TIFIA program from its inception until August 2001. Sources said it is likely that Treasury rates will eventually bounce back from their recent lows, which could possibly slow demand for TIFIA financing by comparison to traditional debt such as municipal bonds. But in the meantime, said Jack Basso of the American Association of State Highway and Transportation Officials, "We've all of a sudden achieved nirvana, and there's no money there." TIFIA, enacted in 1998, provides credit assistance to transportation projects that have a dedicated revenue stream. It was designed to fill in project funding gaps and to leverage private investment with subordinate capital. Prospective borrowers come from across the spectrum of project finance and construction participants, including private companies, state and regional transportation and port authorities, and state and local governments. The allure of TIFIA financing comes from its low interest rate - 3.09% yesterday - that is pegged to the Treasury rate, and from the fact that TIFIA loans are subordinate to other senior obligations such as bank loans. But it has become so attractive in recent months that is now oversubscribed, sources said. The program has nine pending applications currently, but only $110 million that it can use to make credit available this year. "Historically, TIFIA has had funds available to support all worthy projects, so we can provide no example - yet - of a project we've turned down for lack of budget authority. However, the project list ... represents demand far in excess of our resources and we'll need to prioritize our credit support," said Department of Transportation spokeswoman Nancy Singer. Under TIFIA agreements, the federal government can provide a direct federal loan to project sponsors, a loan guarantee to institutional investors such as pension funds that make loans for the projects, or standby lines of credit as a secondary funding source that can be drawn upon to supplement project revenues during the first 10 years of project operations. The program has provided $8.05 billion in financing support for highway, transit, and intermodal projects in the decade since it was launched. TIFIA is currently providing about $3.27 billion of credit for highway, transit and intermodal projects backed mostly by user charges. Another $516 million toll-backed loan was committed in December to the Intercounty Connector linking Prince George's and Montgomery counties in Maryland. The TIFIA program has budget authority of $122 million, Singer said. But that amount is likely to be reduced through the appropriations process to about $110 million for the current fiscal year, she said. That budget authority, which pays for the subsidy cost of making a TIFIA loan, is calculated for each transaction but generally amounts to about 10% of the overall financing. More than $1 billion of TIFIA financing was distributed in 2008 for the Capital Beltway HOT lanes project in Virginia, and the SH130 project, a 40-mile portion of tollway in central Texas. TIFIA had to commit about $154 million to support the loans, which is equivalent to a private bank setting aside a set percentage of total loan amounts. The DOT has committed to providing financial help for another three projects under TIFIA, pending the completion of state solicitations or negotiations, and has an additional six applications pending. "In addition to Capital Beltway HOT Lanes, Pocahontas/Richmond Airport Connector and LA-1, projects that likely would not have been financed but for TIFIA participation include the South Bay Expressway ... the Central Texas Turnpike, 183A, and the Reno ReTRAC," Singer said. The volume of TIFIA applications will either remain at current levels or grow more dramatically, "considering the backlog of major investments and the fact that more state and local sponsors are looking more to tolling and other user-backed facilities," Grote said. The question being asked by market participants is whether TIFIA's authorization volume will be increased, or whether technical tweaks will be made to the program to facilitate more financing ability going forward. The House Transportation and Infrastructure Committee has not recommended any changes to the TIFIA program as part of the economic recovery legislation being crafted by Congress, said the committee spokesman Jim Berard. Sources believe the committee could try to augment the program in the next transportation funding law to replace the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users, which expires Sept. 30. But Berard said it is too early to predict what, if anything, the committee will do regarding the program. TIFIA advocates said the committee also should consider making some of the TIFIA provisions less restrictive. One provision states that although TIFIA is subordinate to other project debt on a cash-flow basis, it is no longer subordinate if the borrower becomes insolvent. "That makes it a little more problematic if you have a borderline project where there is some risk of having default or repaying project debt down the road," Grote said. It also dilutes the ability of TIFIA to enhance senior debt, he said. Another provision limits TIFIA to financing only 33% of the total project cost, but Grote pointed out that other federal credit programs are allowed to lend up to 80% of project costs. "In the current market environment, the TIFIA credit looks even more useful than even I expected," Grote said.

Increased funding vital to solidify investor confidence

Dutton 09

(Audrey, reporter for The Bond Buyer, “TIFIA Not Going Away, Though Future Funding Is Uncertain: Transportation Advocates Tout Program's Importance”, 9-6-09, The Investment Dealers Digest : IDD, 75(42), 11-n/a. http://search.proquest.com/docview/198278059?accountid=14667)

DALLAS - The Transportation Infrastructure Finance and Innovation Act program is likely here to stay, though it is unclear how much funding it will receive in the future, federal officials said here yesterday. "We need [TIFIA] more than perhaps we have ever before," Marshall Crawford, managing director of JPMorgan said at The Bond Buyer's 10th Annual Transportation Finance and Public-Private Partnerships Conference. Crawford warned that because the current surface transportation law has not been reauthorized and TIFIA's future funding level is uncertain, transportation market participants should seek out other "market opportunities that you can avail yourself of if you need to." The TIFIA program provides low-interest loans and credit support for transportation projects, often with a user fee component. It was authorized by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users, or SAFETEA-LU, which expired Sept. 30 and has not been replaced. TIFIA became popular during the credit crunch and was oversubscribed. As a result, the program had to essentially borrow against its budget for next year and required some borrowers to pay a fee to offset some costs, said TIFIA acting director Duane Callender. This year, TIFIA provided $1.8 billion of credit assistance, supporting a total investment of $6.5 billion, including about $2 billion in bonds, according to Victor Mendez, administrator of the Federal Highway Administration. Mendez said there will be "some semblance" of TIFIA funding in the future, but added that the "methodology or technique" for implementing the program is still undefined. "Things will get a little bit trickier as we try to advance new concepts," Mendez said of overall programmatic changes in transportation financing. He added that the outcome of health care reform legislation "will have some impact on transportation" by laying the groundwork for what the administration and both political parties can do in major pieces of legislation. Speakers also highlighted the recent intersection of the American Recovery and Reinvestment Act - which provided a boost in funding to states for highway and other infrastructure repairs - and the delayed reauthorization of SAFETEA-LU. Even while ARRA funding is supporting shovel-ready projects, there is uncertainty about when a new multi-year transportation law that provides a steady stream of funds to states, will be approved. SAFETEA-LU programs have been operating under stopgap measures since the law expired. Because of the budget rules applied to those stopgap measures, and a rescission of more than $8 billion of federal highway aid to states, the FHWA has been able to apportion only about two-thirds of the funding that it usually provides to states, said Mortimer L. Downey, senior adviser for Parsons Brinckerhoff and former deputy transportation secretary. The Federal Transit Administration has been able to apportion no money since Sept. 30, he added. Meanwhile, Build America Bonds were lauded by issuer officials including those from the Texas Department of Transportation. TxDOT chief financial officer James M. Bass said the recent issuance of $1.2 billion of taxable BABs saved the department $275 million over what it would have paid on comparable issue of tax-exempt bonds.

\*\*Privatization CP\*\*

Federal control leads to mismanagement – privatization of infrastructure investment solves best

Utt 11 (Ronald D. Utt is the Herbert and Joyce Morgan Senior Research Fellow for the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation, “Infrastructure 'crisis' overblown,” 12-18-11, <http://www.pressofatlanticcity.com/opinion/commentary/ronald-d-utt-infrastructure-crisis-overblown/article_638595de-1413-5d08-96a4-f05744dad3e2.html>)

We constantly hear that America has an infrastructure crisis and that calamity will result if we don't address it. Inevitably the solution involves the investment of vast sums of taxpayer money. Not surprisingly, most estimates of how extensive the crisis is, and how much it will cost to fix, come from what Washington euphemistically calls "stakeholders": the trade associations whose members would benefit from the prescribed remedy. Sen. John Kerry's bill to create a federal infrastructure bank cites the American Society of Civil Engineers' estimate that $2.2 trillion in infrastructure spending is needed over the next five years to bring us up to an "adequate" condition. At $400 billion per year, the engineers would have us spend on infrastructure about what we spend each year on all of the federal, non-security, discretionary programs - an amount equal to 20 percent of all federal tax collections in FY 2011. Are things really this bad? With the American economy still struggling, the infrastructure stakeholders have rebranded their effort as a jobs program. There is little evidence to suggest it will provide the promised boost, but this rebranding effort has had some success in influencing disparate organizations: In November members of Occupy DC rallied at the 89-year-old Key Bridge "to highlight their contention that repairing aging infrastructure will create jobs," and House Republicans renamed their highway bill the American Energy and Infrastructure Jobs Act. Infrastructure is defined as long-lived, physical assets that provide a flow of valuable services to people over time. It includes such things as residential housing, roads, power plants, telephone poles, railroads, manufacturing facilities, office buildings, hotels, shopping centers, transit systems, water supply and treatment systems, airports, airplanes, cars, trucks, farms and buses, to name just a few. All of the above are of considerable value, obviously. But not all of them belong on the infrastructure crisis lists. And the fact that the Occupy DC people chose a bridge - not a car dealer, a shopping center, pizza parlor or freight railroad - to protest disrepair and poor service suggests that the real crisis is not one of infrastructure per se, but of the parts that are government-owned and operated with a degree of mismanagement familiar to the millions of Russians and East Europeans who decided to junk such a system in the late 1980s. As such, our infrastructure crisis is really a crisis of monopoly socialism.1 By contrast, those important elements of infrastructure that are not in "crisis" are those in private hands and subject to market forces. They, more often than not, experience the crisis of overproduction, the opposite problem confronting public infrastructure. Who would argue that we have too few cars on the road? The proposed government infrastructure initiatives focus on areas that have been government's responsibility for as far back as a century. But in doing this, neither the president nor Congress have yet to experience their Pogo moment and discover that the problem stems from the public sector's mismanagement of our accumulated wealth. Privately provided infrastructure is abundant and well maintained because of the competitive market's incentives and signals. By contrast, the public provision of infrastructure is wholly detached from anything the consumer might actually want. Instead, public sector investment is determined by a lethal combination of stakeholder influence and competing demands on public resources. Whereas a competitive, private restaurant chain would respond to an increase in sales of apple pies by providing more apple pies, the same chain managed by a congressional transportation committee would respond by providing more salad, albeit with a few apple bits in the dressing. Looking for ways to privatize elements of the current infrastructure system is a good place to start. But most public officials would see this approach as too risky and controversial. Alternatively, governments might look for ways to "commercialize" their surface transportation programs by better connecting user fees to places and modes of travel that provide those fees. Until the early 1980s, that was pretty much the way it worked with the highway trust fund and the construction and improvement of the interstate highway system.

Federal control puts financial responsibility on taxpayers

Anand 11

(Anika Anand, MSNBC, “Bank plan would help build bridges, boost jobs: Bill gains traction, but foes fear another Fannie-Freddie disaster,” 7-6-11, <http://www.msnbc.msn.com/id/43606379/ns/business-eye_on_the_economy/t/bank-plan-would-help-build-bridges-boost-jobs/#.UA9CkLTOx8s>)

Manuel Lazerov, founder of private investment firm American Infrastructure Investors, opposes a national bank for different reasons. He insists private equity firms have plenty of money to invest in infrastructure projects without federal help. He doesn't trust the government to get involved and is concerned that the bank will turn into a mess like mortgage giants Freddie Mac and Fannie Mae, which had to be bailed out by the federal government to the tune of $160 billion. “There was the implicit understanding that these were quasi-government institutions, but in no way were those obligations part of the U.S. government,” Lazerov said. “If there was a loss, there was a loss. But the taxpayer wouldn’t be on the hook for that money. As you can see that’s the way it ended up.” Jason Delisle of the progressive New American Foundation, said the Fannie-Freddie comparison is a red herring. “Fannie and Freddie were never on government books,” he said. “They were private companies, and they were never on the budget. But this bank would be on the government books to begin with.”

Federal funding encourages wasteful and inefficient spending – privatization of transportation infrastructure solves

Edwards and DeHaven 10 (Chris Edwards is the director of tax policy studies at Cato and editor of www.DownsizingGovernment.org. He is a top expert on federal and state tax and budget issues. Before joining Cato, Edwards was a senior economist on the congressional Joint Economic Committee, a manager with PricewaterhouseCoopers, and an economist with the Tax Foundation. Tad DeHaven is a budget analyst on federal and state budget issues for the Cato Institute. Previously he was a deputy director of the Indiana Office of Management and Budget. DeHaven also worked as a budget policy advisor to Senators Jeff Sessions and Tom Coburn “Privatize Transportation Spending,” The Washington Times, 6-17-10, <http://www.cato.org/publications/commentary/privatize-transportation-spending>)

Rising federal control over transportation has resulted in the political misallocation of funds, bureaucratic mismanagement and costly one-size-fits-all regulations of the states. The solution is to devolve most of DOT's activities back to state governments and the private sector. We should follow the lead of other nations that have turned to the private sector to fund their highways, airports, air traffic control and other infrastructure. The first reform is to abolish federal highway aid to the states and related gasoline taxes. Highway aid is tilted toward states with powerful politicians, not necessarily to the states that are most in need. It also often goes to boondoggle projects like Alaska's "Bridge to Nowhere." Furthermore, federal highway aid comes with costly regulations like the Davis-Bacon labor rules, which raise state highway costs. For their part, the states should seek out private funding for their highways. Virginia is adding toll lanes on the Capitol Beltway that are partly privately financed, and Virginia is also home to the Dulles Greenway, a 14-mile private highway in operation since 1995. Ending federal subsidies would accelerate the trend toward such innovative projects. Another DOT reform is to end subsidies to urban transit systems. Federal aid favors light rail and subways, which are much more expensive than city buses. Rail systems are sexy, but they eat up funds that could be used for more flexible and efficient bus services. Ending federal aid would prompt local governments to make more cost-effective transit decisions. There is no reason why, for example, that cities couldn't reintroduce private-sector transit, which was the norm in U.S. cities before the 1960s.
To government planners, intercity high-speed rail is even sexier than urban rail systems. The DOT is currently dishing out $8 billion for high-speed rail projects across the country, as authorized in the 2009 stimulus bill. Most people think that the French and Japanese fast trains are cool, but they don't realize that the price tag is enormous. For us to build a nationwide system of bullet-style trains would cost up to $1 trillion. The truth about high-speed trains is that even in densely-populated Japan and Europe, they are money losers, while carrying few passengers compared to cars, airlines and buses. The fantasy of high-speed rail in America should be killed before it becomes a huge financial drain on our already broke government. Through its ownership of Amtrak, the federal government also subsidizes slow trains. The government has dumped almost $40 billion into the company since it was created in 1971. Amtrak has a poor on-time record, its infrastructure is in bad shape, and it carries only a tiny fraction of intercity passengers. Politicians prevent Amtrak from making cost-effective decisions regarding its routes, workforce polices, capital investment and other aspects of business. Amtrak should be privatized to save taxpayer money and give the firm the flexibility it needs to operate efficiently. A final area in DOT to make budget savings is aviation. Federal aid to airports should be ended and local governments encouraged to privatize their airports and operate without subsidies. In recent decades, dozens of airports have been privatized in major cities such as Amsterdam, Auckland, Frankfurt, London, Melbourne, Sydney and Vienna. Air traffic control (ATC) can also be privatized. The DOT's Federal Aviation Administration has a terrible record in implementing new technologies in a timely and cost-effective manner. Many nations have moved toward a commercialized ATC structure, and the results have been very positive. Canada privatized its ATC system in 1996 in the form of a nonprofit corporation. The company, NavCanada, has a very good record on both safety and innovation. Moving to a Canadian-style ATC system would help solve the FAA's chronic management and funding problems, and allow our aviation infrastructure to meet rising aviation demand. There are few advantages in funding transportation infrastructure from Washington, but many disadvantages. America should study the market-based transportation reforms of other countries and use the best ideas to revitalize our infrastructure while ending taxpayer subsidies.

Private sector better

Furchtgott-Roth 11 (Diana Furchtgott-Roth is a contributing editor of RealClearMarkets, a senior fellow at the Manhattan Institute, and a columnist for the Examiner. “Let's Leave Our Roads to the States,” 5-26-11, <http://www.realclearmarkets.com/articles/2011/05/26/lets_leave_our_roads_to_the_states_99043.html>)

There are many examples of private sector investments in roads. A road in the suburbs of Washington, the Dulles Greenway, and California's electronically-tolled express lanes on Route 91 were conceived, designed, financed, and built by private sector consortia. The Macquarie Infrastructure Group is operating and managing the Indiana Toll Road and the Chicago Skyway. The private sector is also operating other formerly-public infrastructure, such as garbage collection, water systems, and wastewater treatment plants. With state budgets in difficulties, bringing in the private sector saves crucial dollars. The same can happen for roads. Sohail Bengali, Managing Director of Stone and Youngberg, a financial services company, told me in a telephone conversation, "I think that for certain targeted infrastructure projects, the private sector can be very effective." A federal infrastructure bank, although ostensibly independent, would be swayed by political criteria and would be tempted to invest in low-return projects, such as roads to nowhere. Mr. Rendell admitted that the bank was needed because the returns to the projects were so low that the private sector would not want to invest in them. Yet if the projects have such low returns, why should they be funded by taxpayers? Congress has a choice of how to proceed to provide highways in America. On the one hand is the proposal of a new federally-controlled infrastructure bank which would require even more federal control over highways and the resources to support them. On the other are proposals for individual states to raise their own funds through new technologies and solve their own transportation problems. This Memorial Day, as we sit in traffic jams, the choice is clear.

\*\*Cap Links\*\*

NIB would cede decisions of project viability to a centralized authority disconnected from social conditions and prioritize neoliberal interests over solving actual problems

Maguire et. al 10 (William J. Mallett, Specialist in Transportation Policy; Steven Maguire, Specialist in Public Finance; Kevin R. Kosar, Analyst in American National Government; “National Infrastructure Bank: Overview and Current Legislation,” December 14th, 2011, Congressional Research Service, http://www.cfr.org/united-states/congressional-research-service-national-infrastructure-bank-overview-current-legislation/p26939)

How will projects be selected? A frequent criticism of current public infrastructure project selection is that it is often based on factors such as geographic equity and political favoritism instead of the demonstrable merits of the projects themselves.51 In many cases, funding goes to projects that are presumed to be the most important, without a rigorous study of the costs and benefits. Proponents of an infrastructure bank assert that it would select projects based on economic analyses of all costs and benefits.52 Furthermore, a consistent comparative analysis across all infrastructure sectors could yield an unbiased list of the best projects. Selecting projects through an infrastructure bank has possible disadvantages as well as advantages. First, it would direct financing to projects that are the most viable financially rather than those with greatest social benefits. Projects that are likely to generate a financial return through charging users, such as urban water systems, wastewater treatment, and toll roads, would be favored if financial viability is the key element for project selection. Conversely, projects that offer extensive spillover benefits for which it is difficult to fully charge users, such as public transit projects and levees, would be disfavored.53 Second, selection of the projects with the highest returns might conflict with the traditional desire of Congress to assure funding for various purposes. Rigorous cost-benefit analysis might show that the most attractive projects involve certain types of infrastructure, while projects involving other types of infrastructure have less favorable cost-benefit characteristics. This could leave the infrastructure bank unable to fund some types of projects despite local support. Third, financing projects through an infrastructure bank may serve to exclude small urban and rural areas because large, expensive projects tend to be located in major urban centers. Because of this, an infrastructure bank might be set up to have different rules for supporting projects in rural areas, and possibly also to require a certain amount of funding directed to projects in rural areas. For example, S. 652 proposes a threshold of $25 million for projects in rural areas instead of $100 million in urban areas. Even so, the $25 million threshold could exclude many rural projects. A fourth possible disadvantage is that a national infrastructure bank may shift some decision making from the state and local level to the federal level. Although the initiation of projects will come from state and local decision-makers, a national infrastructure bank will make the final determination about financing. Some argue that this will reduce state and local flexibility and give too much authority to centralized decision-makers divorced from local conditions.54

NIB would select projects based on commercial benefit and not social value

Maguire et. al 10 (William J. Mallett, Specialist in Transportation Policy; Steven Maguire, Specialist in Public Finance; Kevin R. Kosar, Analyst in American National Government; “National Infrastructure Bank: Overview and Current Legislation,” December 14th, 2011, Congressional Research Service, http://www.cfr.org/united-states/congressional-research-service-national-infrastructure-bank-overview-current-legislation/p26939)

In addition to loans and loan guarantees, the legislation would also establish a competitive investment grant program for a wide swath of transportation-related projects (see Table B-1). As proposed, this “National Infrastructure Investment Grant (NIIG)” program would (1) leverage federal investment by encouraging nonfederal contributions to the project, including contributions from public-private partnerships; (2) improve the mobility of people, goods, and commodities; (3) incorporate new and innovative technologies, including intelligent transportation systems; (4) improve energy efficiency or reduce greenhouse gas emissions; (5) help maintain or protect the environment, including reducing air and water pollution; (6) reduce congestion; (7) improve the condition of transportation infrastructure, including bringing it into a state of good repair; (8) improve safety, including reducing transportation accidents, injuries, and fatalities; (9) demonstrate that the proposed project cannot be readily and efficiently realized without federal support and participation; and (10) enhance national or regional economic development, growth, and competitiveness. A grant for the federal share of the NIIG project could not exceed 80% of the net project cost. Sub-national governments and government-sponsored corporations would be eligible for this program. Appropriations of $600 million in each of 2012 and 2013 would be made available to carry out the NIIG program. A project seeking a loan or loan guarantee would need to be at least $50 million in total cost, or $10 million if located entirely in a rural area. The legislation defines a “rural area” as all population and territory not within an urbanized area. AIIF Project Selection Criteria AIIF would be required to consider the following when evaluating projects: (1) federal budgetary resources included, (2) percentage of federal grants included in the investment plan, (3) the level of uncertainty in the project benefits, and (4) the percentage of eligible project cost to be funded through nonfederal resources pledged by the applicant. A qualification score would be required to equal the ratio between the present value of benefits to the present value of costs reasonably expected to result from the funding of the project or projects proposed in the application. The ratio should include probabilistic bands of both benefits and costs when determining the qualification score.

\*\*Politics Links\*\*

Plan Popular

Plan popular & bipartisan

Laing 11

(Keith Laing is a journalist who has covered government and politics at the local, state and national levels. He currently works for The Hill newspaper in Washington, D.C., where he covers transportation policy in Congress and manages The Hill‘s Transportation blog, “Mica opposes Obama’s call for national infrastructure bank,” The Hill, 9-8-11, <http://thehill.com/blogs/transportation-report/highways-bridges-and-roads/180481-gop-chairman-opposes-obamas-call-for-national-infrastructure-bank>)

Obama called Thursday for Congress to approve a proposal for a federal infrastructure bank that has been pushed for by Sens. John Kerry (D-Mass.) and Kay Bailey Hutchison (R-Texas). “We’ll set up an independent fund to attract private dollars and issue loans based on two criteria: how badly a construction project is needed and how much good it would do for the economy,” Obama said. “This idea came from a bill written by a Texas Republican and a Massachusetts Democrat. The idea for a big boost in construction is supported by America’s largest business organization and America’s largest labor organization. It’s the kind of proposal that’s been supported in the past by Democrats and Republicans alike. You should pass it right away.” Rep. Nick Rahall (D-W.Va.), ranking member on the Transportation and Infrastructure Committee, called for Republicans on the panel to be receptive to Obama’s proposals. “The Nation’s roads and bridges and water systems are needs that even Americans of vastly different political leanings agree deserve greater Federal investment — not less,” Rahall said in a news release. “After all, the jobs created by such investment are not Republican jobs or Democratic jobs — they are American jobs.” The infrastructure bank proposal was part of a $447 billion package Obama introduced Thursday — the American Jobs Act. In his speech, Obama pledged to campaign across the country for Congress to approve his proposals.

The public overwhelmingly supports the plan

Likosky 11 (Michael, staff writer at the New York Times, “Banking on the Future,” 7-13-11, http://www.nytimes.com/2011/07/13/opinion/13likosky.html)

A recent survey by the Rockefeller Foundation found that Americans overwhelmingly supported greater private investment in infrastructure. Even so, there is understandable skepticism about public-private partnerships; Wall Street has not re-earned the trust of citizens who saw hard-earned dollars vacuumed out of their retirement accounts and homes. An infrastructure bank would not endanger taxpayer money, because under the Federal Credit Reform Act of 1990, passed after the savings and loan scandal, it would have to meet accounting and reporting requirements and limit government liability. The proposed authority would not and could not become a Fannie Mae or Freddie Mac. It would be owned by and operated for America, not shareholders. The World Bank, the Inter-American Development Bank, the Asian Development Bank and similar institutions helped debt-burdened developing countries to grow through infrastructure investments and laid the foundations for the global high-tech economy. For instance, they literally laid the infrastructure of the Web through a fiber-optic link around the globe. Infrastructure banks retrofitted ports to receive and process shipping containers, which made it profitable to manufacture goods overseas. Similar investments anchored energy-intensive microchip fabrication

Popular in Congress & with businesses

Greene 11 (Brian, writes about politics for U.S. News & World Report, “Feature of Obama employment bill has backers in business, Congress but could get lost in politicking,” 10-6-11, <http://www.usnews.com/news/articles/2011/10/06/is-obamas-national-infrastructure-bank-the-answer-on-jobs>)

Support for the National Infrastructure Bank from Democratic members of Congress and senior White House officials is unsurprising, but the Progressive Policy Institute's forum also featured leaders of multinational businesses. Dan DiMicco, the chairman and CEO of Nucor, North America's largest steel manufacturing company, explained, "What's good for America is good for Nucor." DiMicco clarified by saying that his company is interested in changing the trend of sending domestically manufactured steel abroad for building projects. Ed Smith, CEO of Ullico Inc., a major provider of insurance and financial solutions for labor unions, described his company's idea of the "double bottom line" approach. The strategy involves looking for investments that produce both profits and jobs, a criteria that infrastructure investment fits well. Daryl Dulaney, president and CEO of Siemens, was open in his concern that doing business in the United States was getting too expensive. He explained that a Siemens operation that produces wind turbines in Fort Madison, Iowa, had to rebuild railways in the area to transport its product. "How many companies are going to do that?" he asked the panel.

Popular & bipartisan

Isidore 11

(Chris @ CNN Money, “Infrastructure Bank: Fixing how we fix roads,” 9-7-11, <http://money.cnn.com/2011/09/07/news/economy/jobs_infrastructure/index.htm>)

The I-Bank, or infrastructure bank, has support of both Democrats, Republicans and big business. Legislation has been co-sponsored in the Senate by Democrat John Kerry of Massachusetts and Republican Kay Bailey Hutchinson of Texas. It is likely to once again get support from President Obama when he lays out his jobs agenda. The idea is to create a government agency to help arrange financing for infrastructure projects using investments from private investors.

Infrastructure bank popular with public

Texeira 11 (Ruy, Senior Fellow at the Center for American Progress, “Public Opinion Snapshot: Public Backs Infrastructure Investment” 2/22/11, Center for American Progress, http://www.americanprogress.org/issues/2011/02/snapshot022211.html)

It’s no secret that our country’s infrastructure is in urgent need of repair and serious modernization. Conservatives, in their mania for cutting government spending, have lost whatever little interest they once had in addressing this problem. But the public hasn’t. Eighty percent declared themselves in agreement with President Barack Obama’s State of the Union call for a major effort to rebuild and modernize America’s infrastructure in a new Hart Research/Public Opinion Strategies survey for the Rockefeller Foundation. What’s more, the public backs a number of government actions to provide additional funding for infrastructure projects. These include a National Infrastructure Bank (60 percent support), issuing national transportation bonds (59 percent), and eliminating oil company subsidies (58 percent). No doubt conservatives are too busy running around with their budget axes to pay much attention to findings like these. But serious policymakers should. Infrastructure investment is important—and the public’s got your back.

NIB bipartisan & extremely popular – polls and statements prove

US Senate Democrats 11(10/21/11, “Fact Sheet: Rebuild America Jobs Act”, http://democrats.senate.gov/2011/10/21/fact-sheet-rebuild-america-jobs-act/) RS

AMERICANS OVERWHELMINGLY SUPPORT MODERNIZING OUR NATION’S INFRASTRUCTURE CNN/ORC Poll: 72% of Americans, 54% of Republicans Support Rebuilding Our Infrastructure. According to a recent CNN/ORC Poll, 72% of Americans support “increasing federal spending to build and repair roads, bridges and schools,” while only 28% oppose. This is up from 64% from September of this year. 70% of Independents and 54% of Republicans support funding our infrastructure. [CNN/ORC Poll, 10/17/11] Rockefeller Foundation: 72% of Americans Support Infrastructure Bank. The Rockefeller Foundation infrastructure survey, conducted in February 2011, found that 72% of Americans support “Creating a National Infrastructure Bank that helps finance transportation projects that are important to the whole nation or large regions and that funds projects based on merit, not politics.” [Rockefeller Foundation, 2/14/11] … THERE IS BROAD BIPARTISAN SUPPORT FOR THE INFRASTRUCTURE BANK Earlier This Year, Two Republican Senators Co-Sponsored an Infrastructure Bank. According to the Washington Post, “Earlier this year, in fact, two Senate Republicans — Kay Bailey Hutchison (Tex.) and Lindsey Graham (S.C.) — had co-sponsored Massachusetts Democrat John Kerry’s infrastructure bank bill, which bears close resemblance to the proposal in Obama’s failed jobs bill.” [Washington Post, 10/13/11] Sen. Hutchison: “A National Infrastructure Bank is an Innovative Way” to Address the Nation’s Water, Transportation, and Energy Infrastructure Needs. “The idea of a national infrastructure bank is an innovative way to leverage private-public partnerships and maximize private funding 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.” [Hutchison Blog, 9/7/11] Bipartisan BUILD Act Is Endorsed By Chamber of Commerce & AFL-CIO. “Amid growing concerns that the nation’s infrastructure is deteriorating, a group of Democrats, Republicans, and labor and business leaders called Tuesday for the creation of a national infrastructure bank to help finance the construction of things like roads, bridges, water systems and power grids. The proposal — sponsored by Senator John Kerry, Democrat of Massachusetts, and Senator Kay Bailey Hutchison, Republican of Texas — would establish an independent bank to provide loans and loan guarantees for projects of regional or national significance. The idea is to attract more infrastructure investment from the private sector: by creating an infrastructure bank with $10 billion now, they say, they could spur up to $640 billion worth of infrastructure spending over the next decade… To underscore the need for better infrastructure, two frequent rivals were on hand at the news conference: Richard Trumka, the president of the A.F.L.-C.I.O., and Thomas J. Donohue, the president of the U.S. Chamber of Commerce, the main business lobby. With a nod to the strange-bedfellows experience of having a labor leader as an ally, Mr. Donohue said, ”He and I are going to take our show on the road as the new ‘Odd Couple.’” [New York Times, 3/16/11] Alliance for American Manufacturing Said Infrastructure Bank Would Create Jobs. Scott Paul, Executive Director of the Alliance for American Manufacturing, provided a list of recommendations that would create more manufacturing jobs, including, “we need to invest in infrastructure and establish a national infrastructure bank” [Testimony before the Joint Economic Committee, 6/22/11; The Hill, 8/15/11] Mark Zandi: Infrastructure Bank Would Boost Manufacturing. Mark Zandi of Moody’s Analytics testified, “To lower the cost of transportation, telecommunications and energy, policymakers could provide consistent support to public investment in transportation networks, the internet backbone, and the electric grid. As a potential example of this support, Build America bonds issued as part of the recent fiscal stimulus efforts have been very successful. A national infrastructure bank, which could marry private capital with financial support from the government, would provide a substantial boost to this effort.” [Testimony before the Joint Economic Committee, 6/22/11] Private Infrastructure Investment Could Create 1.9 Million Jobs. Sphere Consulting LLC reported, “Over $250 billion of private equity capital is currently available, and some additional legislative and administrative changes could accelerate infrastructure projects and enhance funding.” The firm found that private investment in infrastructure could generate 1.9 million U.S. jobs. They suggested that the U.S. “Create a National Infrastructure Bank (NIB) that is authorized to lend at favorable terms to both the public and private sectors for qualified infrastructure projects.” [Sphere Consulting, July 2011]

Plan Unpopular

The National Infrastructure bank is highly unpopular among voters—experts say

Kredell 4/17 (Matthew, Reporter for USC News, “Transit Policy Is Pivotal on Road to the White House,” 4/17/2012, USC News, “http://news.usc.edu/#!/article/33401/transit-policy-is-pivotal-on-road-to-the-white-house)

It appears this year will see another basic extension of subsidizing the highway trust fund from the general fund, which is not sustainable. “The problem with that is that next year the highway trust fund is going to be officially bankrupt,” Schweitzer said. “We can’t keep passing these extensions.” More permanent solutions include raising the federal gas tax; focusing on user fees, fares, tolls and ticket sales rather than taxes; creating a national infrastructure bank that would leverage private investment to fund public-work endeavors; and reducing the federal transit role or eliminating it all together and make it a local issue. The first two options do not go over well with voters. “In my opinion, the conversation is much better now than it was a decade ago,” Rhoads said of spreading user fees. “It’s there but it’s just highly unpopular among voters, so there’s not many leaders [who will put it] on their agenda.” There are a lot of people, particularly the ones who live in rural areas, who don’t understand why they should be paying for rail in Dallas and would like to see the federal gas tax eliminated. As a donor state that contributes more gas tax to the feds than it gets back, California would be better off by turning that 18.4 cents per gallon into a state tax.

Unpopular with conservatives – slow growth & bureaucratic control

Isidore 11

(Chris @ CNN Money, “Infrastructure Bank: Fixing how we fix roads,” 9-7-11, <http://money.cnn.com/2011/09/07/news/economy/jobs_infrastructure/index.htm>)

But despite support from such typical adversaries as the U.S. Chamber of Commerce and the AFL-CIO, getting I-Bank legislation through Congress will not necessarily be easy. One problem is that it's not fast-acting. As a result, those who argue for immediate stimulus would much rather pursue projects that are ready to go. "An I-Bank will not create any jobs on day one; it probably won't create jobs on day 365," said Janet Kavinoky, executive director of transportation and infrastructure for the Chamber of Commerce. "In my view it could take three years." Another problem is that the cost, though limited, isn't nothing. It could take $5 billion in seed money to get the I-Bank rolling. Some proposals call for $5 billion of seed money every year for several years. "It may be an idea whose time has come," said Kavinoky. But there's also a good chance it gets crowded out by what's going on with debt and deficit reduction." And conservatives don't like government's involvement in the I-Bank, even as facilitator. They think it will merely add more bureaucracy. "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," said Ronald Utt, a senior research fellow at the Heritage Institute, a conservative think tank. "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."

Plan massively unpopular

Cooper 11 (Donna Cooper is a Senior Fellow at the Center for American Progress. “Not Fixing Our Infrastructure, Not Creating Jobs: Conservatives in Congress Are to Blame for Both Dismal Outcomes,” 11-9-11, <http://www.americanprogress.org/issues/2011/11/infrastructure_jobs.html>)

Last week a minority of conservative senators blocked President Barack Obama’s proposed Rebuild America Jobs Act, which would have created a National Infrastructure Bank to finance anywhere from $50 billion to $500 billion of urgently needed repairs and upgrades to our increasingly dilapidated national infrastructure. This shortsighted vote could prove perilous given the extent of erosion across every element of our infrastructure from roads, to bridges, to rail systems, to our transit networks. The vote also means that hundreds of thousands of jobs will not be created over the next six years. The party line vote—with every Republican senator voting against this bill—was because they could not bring themselves to support a reasonable, time-limited, and highly popular 0.7 percent tax increase on earnings over $1 million, or the wealthiest 1 percent of Americans. The hard-line Republican stance against the temporary tax increase on millionaires meant that even the Republican co-sponsor of the federal National Infrastructure Bank legislation, Sen. Kay Bailey Hutchinson (R-TX), voted against the measure—even though she said this the day before the vote:

Plan unpopular with both parties in both houses

Utt 11 (Ronald D. Utt is the Morgan Senior Research Fellow in Economic Policy at the Heritage Foundation, “Infrastructure ‘bank’ doomed to fail,” The Washington Times, 9-14-11, [http://www.washingtontimes.com/news/2011/sep/14/utt-infrastructure-bank-doomed-to-fail](http://www.washingtontimes.com/news/2011/sep/14/utt-infrastructure-bank-doomed-to-fail/) | JS)

The president’s fixation on an infrastructure bank as a means of salvation from the economic crisis at hand is — to be polite about it — **a dangerous distraction and a waste of time**. It also is a proposal that has been rejected consistently by bipartisan majorities in the House and Senate transportation and appropriations committees. Those rejections have occurred for good reason. Based on the ARRA’s dismal and remarkably untimely performance, an infrastructure bank likely would yield only modest amounts of infrastructure spending by the end of 2017 while having no measurable impact on job growth or economic activity. And whatever it did manage to spend would have to be borrowed, only adding to the deficit. That’s no way to meet the economic challenges confronting the nation.

Plan unpopular with GOP and House Transportation – Infrastructure Committee

Laing 11

(Keith Laing is a journalist who has covered government and politics at the local, state and national levels. He currently works for The Hill newspaper in Washington, D.C., where he covers transportation policy in Congress and manages The Hill‘s Transportation blog, “Mica opposes Obama’s call for national infrastructure bank,” The Hill, 9-8-11, <http://thehill.com/blogs/transportation-report/highways-bridges-and-roads/180481-gop-chairman-opposes-obamas-call-for-national-infrastructure-bank>)

The Republican chairman of the House Transportation and Infrastructure Committee said Thursday evening that he is opposed to the call for a national infrastructure bank President Obama made in his speech to a joint session of Congress. Rep. John Mica (Fla.) said he thought Congress should encourage individual states to create their own infrastructure banks, arguing as he has in the past that it would give them more flexibility to design transportation projects that fit their own needs. “While the President reconfirmed that our highways are clogged and our skies are congested, his well delivered address provided only one specific recommendation for building our nation’s infrastructure,” Mica said in a news release. “Unfortunately, a National Infrastructure Bank run by Washington bureaucrats requiring Washington approval and Washington red tape is moving in the wrong direction. A better plan to improve infrastructure is to empower our states, 33 of which already have state infrastructure banks.”

Support is shallow and limited to special interest policy groups

Mele 10 (Jim, “Don’t bank on it,” 1/1/2010, <http://fleetowner.com/management/feature/dont-bank-on-it-mele-0101>)

Traffic congestion is a sexy topic for the general media — everyone relates to pictures of stopped cars and trucks stretching to the horizon. And with unemployment over 10%, job creation is certainly a hot topic in the press. But utter the word “infrastructure” and all eyes glaze over. So it comes as no surprise that no major media outlet noticed when Congress rejected one of the most innovative ideas for funding a long-term solution to our infrastructure problems. The proposal for creation of a national infrastructure bank was first introduced in the Senate in 2007. It went nowhere. Although it's taken on slightly different names, it's cropped up every year since and been rejected every time. The latest rejection came just last month when the Senate removed it from the fiscal 2010 budget bill it approved. So what is this idea that refuses to go away, yet attracts little support or attention beyond a few special interest policy groups? Without getting into the complex Federal budgetary processes, a national infrastructure bank, or NIB among the policy wonks, would be a development bank that would issue bonds and use the proceeds to fund major infrastructure projects.

No support in the House

Patton 11

(Oliver B. Patton, Washington Editor, Trucking Magazine, “Infrastructure Bank Going Nowhere,” 10-13-11, <http://www.truckinginfo.com/news/news-detail.asp?news_id=74979>)

Transportation and Infrastructure Committee Chairman John Mica convened a hearing yesterday on President Obama's proposal to create a national infrastructure bank, and opened the event by making the situation perfectly clear. "I'm afraid that the national infrastructure bank is dead on arrival in the House," he said. There followed two hours of testimony from four out of five witnesses on why the bank makes no sense: It's expensive, it takes too long to set up, it adds bureaucracy, and its purpose is better served by programs that already are in place. The bank is one element of the jobs bill Obama is pushing. Based in part on a Senate proposal by Democrats John Kerry and Mark Warner and Republican Kay Bailey Hutchison, it would provide $10 billion to leverage private and public investment in regional and national infrastructure projects. The infrastructure bank also has been discussed as a possible provision in the next federal highway program.\ As Mica made clear, the House has no interest. There's more support on the Senate side, where Barbara Boxer, D-Calif., chairman of the Senate Environment and Public Works Committee, has said she wants to have an infrastructure bank. So far, however, such a provision is not included in the Senate's draft legislation.

GOP House members oppose NIB—seen as a continuation of big spending failures

Johnson 11

(Johnson, Fawn, correspondent at the National Journal, “Is There Hope for An Infrastructure Bank”, National Journal, February 2011, http://transportation.nationaljournal.com/2011/02/is-there-hope-for-an-infrastru.php)

The White House's release of its fiscal 2012 budget proposal this week kicks off the discussion about the administration's priorities, and infrastructure is at the top of the list. The administration has been honing the idea of an infrastructure "bank" or "fund" since President Obama took office. The fund would be designed to vet and provide cash for large projects that use multiple modes of transportation and take several years to complete. It's a safe bet that we'll hear more about this idea in the weeks to come as Transportation Department officials trot up to Capitol Hill to brief lawmakers on their ideas. Obama sees infrastructure investment as the key to job growth and economic competitiveness. The infrastructure bank would ensure success on large transportation projects because the administration would select only the best ideas for federal funding, in the White House view. Skeptics in Congress have balked at an infrastructure bank, worrying that it would face the same problems as the politically unpopular Fannie Mae and Freddie Mac. House Republicans are unlikely to give the Transportation Department the funding to make an infrastructure bank work as Obama would like.

GOP won’t have it – this evidence assumes the AFF’s link turns

DRUTMAN 10 (Lee, senior fellow and the managing editor for the Progressive Policy Institute, “Financing Future Growth: How Do We Pay For New Projects?”, 10-4-10, http://progressivepolicy.org/financing-future-growth-how-do-we-pay-for-new-projects)

And yet, Rep. DeLauro’s bill to create a National Infrastructure Bank and turn a chaotic ad-hoc infrastructure appropriations process into a rational national strategy has attracted only 60 co-sponsors – and not a single Republican. “Resistance is internal to Congress,” said Hindery. “They would give up so much grant and earmark authority. Members are hesitant to see that move into an independent entity.” Hindery argued that the key was leadership, and that the President wasn’t doing enough of it. “It has to be a stated priority,” he said. “It can’t be a proffered idea with tepid support.” Ehrlich, who wrote a PPI Policy Memo on how an infrastructure bank should operate, was optimistic that this is an idea whose time has come. “This is a remarkable moment in infrastructure,” he said. “We are finally at a place where all the communities know the current programs are brain-dead…Local planners are wondering where the funds are going to come from, private investors are circling around the periphery of the area, looking for a way in.” Hindery also noted that both the Chamber of Commerce and the Business Roundtable – both of whom have been largely resistant to any form of domestic spending – have come out in favor of an infrastructure bank. However, DeLauro said her Republican colleagues in Congress were not hearing this.

Plan Unpopular / CP NB

Plan unpopular with dems and GOP [also – TIFIA/SIB popular]

Orski 11 (Ken, public policy consultant and former principal of the Urban Mobility Corporation, “INFRASTRUCTURE BANK: LOSING FAVOR WITH THE WHITE HOUSE?, 8-30-11, <http://www.newgeography.com/content/002408-infrastructure-bank-losing-favor-with-white-house>)

For a while, it seemed like their plea would be answered. A proposal for a $30 billion infrastructure bank focused on transportation-related investments was included in the President’s FY 2011 budget proposal unveiled last September. As recently as last month, Mr. Obama was mentioning the Infrastructure Bank as part of his job stimulus plan to be unveiled after Labor Day. But today, the idea is on life support. Neither the Senate nor the House have seen fit to include the Bank in their proposed transportation bills. Congressional Democrats and Republicans alike are in agreement that decisionmaking control over major federal investments should not be ceded to a group of "unelected bureaucrats." Rather than creating a new federal bureaucracy, they think the focus should be placed on expanding federal credit assistance tools already in place, such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Railroad Rehabilitation & Improvement Financing Program (RRIF). There are other reasons for congressional skepticism. House Republicans are suspicious that the Obama-proposed Bank is nothing more than a vehicle for more stimulus spending, disguised as "capital investment." They want the Administration to be more specific about its proposal: how the Bank would be funded, what kind of investments it would fund and how the $30 billion capital would be repaid. "If this is more of the same stimulus spending, we won’t support it," Kevin Smith, spokesman for House Speaker John Boehner (R-OH) has been quoted as saying. House Transportation and Infrastructure Committee chairman John Mica (R-FL) thinks state-level infrastructure banks would be a more appropriate means of financing major transportation projects at the state and local level. Decentralized infrastructure financing would "keep the federal financing bureaucracy at a minimum and maximize states’ financial capabilities," according to the House transportation reauthorization proposal. Senate Democrats, while not necessarily opposed to another fiscal stimulus, want quick results. They fear that a centralized Infrastructure Bank, with its complex governance structure and layers of bureaucratic conditions, requirements and approvals would be far too slow and cumbersome to be an effective job generator. One or two years could pass before large-scale projects appropriate for Bank financing would get evaluated, selected, approved and under construction, one Senate aide told us. What is more, there is a lack of agreement on how the proposed Infrastructure Bank should function. The Administration wants a mechanism that would serve several different purposes. In the words of Undersecretary for Transportation Policy Roy Kienitz who testified at a September 21, 2010 hearing of the Senate Banking Committee, "We need a financing institution that can provide a range of financing options— grants for projects that by their nature cannot generate revenue, and loans and loan guarantees for projects that can pay for their construction costs out of a revenue stream. In short, we need the Infrastructure Bank that the President has proposed." But, "banks don’t give out grants, they give out loans. There is already a mechanism for giving out federal transportation grants — it’s called the highway bill," countered Sen. James Inhofe (R-OK), ranking member of the Senate Environment and Public Works (EPW) Committee. If the proposed entity is to be a true bank – as proposed in a recent bill sponsored by Senators John Kerry (D-MA) and Kay Bailey Hutchison (R-TX) and endorsed by the AFL-CIO and the U.S. Chamber of Commerce– its scope would be confined to projects that can repay interest and principal on their loans with a dedicated stream of revenue — in other words, the Bank could finance only income-generating facilities such as toll roads and bridges. By all estimates, such projects will constitute only a small fraction of the overall inventory of transportation improvements needed to be financed in the years ahead, the bulk of which will be reconstruction of existing toll-free Interstate highways. Hence, a true Infrastructure Bank would be of limited help in creating jobs and reviving the economy, critics argue. "A national infrastructure bank must garner broad bipartisan support to move forward," says Michael Likosky, Director of NYU's Center on Law & Public Finance and author of a recent book, Obama's Bank:Financing a Durable New Deal. "This means no grants, a multi-sector reach and a realistic idea of what projects will benefit straight away." President Obama was expected to include the infrastructure bank among his recommended stimulus measures when he lays out his new job-creation plan before the congressional deficit reduction committee in early September. But lately, he seems to have put the idea on the back burner and turned his attention to more traditional "shovel-ready" highway investments using existing financing programs. His advisers may have concluded that the Bank will do little to stimulate immediate job creation--- and that the proposal will find little support among congressional Democrats and Republicans alike. If so, check off the Infrastructure Bank as an idea whose time had come and gone.

\*\*Growth Good

Growth Sustainable

Growth will solve any problems it creates, and lack of growth leads to destruction of the environment

Zey 98 Michael Zey, professor at the school of Business Administration at Montclair University and the executive director of the Expansionary Institute and internationally recognized expert on the economy, society, and management, 1998, Seizing the Future, page 36

Once we discover new capacities, both tech­nological and human, we are set off in novel directions, crossing boundaries and exploring frontiers we never thought existed. The Spanish explored the New World in order to extract natural resources such as gold from the Earth and spread Christianity. Many English settlements were established by people simply trying to escape religious intolerance. None could have guessed that their expression of progress circa 1600 would lead to the birth of an independent nation that became the crucible for personal liberation and technological innovation. The fact that progress itself leads to new definitions of human growth also explains the West’s faith in progress. Our accomplishments consis­tently exceed our wildest dreams. Regardless of the stated purpose of a technology, the applications usually exceed such purposes. The auto­mobile became important as a means of redistributing the population from cities to the suburbs; the discovery of the steam engine revolution­ized industry and the very concept of abundance. Third, growth itself contains to their economic woes. hence, he concludes that in order to ensure the solutions to the problems it produces. Supporting this principle is the World Bank’s 1992 report “De­velopment and the Environment,” which blatantly states that growth is a powerful antidote to a number of ills plaguing Third World countries, including the pollution that growth supposedly generates. The report thus contends that eliminating poverty should remain the top goal of world policymakers. Although economic growth can initially lead to such problems as pollution and waste, the resulting prosperity also facilitates the developments of technologies that lead to cleaner air and water. In fact, once a nation’s per capita income rises to about $4000 in 1993 dollars, it produces less of some pollutants per capita, mainly due to the fact that it can afford technology like catalytic converters and sewage sys­tems that treat a variety of wastes. According to Norio Yamamoto, research director of the Mitsubishi Research Institute, “We consider any kind of environmental damage to result from mismanagement of the economy.” He claims that the pollution problems of poorer regions such as eastern europe can be traced to their economic woes. Hence, he concludes that in order to ensure environmental safety “we need a sound economy on a global basis.” so the answer to pollution, the supposed outgrowth of progress, ought to be more economic growth.

Growth → Mindset Shift

Growth will lead to abundance, which is the only way to achieve the mindset shift they want

Bainbridge 97 Alex Bainbridge, socialist alliance spokesperson and member of the Left Green Network, 1997, “Yes, abundance is sustainable”, Green Left Weekly Number 271, <http://www.greenleft.org.au/back/1997/271/271p13.htm>

Ron Guignard (GLW #270) takes issue with my argument that “a society free of the profit motive . . . can be built only on the basis of abundance of the things people consume” (from my critique of Ted Trainer's The Conserver Society, in GLW #262). He argues that such a society would use resources at an unsustainable rate. In addition, Guignard raises three objections to the goal of abundance: added pollution, increased human excrement and insufficient water for a larger population. He puts forward a rough vision of a society where one third of basic needs is produced small-scale (à la Trainer), one third (housing) organised by cooperatives and one third by large-scale but localised production. It is true that our society is overusing many non-renewable and even renewable resources. There are also many people in poor and rich countries who are going without things they need and want -- clearly we don't have “abundance”. However, it does not follow that an abundant supply of basic consumer goods and services -- even to a larger population -- is unsustainable. Central to achieving sustainability is changing how we produce, not producing less in the same polluting ways. Also, as I said in my first article, there is a lot of wasteful resource use under capitalism. This includes military expenditure, conspicuous consumption, unnecessary packaging, much advertising and planned obsolescence. Much of this can be cut very quickly without reducing at all the pool of goods and services available for people's consumption and would make a big difference to overall resource use. More than this is required to achieve sustainability, however. Also necessary is the systematic conversion of industry to non-polluting technology and introduction of widespread recycling of outputs. (This would include recycling and productive use of human excrement as fertiliser -- eliminating a serious waste problem as well as reliance on polluting chemical fertilisers.) It is true that this will take time to implement. However, our society already possesses most of the technology required for such a conversion. The main obstacle is the absence of real decision-making power by the majority and a lack of political will among the current rulers. While the matter should be decided democratically, any branch of industry that cannot be made sustainable should arguably be closed down completely and substitutes sought. Happily, this is not going to deprive us of any major area of consumer goods and services. Trainer's detailed evidence is testimony to this. My disagreement with Trainer (and possibly Guignard?) lies in his belief that this can occur successfully only in “largely self-sufficient” neighbourhoods. Sustainable production methods can be used on a large scale (e.g. permaculture in Cuba), at the same time making the gains from specialisation and division of labour. Democratically planned, sustainable industry directed towards meeting people's needs (something very different to the industry we see around us now) would give people more leisure time. This would be a big improvement in most people's quality of life. It would also make possible the “rational abundance” which socialists consider so important. The question then remains: even if industry is placed under democratic control, purged of polluting and wasteful production methods and directed towards social needs instead of corporate profit, will there be enough resources to supply goods and services in abundance? Lets be clear on what abundance means. When socialists talk about abundance, we are not talking about Rolls-Royces, ocean-going yachts or gold-plated toilet seats. That is the consumerism of a profit-driven capitalism -- continually anxious to convince people to consume things they don't need. What we are talking about is satisfying people's needs and wants. [CONTINUES] It is true that resources are limited. It is also true (contrary to popular mythology) that there are limits to how much people can consume. This holds true not only for food. In any given period, there is a limit to how many movies you can see, clothes you can wear, kilometres of road you can travel, heart by-pass operations you can have, wardrobes you can store in your house. We already have the means to provide more than enough of many consumer items -- especially the most important. If our productive wealth were democratically owned and managed by society as a whole, then it would be possible to gradually supply a greater and greater number of goods and services free. Over time, and as the number of these items increased, there would be a profound change in people's psychology and a breaking down of the acquisitive traits fostered by capitalism. Paradoxically, abundance will lead to reduced consumption of many items. For example, if “tool libraries” and/or well-supplied neighbourhood workshops were provided free (as Trainer recommends), many people might decide that they did not want their own personal tools.

Growth Good – Civil War

U.S. economic collapse will cause a civil war and the breakup of the U.S. into six pieces.

Osborn 08 (Andrew Osborn, former KGB analyst, dean of Russian Foreign Ministry’s academy for future diplomats, expert on U.S.- Russia relations, 12 29 08, “As if Things weren’t bad enough, Russian Professor Predicts End of U.S.,” http://online.wsj.com/article/SB123051100709638419.html)

MOSCOW -- For a decade, Russian academic Igor Panarin has been predicting the U.S. will fall apart in 2010. For most of that time, he admits, few took his argument -- that an economic and moral collapse will trigger a civil war and the eventual breakup of the U.S. -- very seriously. Now he's found an eager audience: Russian state media. In recent weeks, he's been interviewed as much as twice a day about his predictions. "It's a record," says Prof. Panarin. "But I think the attention is going to grow even stronger." Prof. Panarin, 50 years old, is not a fringe figure. A former KGB analyst, he is dean of the Russian Foreign Ministry's academy for future diplomats. He is invited to Kremlin receptions, lectures students, publishes books, and appears in the media as an expert on U.S.-Russia relations. But it's his bleak forecast for the U.S. that is music to the ears of the Kremlin, which in recent years has blamed Washington for everything from instability in the Middle East to the global financial crisis. Mr. Panarin's views also fit neatly with the Kremlin's narrative that Russia is returning to its rightful place on the world stage after the weakness of the 1990s, when many feared that the country would go economically and politically bankrupt and break into separate territories. A polite and cheerful man with a buzz cut, Mr. Panarin insists he does not dislike Americans. But he warns that the outlook for them is dire. "There's a 55-45% chance right now that disintegration will occur," he says. "One could rejoice in that process," he adds, poker-faced. "But if we're talking reasonably, it's not the best scenario -- for Russia." Though Russia would become more powerful on the global stage, he says, its economy would suffer because it currently depends heavily on the dollar and on trade with the U.S. Mr. Panarin posits, in brief, that mass immigration, economic decline, and moral degradation will trigger a civil war next fall and the collapse of the dollar. Around the end of June 2010, or early July, he says, the U.S. will break into six pieces -- with Alaska reverting to Russian control.

Economic and financial problems in the U.S will cause a civil war and the breakup of the U.S.

Osborn 08 (Andrew Osborn, former KGB analyst, dean of Russian Foreign Ministry’s academy for future diplomats, expert on U.S.- Russia relations, 12 29 08, “As if Things weren’t bad enough, Russian Professor Predicts End of U.S.,” http://online.wsj.com/article/SB123051100709638419.html)

He based the forecast on classified data supplied to him by FAPSI analysts, he says. Mr. Panarin predicts that economic, financial and demographic trends will provoke a political and social crisis in the U.S. When the going gets tough, he says, wealthier states will withhold funds from the federal government and effectively secede from the union. Social unrest up to and including a civil war will follow. The U.S. will then split along ethnic lines, and foreign powers will move in. California will form the nucleus of what he calls "The Californian Republic," and will be part of China or under Chinese influence. Texas will be the heart of "The Texas Republic," a cluster of states that will go to Mexico or fall under Mexican influence. Washington, D.C., and New York will be part of an "Atlantic America" that may join the European Union. Canada will grab a group of Northern states Prof. Panarin calls "The Central North American Republic." Hawaii, he suggests, will be a protectorate of Japan or China, and Alaska will be subsumed into Russia. "It would be reasonable for Russia to lay claim to Alaska; it was part of the Russian Empire for a long time." A framed satellite image of the Bering Strait that separates Alaska from Russia like a thread hangs from his office wall. "It's not there for no reason," he says with a sly grin. Interest in his forecast revived this fall when he published an article in Izvestia, one of Russia's biggest national dailies. In it, he reiterated his theory, called U.S. foreign debt "a pyramid scheme," and predicted China and Russia would usurp Washington's role as a global financial regulator.

Growth Good – Famine

Growth Prevents Famine

Timmer ’04

(Peter Timmer PhD, Professor of Development Studies, *emeritus,* at Harvard University, November 22, 2004, “Food Security and Economic Growth: an Asian perspective”, http://www.crawford.anu.edu.au/acde/publications/publish/ArndtLecture\_Timmer2004.pdf)

 Food security and economic growth interact in a mutually reinforcing process over the course of development. It is only in modern times that entire societies have achieved food security. Earlier, only privileged members of society were able to escape from chronic hunger and the constant threat of famine (Fogel 1991). Many countries in the developing world, especially in Africa and South Asia, have not managed this escape. In these countries, understanding the factors that cause widespread hunger and vulnerability to famines, and the mechanisms available to alleviate their impact, remain important intellectual challenges (Ravallion 1987, 1997; Sen 1981; Dreze and Sen 1989). There is a different way to pose the question, however. Rather than asking how to cope with hunger and famine, the question might be how to escape from their threat altogether. As Fogel (1991) has emphasised, this is a modern question that is only partly answered by the institutional and technological innovations that are at the heart of modern economic growth (Kuznets 1966). Without these innovations, the modern escape from hunger to food security would not have been possible. But the record of economic growth for the developing countries since the 1950s shows that, even in countries with relatively low levels of per capita income, government interventions to enhance food security can lift the threat of hunger and famine. The countries most successful at this task are in East and Southeast Asia, although the experience in South Asia has been instructive as well (Timmer 2000).

(this card also under Growth Good – War)

Economic collapse would cause famine and wars all over the globe, including in Korea, Taiwan, the Middle East and between India and Pakistan

Lopez 98 Bernardo Lopez, staff writer for BusinessWorld, 10/10/1998

What would it be like if global recession becomes full bloom? The results will be catastrophic. Certainly, global recession will spawn wars of all kinds. Ethnic wars can easily escalate in the grapple for dwindling food stocks as in India-Pakistan-Afghanistan, Yugoslavia, Ethiopia-Eritrea, Indonesia. Regional conflicts in key flashpoints can easily erupt such as in the Middle East, Korea, and Taiwan. In the Philippines, as in some Latin American countries, splintered insurgency forces may take advantage of the economic drought to regroup and reemerge in the countryside. Unemployment worldwide will be in the billions. Famine can be triggered in key Third World nations with India, North Korea, Ethiopia and other African countries as first candidates. Food riots and the breakdown of law and order are possibilities. Unemployment in the US will be the hardest to cope with since it may have very little capability for subsistence economy and its agrarian base is automated and controlled by a few. The riots and looting of stores in New York City in the late '70s because of a state-wide brownout hint of the type of anarchy in the cities. Such looting in this most affluent nation is not impossible. The weapons industry may also grow rapidly because of the ensuing wars. Arms escalation will have primacy over food production if wars escalate. The US will depend increasingly on weapons exports to nurse its economy back to health. This will further induce wars and conflicts which will aggravate US recession rather than solve it. The US may depend more and more on the use of force and its superiority to get its ways internationally. The public will rebel against local monopolies. Anarchy and boycotts will be their primary weapons against cartels especially on agricultural products such as rice and vegetables, which are presently in the hands of a few in most Third World nations. Global recession will test the limits of human cooperation and sharing in the name of survival. Grants and aids will decrease. Rescues and international funding for advocacy NGOs will disappear rapidly. Coupled with disasters such as earthquakes, volcanic eruptions, climatic aberrations like the El Nino, global recession will degrade a step further.

Growth Good – Heg

Hegemony depends on economic strength

Pape, 9 (Robert- professor of political science at the University of Chicago, The National Interest, “Empire Falls”

01.22.2009, http://www.nationalinterest.org/Article.aspx?id=20484)

Over time, America’s power is **fundamentally a result of its economic strength**. Productive capacity—defined by indicators such as wealth, technology and population size—is a prerequisite for building and modernizing military forces. The United States, like any state, may choose to vary the degree to which its productive capacities are used to create military assets. But it is the economy as a whole that constrains the choice. And the size of the economy relative to potential rivals ultimately determines the limits of power in international politics. Major assessments of this relative position have long turned heavily on a single statistic: America’s share of world economic product. Advocates of extending America’s unipolar dominance are well aware of the central importance of the economic foundations of American power and routinely present detailed statistics on the U.S. share of world product. The basic notion is simple: take U.S. domestic product in any year and divide it by the aggregate total of the gross domestic product of all states in the world. To measure gross domestic product, the unipolar-dominance school prefers to compare every country’s output in current-year U.S. dollars, a method that tends to show America is much further ahead of other countries than alternative measures. Indeed, the most recent call for America to exploit its hegemonic position (published in 2008) rests on the presumption of U.S. dominance based on the current-year dollar figures.2 By this metric, in 2006 the United States had 28 percent of world product while its nearest most likely competitor, China, had 6 percent. Looks pretty good for America, right?

Alas, single-year “snapshots” of America’s relative power are of limited value for assessing the sustainability of its grand strategy over many years. For grand-strategic concerns—especially how well the United States can balance its resources and foreign-policy commitments—the trajectory of American power compared to other states is of seminal importance.

For the sake of argument, let us start with the unipolar-dominance school’s preferred measure of American hegemony, but look at the trajectory of the data over time. According to GDP figures in current U.S. dollars from the International Monetary Fund (IMF), the United States increased its share of world production during the 1990s, reached its apogee in 2000, and then began to steadily lose ground during the eight years of the Bush administration, with its relative power ultimately falling by nearly a quarter in the first decade of the twenty-first century. At the same time, the relative power of China, the state many consider America’s most likely future rival, has grown consistently. If we look out as far as the IMF can see (2013), things get even worse—with the United States expected to continue declining and China to continue rising. The United States has been going through the first decade of the twenty-first century not stronger than before, but substantially weaker.

How good are the numbers? Economists commonly use two other methods to calculate GDP, constant-dollar calculations and purchasing power parity.3 Although each offers advantages and disadvantages, for our purposes what matters is that they form a lower bound of America’s relative decline. And regardless of the metric, the trend is the same. Again using IMF figures, Table 2 shows the trajectory of the share of world product for the United States and China using both alternative measures.

Simply put, the United States is now a declining power. This new reality has tremendous implications for the future of American grand strategy.

The erosion of the underpinnings of U.S. power is the result of uneven rates of economic growth between America, China and other states in the world. Despite all the pro-economy talk from the Bush administration, the fact is that since 2000, U.S. growth rates are down almost 50 percent from the Clinton years. This trajectory is almost sure to be revised further downward as the consequences of the financial crisis in fall 2008 become manifest.

As Table 3 shows, over the past two decades, the average rate of U.S. growth has fallen considerably, from nearly 4 percent annually during the Clinton years to just over 2 percent per year under Bush. At the same time, China has sustained a consistently high rate of growth of 10 percent per year—a truly stunning performance. Russia has also turned its economic trajectory around, from year after year of losses in the 1990s to significant annual gains since 2000.

Worse, America’s decline was well under way before the economic downturn, which is likely to only further weaken U.S. power. As the most recent growth estimates (November 2008) by the IMF make clear, although all major countries are suffering economically, China and Russia are expected to continue growing at a substantially greater rate than the United States.

Economic decline undermines heg

Pape, 9 (Robert- professor of political science at the University of Chicago, The National Interest, “Empire Falls”

01.22.2009, http://www.nationalinterest.org/Article.aspx?id=20484)

These estimates suggest that roughly a quarter of America’s relative decline is due to U.S. economic weaknesses (spending on the Iraq War, tax cuts, current-account deficits, etc.), a sixth to China’s superior performance and just over half to the spread of technology to the rest of the world. In other words, self-inflicted wounds of the Bush years significantly exacerbated America’s decline, both by making the decline steeper and faster and crowding out productive investment that could have stimulated innovation to improve matters.

All of this has led to one of the most significant declines of any state since the mid-nineteenth century. And when one examines past declines and their consequences, it becomes clear both that the U.S. fall is remarkable and that dangerous instability in the international system may lie ahead. If we end up believing in the wishful thinking of unipolar dominance forever, the costs could be far higher than a simple percentage drop in share of world product.

A strong economy is key to American hegemony

Ferguson, 3 (Niall, Foreign Affairs, “Hegemony or Empire?”

<http://www.foreignaffairs.com/articles/59200/niall-ferguson/hegemony-or-empire?page=4>, September/October 2003

The authors' argument about the uniqueness of American hegemony rests on four main pillars. The most obvious is economic: as they point out, the U.S. economy has outstripped almost all of its competitors for much of the past century. This point is developed by another of the book's contributors, Angus Maddison, and explored in almost encyclopedic depth in the chapter by Moses Abramovitz and Paul David. According to these authors, nothing achieved by the United Kingdom -- not even in the first flush of the Industrial Revolution -- ever compared with the United States' recent economic predominance.

Second, the authors point to the way the United States has very deliberately used its power to advance multilateral, mutually balanced tariff reductions under the General Agreement on Tariffs and Trade (later the World Trade Organization). As Robert Gilpin argues in his chapter, the tariff reductions achieved in the 1967 Kennedy Round negotiations (and subsequently) owed much to "American pressures." Such pressure was classically exerted through "conditionality" -- that is, the terms under which the Washington-based International Monetary Fund granted its loans. This deliberate process contrasts markedly with the willy-nilly way free trade spread in the nineteenth century, as described by O'Brien and Hobson.

The third pillar of American dominance can be found in the way successive U.S. governments sought to take advantage of the dollar's role as a key currency before and after the breakdown of the Bretton Woods institutions, which, according to O'Brien, enabled the United States to be "far less restrained ... than all other states by normal fiscal and foreign exchange constraints when it came to funding whatever foreign or strategic policies Washington decided to implement." As Robert Gilpin notes, quoting Charles de Gaulle, such policies led to a "hegemony of the dollar" that gave the U.S. "extravagant privileges." In David Calleo's words, the U.S. government had access to a "gold mine of paper" and could therefore collect a subsidy from foreigners in the form of seigniorage (the profits that flow to those who mint or print a depreciating currency).

Growth key to heg - empirics prove

Pietroburgo ‘9

(Anthony Pietroburgo, Political Scientist, April 15 2009, “The End of American Hegemony”, <http://ezinearticles.com/?The-End-of-American-Hegemony&id=2207395>)

However we can learn from past hegemonic states, all of which, withered away with time just as the American one is currently in the process of doing. Great Britain was perhaps the last true hegemon before that of the United States. Back in 1890 the collapse of their empire had just began. David A. Lake's research on the issue is work that should be greatly analyzed due to the illustrious similarities between the British recession in to retirement and the United States' as well. For much of the 19th century Great Britain was dominating in the same fields as the U.S. did so in the 1950's through the late 1970's. Soon in the later 1800's The United States and Germany moved to a protectionist system to plant their economic seeds and soon after were surpassing British industries and abilities. The industrial base of Great Britain crumbled and forced them to invest heavily in the service, shipping and insurance sectors of the economy just to break-even when concerning their balance of payment statistics. For the time being the British were able to carry on with the pound as the dominant world currency. The frail system was already on the thinnest of ice, when WWI confounded the weak British economy (Lake 122). At the time of Great Britain's reign of power they also pursued operations to completely open up and liberalize the world economy. This did lead to substantial brief economic abundance but eventually the struggles of remaining a strong enough power to be considered an absolute hegemon wore off. Hegemonic powers are only sustainable during periods of constant economic growth. When growth is no longer the complete and utter status of the hegemony's economic functionality the power ceases to be consistent. We see this to be the case with Great Britain, as other world powers emerged and caught up in terms of economic status and influence, British power that was exerted was much more explicit and coercive, just like it was during the American hegemonic era under President Nixon (Lake 121).

**Economic growth is key to heg — Empirics prove**

Pietroburgo 9 (Anthony, Political Scientist, “The End of American Hegemony,” April 10, 2009, http://ezinearticles.com/?The-End-of-American-Hegemony&id=2207395: Ad 7-6-9)

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Growth Good – Poverty+Enviro

Economic growth is key to reducing poverty and helping the environment.

(World Resources institute, 97, “Economic growth and human development,” http://www.wri.org/publication/content/8372)

**Economic growth is an important factor in reducing poverty and generating the resources necessary for human development and environmental protection. There is a strong correlation between gross domestic product (GDP) per capita and indicators of development such as life expectancy, infant mortality, adult literacy, political and civil rights, and some indicators of environmental quality.** However, economic growth alone does not guarantee human development. Well-functioning civil institutions, secure individual and property rights, and broad-based health and educational services are also vital to raising overall living standards. Despite its shortcomings, though, GDP remains a useful proxy measure of human well-being.

**The world economy has grown approximately fivefold since 1950, an unprecedented rate of increase. The industrialized economies still dominate economic activity, accounting for US$22.5 trillion of the US$27.7 trillion global GDP in 1993 [1]. Yet a remarkable trend over the past 25 years has been the burgeoning role played by developing countries, in particular the populous economies of east and south Asia.**

Growth Good – Resources

Growth allows for technological advancement, solves scarcity.

Sagoff 97 Mark Sagoff, Institute of Philosophy and Public Policy at the University of Maryland, 97

[“Do We Consume Too Much?” http://www.theatlantic.com/issues/97jun/consume.htm]

These prudential and economic arguments are not likely to succeed much longer. It is simply wrong to believe that nature sets physical limits to economic growth -- that is, to prosperity and the production and consumption of goods and services on which it is based. The idea that increasing consumption will inevitably lead to depletion and scarcity, as plausible as it may seem, is mistaken both in principle and in fact. It is based on four misconceptions. IN the 1970s Paul Ehrlich, a biologist at Stanford University, predicted that global shortages would soon send prices for food, fresh water, energy, metals, paper, and other materials sharply higher. "It seems certain," Paul and Anne Ehrlich wrote in The End of Affluence (1974), "that energy shortages will be with us for the rest of the century, and that before 1985 mankind will enter a genuine age of scarcity in which many things besides energy will be in short supply." Crucial materials would near depletion during the 1980s, Ehrlich predicted, pushing prices out of reach. "Starvation among people will be accompanied by starvation of industries for the materials they require." Things have not turned out as Ehrlich expected. In the early 1990s real prices for food overall fell. Raw materials -- including energy resources -- are generally more abundant and less expensive today than they were twenty years ago. When Ehrlich wrote, economically recoverable world reserves of petroleum stood at 640 billion barrels. Since that time reserves have increased by more than 50 percent, reaching more than 1,000 billion barrels in 1989. They have held steady in spite of rising consumption. The pre-tax real price of gasoline was lower during this decade than at any other time since 1947. The World Energy Council announced in 1992 that "fears of imminent [resource] exhaustion that were widely held 20 years ago are now considered to have been unfounded." The World Resources Institute, in a 1994-1995 report, referred to "the frequently expressed concern that high levels of consumption will lead to resource depletion and to physical shortages that might limit growth or development opportunity." Examining the evidence, however, the institute said that "the world is not yet running out of most nonrenewable resources and is not likely to, at least in the next few decades." A 1988 report from the Office of Technology Assessment concluded, "The nation's future has probably never been less constrained by the cost of natural resources." It is reasonable to expect that as raw materials become less expensive, they will be more rapidly depleted. This expectation is also mistaken. From 1980 to 1990, for example, while the prices of resource-based commodities declined (the price of rubber by 40 percent, cement by 40 percent, and coal by almost 50 percent), reserves of most raw materials increased. Economists offer three explanations. First, with regard to subsoil resources, the world becomes ever more adept at discovering new reserves and exploiting old ones. Exploring for oil, for example, used to be a hit-or-miss proposition, resulting in a lot of dry holes. Today oil companies can use seismic waves to help them create precise computer images of the earth. New methods of extraction -- for example, using bacteria to leach metals from low-grade ores -- greatly increase resource recovery. Reserves of resources "are actually functions of technology," one analyst has written. "The more advanced the technology, the more reserves become known and recoverable." Second, plentiful resources can be used in place of those that become scarce. Analysts speak of an Age of Substitutability and point, for example, to nanotubes, tiny cylinders of carbon whose molecular structure forms fibers a hundred times as strong as steel, at one sixth the weight. As technologies that use more-abundant resources substitute for those needing less-abundant ones -- for example, ceramics in place of tungsten, fiber optics in place of copper wire, aluminum cans in place of tin ones -- the demand for and the price of the less-abundant resources decline.

Growth Good – Social Services

Economic growth helps increase government revenue, which in turn decreases poverty through social programs.

(Pradeep Agrawal, professor of economics and head, RBI chair unit at the institute of economic growth, university enclave, Delhi, 08, “Economic growth and poverty reduction: evidence from Kazakhstan,” http://www.adb.org/documents/periodicals/ADR/pdf/ADR-Vol24-2-Agrawal.pdf

The growing literature on policies for poverty reduction has emphasized the importance of economic growth, as well as targeted provision of government aid in poverty alleviation and development. Since government aid to the poor is dependent on government revenue, which in turn grows with economic growth, the key role of economic growth has been emphasized in the literature. This paper examined these issues empirically for Kazakhstan and showed that the rapid increase in oil and gas extraction and related activities very significantly contributed to economic growth as well as to increased government revenue. A portion of these funds was used to improve the social security/pension system, and maintain government demand for goods that helped industrial recovery**.** This played a key role in poverty reduction in Kazakhstan.

Economic growth helps increase social services, leading to a decrease in poverty.

(**JBIC**, Japanese bank of international cooperation, 11 **06**, "Infrastructure development to alleviate poverty,"

<http://www.jbic.go.jp/en/report/jbic-today/2006/11/index_02.html>)

**It is estimated that 1.1 billion people in the world live on less than a dollar a day. About three-quarters of these 1.1 billion live in rural areas in developing countries, and there is a growing awareness throughout the international community that agricultural development is extremely important in reducing poverty, and must be accelerated** to achieve the Millennium Development Goals by 2015.

For rural areas where many of the poor live, the Japan Bank for International Cooperation (JBIC) has provided Official Development Assistance (ODA) loans to support the development of infrastructure that will serve as a foundation for growth in the agricultural sector. JBIC offers a range of support tools, including the combination of various frameworks for the effective use of agricultural infrastructure and ensuring sustainable results from it.

**As the development experience in Asia has shown, economic growth boosts incomes and creates employment opportunities, leading to higher standards of living. Reducing poverty in developing countries requires sustainable economic growth and the development of infrastructure to support that growth.**

Economic growth helps increase social welfare, which is the objective of governments.

(Mathew **Clarke**, 09 **03**, "Chairman of MIND (Munasinge Institute for

development)," <http://books.google.com/books?id=TK1YDJKJoC8C&pg=PA1&lpg=PA1&dq=economic+growth+leads+welfare&source=bl&ots=Z88sFL27JS&sig=saQ7KNsHERU_k4x98hR3XxAKre4&hl=en&ei=J-pYSpG1NaCytwftgfHdCg&sa=X&oi=book_result&ct=result&resnum=3>)

**An explanation of the relationships between economic growth and social welfare is an enduring question in contemporary development studies. Economic growth is desirable** if **it improves social welfare.** **Within the literature and public policy,** the orthodox view **is that achieving economic growth is the appropriate means to increase social welfare and enhancing social welfare is a rational objective of society and governments. Economic growth leads to higher incomes and improved access to basic needs.** However, the costs of achieving economic growth are often not fully considered, as welfare analysis of economic growth is limited within the literature. Whist some work has been undertaken for transitional economies, welfare analysis has been generally limited to the suggestion of general frameworks.

Growth Good – Soft Power

Economic decline undermines soft power

Mason, 8 (David, Professor ofPolitical Science, Butler University, The End of the American Century, <http://books.google.com/books?id=UCNeNPeRF3UC&dq=the+end+of+the+american+century&source=gbs_navlinks_s>, pg 13)

The crux of the American problem is economic decline because much of America’s global power and influence has been a function of its great economic wealth. In *The Rise and fall of the Great Powers,* Paul Kennedy puts it bluntly this way: “wealth is usually needed to underpin military power, and military power is usually needed to acquire and protect wealth” Furthermore, economic wealth is an important dimension of “soft power” – the ability to influence other countries without the exercise of raw military force, or “hard power.” Thus, economic decline can adversely affect a country’s international influence and standing. As Kennedy points out in his book, however, the relationship between economic power and international power can also run the other direction. If a great power overreaches in its international commitments, the home front can suffer both economically and socially.

Growth Good – Violence

Economic growth leads to less violence and disorder, and helps establish stability and the quality of health.

(The Futurist. 04 30 06, "The Psychology of Economic Progress," <http://futurist.typepad.com/my_weblog/2006/04/the_psychology_.html>)

In centuries past, killing another person in order to take his belongings was common. Today, the downside risk to one's career of even petty theft or minor fraud is enough that most people in the US today don't consider it. As the world economy accelerated from centuries of slow growth to a period of rapid growth starting from the middle of the 20th century, we have seen a general decline in violence and disorder in developed societies, and also a decline in large-scale warfare in general. Simply put, when more people have a stake in the stability and health of the system, they are more interested in maintaining and strengthening it, rather than disrupting it or trying to bypass it.

\*AIDS Module

Economic growth key to fight aids/hiv

Tren ‘02

(Richard Tren, Richard Tren is Director of Africa Fighting Malaria, an analyst for the Free Market Foundation, and a Research Fellow of the Environment Unit at the Institute of Economic Affairs, 11/28/02, “Economic growth key to tackling AIDS”, http://www.europeanvoice.com/article/imported/economic-growth-key-to-tackling-aids/46159.aspx)

PEOPLE with HIV/AIDS are dying in vast numbers in Botswana, Uganda, Zimbabwe, Namibia and Mozambique – denied treatment because of appalling levels of poverty, a complete lack of health infrastructure, prejudice, ignorance and stigmatisation. This was the overwhelming message of presentations at Botswana's recent ‘Hands Across the Divide' health conference. Drug patents and drug prices, which were barely mentioned, have little impact when governments lack the political will to address the problem. But though the situation seems bleak, there is cause for much hope, and it comes in part from the drug companies that have been accused of denying people access to drugs.
Indeed, at a mini-ministerial for the World Trade Organization (WTO) in Australia at the very same time, trade ministers from 25 developed and developing countries seemed intent on blaming pharmaceutical companies for the current crisis. They view efforts to allow poor countries to import generic versions of any drug, in violation of intellectual property rights, as essential to combating disease in the developing world and critical if the ‘development round' of trade talks begun in Doha last November is to succeed. They are wrong on both counts. How can countries build successful programmes to combat AIDS and other diseases? There is no simple answer, but Botswana offers an encouraging example of what works: a combination of essential government infrastructure, access to drugs, and adequate funding.With more than 30% of its adult population living with HIV/AIDS, Botswana's government launched the African Comprehensive HIV/AIDS Partnership, an ambitious anti-retroviral treatment programme in partnership with the Bill and Melinda Gates Foundation and the US drugs giant, Merck. The Gates Foundation and Merck are both providing $50 million over the next five years and Merck is providing free anti-retroviral therapies. Though only 2,200 people are currently enrolled in the programme, it will have the capacity to treat almost 100,000 people. This contrasts with the failure of programmes in Zimbabwe and Nigeria, which shows that patent protection is not the problem. Activists hailed Zimbabwe for its decision to declare an AIDS emergency six months ago, which would have allowed the importation of generic versions of patented AIDS drugs. Thanks to years of misrule and corruption, however, Zimbabwe simply does not have the financial resources to purchase any drugs, patented or generic.The German drugs company Boehringer Ingelheim has tried to give Zimbabwe free HIV/AIDS drugs for some time with negligible government response. The problem seems to be that the health infrastructure is unable to deliver any form of anti-retroviral treatment.If a country can't even afford to accept free donations of drugs, it seems unlikely that they could purchase generic copies of the same drugs. It's easier to blame and shame corporations than corrupt governments. Undermining the rights of the rich western drug companies through the emergency provisions was a display of power that did nothing to change the dire realities of the situation.Anyone who still believes that the solution to the drug access problem lies in generic medicines should simply look at India. The country has over 22,000 producers of generic drugs, yet it is widely estimated that only 1% of those that need anti-retroviral therapies actually get them. India has no system of drug patenting, and yet for all diseases, the UN development programme estimates that only 30% of the population has access to essential drugs.Cut-price drugs from India or elsewhere cannot build the essential health infrastructure. Only economic growth and development can do that.

Unchecked AIDS culminates in extinction.

Ojedokun et al 07 (educational research and review v2n6, “policy, philosophy and pedagogical initiative to HIV/AIDS education in the Nigerian secondary school’s social studies curriculum,” www.academicjournals.org?ERR/PDF/pdf%202007/Jun?Ojedokun%20et%20al..pdf)

Apparently, of the numerous civic issues identified above, health care was first mentioned either deliberately or inadvertently. The author thus wishes to regard this arrangement as a reflection of the global relevance, and importance of good health to humanity, and **the survival of the human race** and society that **is now being threatened by** HIV and **AIDS**. It is however no more a news that HIV/AIDS is an issue of health concerns. **It is a perennial problem that affects all aspects of humanity (economic, social and political) and perhaps threatening the existence of the human race. “It has become a critical development issue, and the developmental implications of this pandemic, on the global economy and social relations are dire”, because “It is expected to reverse the gains made in social and economic development, and every individual and group will be affected”**

 AIDS Exts

Poverty makes the global spread of AIDS inevitable.

Peter Mann, international coordinator for World Hunger Year, 2000
“Why is AIDS A Poverty Issue?”<http://www.worldhungeryear.org/programs/why_speaks_09.html>

Until now, almost all public responses have been to treat AIDS as a medical problem, and an issue of high-risk behavior - the sharing of infected needles by drug users, and unprotected sex within at-risk communities. What is coming more clearly into view as the pandemic reaches into every region of the globe is that AIDS is more than a health crisis or a lifestyle issue. **AIDS is** also **a crisis of poverty. Poverty spreads AIDS and, in turn, the widening AIDS crisis increases poverty.** In fact, it would be even more accurate to say that **AIDS is being spread by** impoverishmen**t, by deadly patterns of development which make people poor and place at risk whole sectors of populations**. In the United States, the alarming spread of AIDS within the African-American community has been concentrated within the inner cities, targeting the poor and the addicted. People in these inner-city poor neighborhoods are marginalized, often malnourished, in poor health and without adequate health care for prevention or treatment. While high-risk behavior in these communities directly spreads HIV/AIDS, urban poverty is clearly a contributing cause. And as AIDS moves through these communities, they become still poorer and more marginalized. The figures are startling. In 1999, African Americans were less than 13 percent of the U.S. population, more than 26 percent of the poor, and 37 percent of all reported cases of HIV/AIDS. By 2000, **AIDS had become in the U.S. the leading cause of death for blacks between the ages of 25 and 44**. **Yet these communities reflect the realities of global poverty** , where 1.2 billion people live on less than one dollar a day, lack basic health care, education, adequate food and clean water, and are increasingly marginalized - impoverished - within the global economy. The status of women is a key indicator of vulnerability to AIDS. Women and girls are a majority of the world's poor, and an increasing proportion of those infected by HIV/AIDS - 55 percent in sub-Saharan Africa. **Women in the developing world are often malnourished, vulnerable to infections and sexually transmitted diseases, without health care and lacking power inside the family, and thus placed in a high-risk environment for AIDS.**

**Aids spread triggers a wave of state collapse and nuclear civil wars.**
U.S. Agency for International Development (USAID), ACTION TODAY, A FOUNDATION FOR TOMORROW: SECOND ANNUAL REPORT TO CONGRESS ON PEPFAR, 2006

As Atwood notes, **HIV is much more than a social or developmental threat — it is a concrete threat to stability and security**. Nelson Mandela, in a speech before the World Economic Forum in 1997, hinted of **the potential for conflict and instability to emerge when a people realize that their government is unable to meet their needs** when he noted that, “South Africans are beginning to understand the cost [of HIV/AIDS] … observing with growing dismay its impact on the efforts of our new democracy to achieve the goals of reconstruction and development.” **In addition to eroding the link between people and their government, infectious epidemics have a more pernicious ability to pit people against each other within societies. As the resource base begins to shrink, competition among surviving groups for access to and control over the levers of power and influence increases. This competition often results in social and political fragmentation and ethnic, racial or socio-economic conflict.** David Gordon of the United States National Intelligence Council, one of the first policy analysts to **recognize** the connection between health and security, noted in his ground-breaking 2000 “National Intelligence Estimate” **the potential for intra-state conflict resulting from epidemic disease**. Gordon noted that, “[t]he severe social and economic impact of infectious diseases … and the infiltration of these diseases into ruling political and military elites and middle classes of developing countries are likely to intensify the struggle for political power to control scarce state resources.” The global nature of the threat HIV/AIDS represents becomes immediately clear when we pause to remember how interconnected and mobile we all are. Richard Holbrooke, the former United States ambassador to the United Nations, warned members of the Security Council in 2000 that, “**if it [HIV/AIDS] is not dealt with, it will clearly wreck the economies of Africa and the subcontinent. [AIDS] will spread**; you can’t draw a wall around Africa and commit continental triage.” Indeed, HIV is spreading daily — hourly — reaching epidemic levels of infection throughout the developing world.

\*Biodiversity Module

Growth promotes biodiversity and prevents species extinction

ASAFU-ADJAYE, 03

(John Asafu-Adjaye, Associate professor at the school of Economics, April 2003, “Biodiversity Loss and Economic Growth: A Cross-Country Analysis”, http://espace.library.uq.edu.au/eserv.php?pid=UQ:10744&dsID=jaa\_03.pdf)

The study results indicate that while improvement in economic freedoms can be associated with improvement in mammal and bird species numbers, the effect on biodiversity is much stronger in low-income countries compared to high-income countries. The main implication here is that there is a need to develop appropriate institutional and macroeconomic policies that allow biodiversity values to be internalised in decision-making processes at the individual and national levels.

Each new species extinction risks planetary extinction-evidence is gender-modified

MAJOR DAVID N. DINER, Judge Advocate General's Corps, United States Army, Military Law Review Winter 1994 143 Mil. L. Rev. 161

Biologically diverse ecosystems are characterized by a large number of specialist species, filling narrow ecological niches. These ecosystems inherently are more stable than less diverse systems. "The more complex the ecosystem, the more successfully it can resist a stress. . . . [l]ike a net, in which each knot is connected to others by several strands, such a fabric can resist collapse better than a simple, unbranched circle of threads -- which if cut anywhere breaks down as a whole." n79 By causing widespread extinctions, humans have artificially simplified many ecosystems. As biologic simplicity increases, so does the risk of ecosystem failure. The spreading Sahara Desert in Africa, and the dustbowl conditions of the 1930s in the United States are relatively mild examples of what might be expected if this trend continues. Theoretically, each new animal or plant extinction, with all its dimly perceived and intertwined affects, could cause total ecosystem collapse and human extinction. Each new extinction increases the risk of disaster. Like a mechanic removing, one by one, the rivets from an aircraft's wings, [hu]mankind may be edging closer to the abyss. ([ ] = correction

 Biodiversity Exts

Poverty is the root-cause of global warming and loss of bio diversity.

Rice, senior fellow at the Brookings Institute, 06
(Susan E. Rice, The National Interest, “The Threat of Global Poverty,” l/n)

Like disease, **environmental degradation is linked significantly to poverty** in the developing world and can result in long-term adverse consequences for the United States. **Much of the world’s environmental stress can be attributed to population pressure.** From 1950 to 1998, the world’s population doubled. It has grown a further 14% in the last ten years to 6.4 billion. By 2050, global population is on track to reach 9 billion. **This growth is coming disproportionately from the developing world. Poverty substantially fuels population growth, as families have more children in response to high infant mortality rates and the need to raise income potential.**

**Deforestation is accelerating in the developing world due to increased demand for fuel** in the form of firewood and for arable acreage to enable growing populations to survive in marginal areas. **The loss of trees exacerbates desertification,** which has spread to the extent that 2 billion hectares of soil, or 15% of the planet’s land cover, is already degraded. **Logging** for trade in exotic African and Asian hardwoods **magnifies the problem**, contributing to the loss of 2.4% of the world’s forest cover since 1990. **One result is reduced biodiversity, which alters delicate ecosystems and depletes the world’s stock of flora and fauna that have produced important medical benefits for mankind.**

**Desertification and deforestation can also accelerate global climate change, though carbon emissions in rich and rapidly growing economies are the main culprit**. 2005 was the hottest year on record. Global warming is already rendering coastal areas more vulnerable to flooding. And, as temperatures rise in temperate climates, the transmission vectors for mosquito-borne and other tropical diseases will change. **New areas of the world, including our own, will face the possibility of once-tropical diseases becoming prevalent.**

Poverty results in destruction of the environment

Duraiappah 98 ANANTHA K. DURAIAPPAH Vrije Universiteit, Amsterdam, The Netherlands, World Development Vol. 26, No. 12, pp. 2169-2179, 1998 Elsevier Science Ltd March 30, 1998 http://www.sciencedirect.com/science?\_ob=MImg&\_imagekey=B6VC6-3VXR3RN-M-1&\_cdi=5946&\_user=4257664&\_orig=search&\_coverDate=12%2F31%2F1998&\_sk=999739987&view=c&wchp=dGLbVzz-zSkWz&md5=e86e2f10b6e0da5deca1ce7d8d6468c9&ie=/sdarticle.pdf

The poor have traditionally taken the brunt of the blame for causing society’s many problems. The most recent accusation directed against them is that they cause environmental degradation. The general consensus seems to be that poverty is a major cause of environmental degradation. For example, in one of the conclusions of the Bruntland Commission report, which incidentally has been accepted as the blueprint for environmental conservation, it is explicitly stated that poverty is a major cause of environmental problems and amelioration of poverty is a necessary and central condition of any effective program to deal with environmental concerns. Along similar lines, Jalal (1993), the Asian Development Bank’s chief of the environment department argues, “It is generally accepted that environmental degradation, rapid population growth and stagnant production are closely linked with the fast spread of acute poverty in many countries of Asia.” The World Bank (1992) joined the consensus with its the World Development Report*,* where it explicitly states, “poor families who have to meet short term needs mine the natural capital by excessive cutting of trees for firewood and failure to replace soil nutrients.”

Poverty causes exploitation of natural resources leading to destruction of the environment

Anders Ekbom and Jan Bojö, Environment Group Africa Region The World Bank January 1999 http://www.staff.ncl.ac.uk/david.harvey/AEF806/WBPovEn.pdf

This hypothesis is not about “putting the blame on the poor,” but to state that the rural poor are often compelled to exploit marginal areas, such as steep hillsides, or derive resources from protected areas. Compounded by the impact of population growth, they often lack the incentives or means to intensify their production and are forced to exploit new, fragile lands. The urban poor unwillingly contribute to a different kind of environmental degradation, resulting in poor health, which can further reduce income opportunities. World Bank (1992, 1995) elaborate on some of the links between poverty and environment. It is stated that a declining natural resource base, largely caused by poor people deprived of access to other resources, exacerbates the conditions of the poor by limiting their already restricted production possibilities. This applies in particular to rural water, soils and energy. One of the basic forces behind the vicious circle between poverty and environment is thus suggested to be that poverty limits people’s options and induces them to deplete resources faster than is compatible with long-term sustainability. Hence the poor themselves will aggravate the process of environmental degradation. Dasgupta (1993) describes how closely dependent poor people are on their surrounding environmental resource base for their livelihood, and how poverty can be a driving force to environmental degradation. Based on theory and some empirical evidence he argues that poverty is both a cause and effect of resource degradation or lack of access to resources, including natural capital. To exemplify the above arguments he describes how poor nomadic dryland herdsmen often are excluded from formal credit, capital and insurance markets and are forced to invest their capital in cattle, resulting in non-sustainable herd sizes and overgrazing. Plausible explanations to the hypothesis that the poor are agents of environmental degradation are that (i) poor people have shorter time horizon and (ii) higher risk-aversion and a propensity to use implicit, higher discount rates, which leads us to specify the following subhypothesis: vii *H2a: Poor people have shorter time horizons, which exacerbates environmental degradation.* Allegedly, poverty often results in myopic production and consumption decisions, and precludes longer term investments in preservation and accumulation of natural capital (Holden et. al., 1996; Prakash, 1997). Consequently, poor people’s limited economic options and low savings rates cause them to deplete and degrade their immediate environment (soils, forest, fisheries), and impose externalities on future generations.

\*Disease Module

Growth key to preventing chronic disease

World Health Organization ‘05

(World Health Organization, WHO is the directing and coordinating authority for health within the United Nations system, 2005, “preventing chronic diseases designing and implementing effective policy”, Policy Brief, http://www.who.int/chp/advocacy/policy.brief\_EN\_web.pdf)

Poverty and economic stagnation are important causes and consequences of chronic disease in low and middle income countries. Eighty per cent of all chronic disease deaths occur in low and middle income countries, and people in these countries develop diseases at younger ages, suffer longer, and die sooner than those in high income countries. Chronic disease has serious economic consequences for individuals and families, is a major cause of poverty, and impedes national economic development. The main causes of chronic diseases are well known and are the same in all regions of the world. It is possible to prevent and control chronic disease through a wide range of interventions, many of which are highly cost-effective and inexpensive to implement. Development agencies can contribute to this effort by helping governments to build a solid political and financial infrastructure that allows for economic development and effective chronic disease prevention and control.

A new pandemic will cause extinction.

Helen Branswell, October 2, 2005, World as we know it' may be at stake: UN pandemic czar,
[http://cnews.canoe.ca/CNEWS/Canada/2005/10/02/1245355-cp.htm](http://cnews.canoe.ca/CNEWS/Canada/2005/10/02/1245355-cp.html)

A flu pandemic could fundamentally alter the world as we know it, warns the public health veteran charged with coordinating UN planning for and response to the threat. Inadequate - and inequitably shared - global resources and the uncertainties inherent in trying to predict the behaviour of influenza combine to create planning dilemmas that are "monster difficult," Dr. David Nabarro said in an interview describing his new job and the challenges ahead. Progress will demand appealing "to people's recognition that we're dealing here with world survival issues - or the survival of the world as we know it," Nabarro explains. "And therefore we just can't go on approaching it with sort of business-as-usual type approaches." The former head of the World Health Organization's crisis operations was seconded to the UN to co-ordinate world response to both the ongoing avian influenza outbreak in Southeast Asia and preparations for a human flu pandemic. A native of Britain, Nabarro says the decision to appoint a planning czar reflects surging political concern that the world may be facing a pandemic springing from the H5N1 avian flu strain, which is decimating poultry in Asia and has already killed at least 60 people in Thailand, Vietnam, Cambodia and Indonesia. "Governments have realized that this is something to be worried about," he says, adding the UN must harness that concern and the resources it frees up. "It's a rare thing, political commitment to deal with a health issue. And when you've got it, you must use it well," he insists. "We're not going to have such an excellent window of opportunity to really start moving forward with this for long. And so we must take advantage of it now." One of the monster dilemmas Nabarro describes relates to antiviral drugs, which may be able to blunt the blow of pandemic flu. But there are only two drugs which, in laboratory settings, work against all possible pandemic strains, oseltamivir (sold as Tamiflu) and zanamivir (sold as Relenza). Both are expensive and made in limited quantities. And there appears to be no quick or easy way to ramp up production. In addition, the supplies that exist - as well as most of those that will be made in the foreseeable future - are spoken for. They are either squirreled away in or destined for stockpiles held by the world's wealthy nations. "So we're going to have very little stuff and it's already stuck away in stockpiles . . . that people will protect with their lives. And yet we're going to have to find some way to ration these things so that they are given to the folk who need them the most," Nabarro says. That statement may reflect Nabarro's position on the pandemic learning curve. Setting priorities for who will and won't get antiviral drugs is a responsibility of governments, not the UN or the WHO

 Disease Exts

Economic downturns divert funds from disease treatment

Skirble, 9 (Rosanne- reporter for the Voice of America, VOA “Economic Downturn Threatens Global Fund for AIDS, TB, Malaria” 04 February 2009, <http://www.voanews.com/english/archive/2009-02/2009-02-04-voa23.cfm?CFID=256884522&CFTOKEN=31> 541345&jsessionid=de307b49f1da35d5dbcd4a1e52696331c2f6)

As world leaders grapple with the global financial crisis, the world's largest source of funds to combat killer diseases is facing a crisis of its own. The Global Fund to Fight AIDS, Tuberculosis and Malaria supplies one-quarter of all AIDS funding, two-thirds of tuberculosis funding and three-fourths of malaria funding. A $5 billion funding gap now threatens this institution's worldwide programs. Every year since 2001, leaders from the world's wealthier nations have renewed their commitments to fund all approved disease treatment, prevention and research programs in poor countries. According to Jeffrey Sachs, a special United Nations advisor and director of the Earth Institute at Columbia University, the Global Fund was designed to keep the promises made to the world's poor to help them fight AIDS, TB and malaria. Sachs says that despite the urgency of its mission, the Global Fund has been forced by the recession-pinched budgets of its donor countries to cut back or delay funding. "It already cut by 10 percent the budgets for the approved plans. And it's warned that it would have to cut by 25 percent the second half of those plans," he says. The current funding cycle has been postponed for several months, which he says, "puts at risk the malaria control effort." The cutbacks are all the more distressing to Global Fund supporters because in its relatively short life, the organization has reported remarkable progress against killer diseases. For example, malaria deaths are down 66 percent in Rwanda and 80 percent in Eritrea over the past five years. Peter Chernin is one of a number of business leaders who've supported a $100 million campaign to fight the malaria pandemic in Africa. He says the disease has cost industry on the continent about $12 billion in lost worker productivity. "And [with] just a fraction of that investment, we can end malaria deaths and remove a major obstacle to economic development." Keeping up the fight against killer diseases like malaria, TB and AIDS is essential to the economic development of poor nations, says Sachs. And it's just bad economic policy, he believes, to cut long-term investments in development for near-term savings. "For Africa to be a full trading partner, one that could be picking up the slack by buying our goods and being a full productive part of the world economy, [it] requires that these diseases be brought under control. "That was at least one of the many aspects, including the humanitarian and security aspects, that led to the creation of the Global Fund in the first place." Sachs argues that the United States, which currently contributes about one third of the Global Fund's resources, could make a significant dent in the fund's $5 billon shortfall if it so chose. "There is no shortage of funds at the moment when in three months the rich world has found about $3 trillion of funding for bank bailouts and in which there have been $18 billion of Christmas bonuses for Wall Street supported by bailout legislation." Those monies could not "for one moment balance the lives that are at stake." Global Fund Board Chairman Rajat Gupta agrees that the United States could do more to help the fund out of its financial crisis. He believes that if the U.S., which has fallen behind on its pledged commitments, were to take on more of a leadership role, other nations would follow. "One of the good things that has happened before is that each country or different countries have kind of egged each other on to do more, and now it is the United States' turn to step up and get that going." Gupta says the Global Fund's progress in the fight against AIDS, TB and malaria must be sustained. He says he and other health and business leaders who attended the recent World Economic Forum in Davos, Switzerland were not asking for a bailout. They were simply calling on donor nations to make good on their pledges, Gupta says, to improve the world's prosperity and its health. That continued support, Gupta says, could save nearly two million additional lives in the coming years.

Poverty makes the spread of disease inevitable.

Rice, senior fellow at the Brookings Institute, 06
(Susan E. Rice, The National Interest, “The Threat of Global Poverty,” l/n)

**Poverty contributes substantially to the *outbreak* of infectious disease**. As the search for clean water and fire wood drives impoverished people deeper into forested areas, **the risk of animal contact and exposure to new pathogens increases.** By spurring population growth**, contributing to immune-compromising malnutrition, and exacerbating crowding and poor living conditions, poverty also fuels the *transmission* of disease**. Almost two million people will die this year of tuberculosis and another nearly 4 million from lower respiratory infections, most of whom live in poor, crowded parts of the developing world. **These communicable diseases are mutating dangerously and spreading to other regions. Antibiotic-resistant TB, for example, is resurgent** in the United States, especially among immigrant populations.

**Health experts’ most alarming predication is that the H5N1 strain of avian flu**, which is rampant in poultry stocks in Asia, **will soon evolve into a virus easily transmitted from human to human. We have recently witnessed the difficulty** Turkey, a middle income country, has had **containing its outbreak** of avian flu. In Asia and Africa, where the rural poor people live in close proximity to animals and depend on those animals to subsist, **the incentive to cooperate in culling animals is much reduced and the risk of mutation is even greater.** If this occurs, WHO’s conservative estimate is that a pandemic could erupt, killing between 2 million and 7.4 million people. An additional 1.2 billion would fall sick and 28 million would require hospitalization. **The worst case estimate is that 60 million could die,** exceeding the more than 40 million who died in the great influenza epidemic of 1918-1919. Hundreds of thousands, if not millions of victims, would be American.

**The lack of adequate health-care infrastructure and surveillance capacity in poor countries hinders early detection and timely treatment of disease, while also reducing states’ ability to halt its spread abroad**. **According to the World Health Organization, low and middle income countries suffer 90% of the world’s disease burden** but account for only 11% of its health care spending. Per capita spending on health in the West African country of Niger amounted to $6 in 2001, compared with $4,887 in the U.S. These disparities have potentially deadly consequences.

Poverty increases diseases the wealthy are able to avoid

Philip Stevens, Director of Health Projects, International Policy Network November 2004 http://www.who.int/intellectualproperty/submissions/InternationalPolicyNetwork.pdf

A large proportion of illnesses in low-income countries are entirely avoidable or treatable with existing medicines or interventions. Most of the disease burden in low-income countries finds its roots in the consequences of poverty, such as poor nutrition, indoor air pollution and lack of access to proper sanitation and health education. The WHO estimates that diseases associated with poverty account for 45 per cent of the disease burden in the poorest countries.10 However, nearly all of these deaths are either treatable with existing medicines or preventable in the first place. ■ Tuberculosis, malaria and HIV/AIDS, for example, together account for nearly 18 per cent of the disease burden in the poorest countries.11 ■ Malaria can be prevented through a combination of spraying dwellings with DDT, using insecticide treated mosquito nets and taking prophylactic medicines such as mefloquine, doxyclycline and malorone. Malaria can also be treated with artemisinin combination therapy. Education can also play an important role in reducing the incidence of insect-borne diseases, for example by encouraging people to remove sources of stagnant water (insect breeding sites) from near their dwellings. Tuberculosis can be prevented by improving nutrition, and can be treated with DOTS therapy. This can detect and cure disease in up to 95 per cent of infectious patients, even in the poorest countries.12■ Education is vital for the prevention of HIV/AIDS – and this entails the full engagement of civil society. A combination of anti-retrovirals (ARVs) and good nutrition can help to control the viral load and suppress the symptoms of HIV/AIDS. ■ Treatable childhood diseases such as polio, measles and pertussis, account for only 0.2 percent of Disability Adjusted Life Years (DALYs) in high-income countries, while they account for 5.2 per cent of DALYs in high mortality lowincome countries.13 Vaccines for these diseases have existed for at least 50 years, yet only 53 per cent of children in sub-Saharan Africa were immunised with the diphtheria-tetanuspertussis (DTP) jab in 2000.14 Diarrhoeal diseases are caused by the poor sanitation inherent to the condition of poverty, yet are easily and cheaply treatable through oral rehydration therapy. However, diarrhoeal diseases still claim 1.8 million lives each year. 15 ■ Respiratory infections caused by burning biomass fuels in poorly ventilated areas also place a considerable health burden on poor people. According to the WHO, exposure to biomass smoke increases the risk of acute lower respiratory infections (ALRI) in childhood, particularly pneumonia. Globally, ALRI represent the single most important cause of death in children under 5 years and account for at least two million deaths annually in this age group.16 ■ Malnutrition particularly affects people in poor countries. As a result of vitamin A deficiency, for example, 500,000 children become blind each year,17 despite the fact that such outcomes can be avoided by cheap, easy-to-administer food supplements.18

Increasing wealth increases health

Philip Stevens, Director of Health Projects, International Policy Network November 2004 http://www.who.int/intellectualproperty/submissions/InternationalPolicyNetwork.pdf

When poverty is reduced and eliminated, health outcomes improve. People in rich countries can expect to live longer and have better access to medical care. With greater wealth, scientists and innovators, both private and public, have better opportunities to conduct research into health and disease. With increased financial resources, more can be spent on education and to improve literacy, which in turn can promote the adoption of new technologies and ensure that these technologies are more widely diffused.

Poor Americans experience the same diseases as those in the poorest countries

ScienceDaily, award-winning site has earned the loyalty of students, researchers, healthcare professionals, government agencies, educators, June 25, 2008 http://www.sciencedaily.com/releases/2008/06/080624110934.htm

An analysis published June 25th in the open-access journal PLoS Neglected Tropical Diseases highlights that diseases very similar to those plaguing Africa, Asia, and Latin America are also occurring frequently among the poorest people in the United States, especially women and children. These diseases -- the "neglected infections of poverty" -- are caused by chronic and debilitating parasitic, bacterial, and congenital infections. While most Americans have never heard of neglected tropical diseases (NTDs), the analysis estimates that these infections occur in hundreds of thousands of poor Americans concentrated primarily in the Mississippi Delta (including post-Katrina Louisiana), Appalachia, the Mexican borderlands, and inner cities. These diseases represent a major cause of chronic disability, impaired child development, and adverse pregnancy outcomes, yet many of them are preventable. "The fact that these neglected infections of poverty represent some of the greatest health disparities in the United States, but they remain at the bottom of the public health agenda, is a national disgrace," says Peter J. Hotez , MD, PhD, author of the analysis and President of the Sabin Vaccine Institute, Executive Director of Global Network for Neglected Tropical Diseases, and Walter G. Ross Professor and Chair of the Microbiology, Immunology, and Tropical Medicine department at George Washington University. Hotez notes that the common features of these neglected infections include their highly disproportionate health impact on minorities and people living in poverty; their chronic, largely insidious, and disabling features; and their ability to promote poverty because of their impact on child development, pregnancy outcome, and productive capacity. He calls upon policy makers to make these infections a priority on the public health agenda. "Control of these neglected infections is both a highly cost-effective mechanism for lifting disadvantaged populations out of poverty and consistent with our shared American values of equity and equality," Hotez says. "We need a national dialogue about these very important, but neglected conditions that afflict the poorest people in the United States. Neglected infections of poverty are understudied and not well known even by physicians and public-health experts. This lack of understanding and knowledge points to the urgent need to increase surveillance for these infections; use cost-effective existing drug control and treatment efforts; implement newborn screenings; and develop new drugs, diagnostics, and vaccines for these infections."

Poverty problem should be addressed to reduce life cost in possible pandemics

Priscilla Wald, English Professor at Duke University

Office of News & Communications, DU, 1 May 2009

Pandemics call for a Focus on Global Poverty

In the telling of the outbreak story, the media present the pandemic as solely a medical problem. But it is a social problem as well. Poverty and inadequate health care are the most effective vectors for the spread of disease. Malnourished people are more likely to get sick; overcrowded living quarters are a microbe’s haven.

Multiple health threats stem from being in poverty

Eva Luo, MD Radiologist

The Next Generation: An Introduction to Medicine, December 2007

Unlinking Poverty and Poor Health

The effect of poverty on health is very well documented. Social factors such as unsanitary living conditions, crowding, malnourishment, and homelessness are still widespread problems in the US and continue to contribute to poor health, especially children’s health. Living in substandard housing and being forced to make a decision between food and heat, contribute to many physical and mental developmental problems that carry on into adulthood. Low-income children not only are at higher risk for exposure to these factors, but also face greater difficulties when managing and controlling resulting medical conditions. If a family is suffering from any of the above psychosocial factors, keeping up with treatment regiments are relegated as secondary concerns often until the medical illnesses

become insurmountable. Dr. Zuckerman explains, “I can treat a child with antibiotics for an ear infection, but if the child is living in a house where the heat is being shut off constantly or his family is being evicted, giving medicine kind of pales.”

 Disease → War

Solving health problems eliminates a root cause of war

**Levy and Sidel, 7** (Barry Levy- Adjunct Professor of Community Health at Tufts University School of Medicine, Victor Sidel- Professor of Social Medicine at the Albert Einstein Medical College, War and Public Health, Edition 2, 2007)

War is the one of the most serious threats lo public health. **Public health pro­fessionals can do much to prevent war and its health consequences**. Preventing war and its consequences should be part of the curricula of schools of public health, the agendas of public health organizations, and the practice of public health professionals. Activities by public health professionals to prevent war and its health consequences are an essential part of our professional obligations.

The greatest threat to the health of people worldwide lies not in specific forms of acute or chronic diseases—and not even in poverty, hunger, or homelessness. Rather, it lies in the consequences of war. As stated in a resolution adopted by the World Health Assembly, the governing body of the World Health Organization: "The role of physicians and other health workers in the preservation and promotion of peace is the most significant factor for the attainment of health for all."

**War is not inevitable**. For perhaps 99 percent of human history, people lived in egalitarian groups in which generosity was highly valued and war was rare. War first occurred relatively recently in human history along with changes in social organization, especially the development of nation-states. Even at pres­ent, when war seems ever-present, most people live peaceful, nonviolent lives. If we can learn from history, we may be able to move beyond war and create a culture of peace.

\*Enviro Module

**Growth helps to prevent environmental damage**

Adler 8 (Jonathan H. Adler, Professor of Law and Director of the Center for Business Law and Regulation at Case Western Reserve University School of Law, Fall 2008, “Green Bridge to Nowhere,” The New Atlantis, online: http://www.thenewatlantis.com/publications/green-bridge-to-nowhere)

According to Speth, “most environmental deterioration is a result of systemic failures of capitalism.” This is an odd claim, as the least capitalist nations of the world also have the worst environmental records. The ecological costs of economic statism are far worse than those of economic liberty. The environmental record of the various Soviet regimes amply bears this out: The West’s ecological nightmares were the Soviet bloc’s environmental realities. This is not due to any anomaly of the Soviet system. Nations with greater commitment to capitalist institutions experience greater environmental performance. While Speth occasionally acknowledges pockets of environmental progress, he hardly stops to consider the reasons why some environmental resources have been conserved more effectively than others. Fisheries are certainly declining throughout much of the world—some 75 percent of fisheries are fully or over-exploited—but not everywhere. It is worth asking why. Tropical forests in less-developed nations are declining even as most temperate forests in industrialized nations are rebounding. Recognizing these different trends and identifying the key variables is essential to diagnosing the real causes of environmental deterioration and prescribing a treatment that will work. Speth acknowledges that much of the world is undergoing “dematerialization,” such that economic growth far outpaces increases in resource demand, but seems not to appreciate how the capitalist system he decries creates the incentives that drive this trend. Were it not for market-driven advances in technological capability and ecological efficiency, humanity’s footprint on the Earth would be far greater. While modern civilization has developed the means to effect massive ecological transformations, it has also found ways to produce wealth while leaving more of the natural world intact. Market competition generates substantial incentives to do more with less—thus in market economies we see long and continuing improvements in productive efficiency. This can be seen everywhere from the replacement of copper with fiber optics (made from silica, the chief component in sand) and the light-weighting of packaging to the explosion of agricultural productivity and improvements in energy efficiency. Less material is used and disposed of, reducing overall environmental impacts from productive activity. The key to such improvements is the same set of institutional arrangements that Speth so decries: property rights and voluntary exchange protected by the rule of law—that is, capitalism. As research by Wheaton College economist Seth Norton and many others has shown, societies in which property rights and economic freedoms are protected experience superior economic and environmental performance than those societies subject to greater government control. Indeed, such institutions have a greater effect on environmental performance than the other factors, such as population growth, that occupy the attention of Speth and so many other environmental thinkers.

Environmental degradation increases war, instability, and hurts the economy

**UN, 4** (United Nations News Center, “Environmental destruction during war exacerbates instability” November 5, 2004, <http://www.un.org/apps/news/story.asp?NewsID=12460&Cr=conflict&Cr1=environment>,

"These scars, threatening water supplies, the fertility of the land and the cleanliness of the air are recipes for instability between communities and neighbouring countries," he added.

Citing a new UNEP report produced in collaboration with the UN Development Programme ([UNDP](http://www.undp.org/dpa/journalists/index.html)) and the Organisation for Security and Cooperation in Europe (OSCE), Mr. Toepfer stressed that environmental degradation could undermine local and international security by "reinforcing and increasing grievances within and between societies."

The study finds that a decrepit and declining environment can depress economic activity and diminish the authority of the state in the eyes of its citizens. It also points out that the addressing environmental problems can foster trust among communities and neighbouring countries.

"Joint projects to clean up sites, agreements and treaties to better share resources such as rivers and forests, and strengthening cooperation between the different countries' ministries and institutions may hold the key to building trust, understanding and more stable relations," said the [UNEP](http://www.unep.org/) chief.

 Enviro Exts

Economic growth solves the environment

Martin Gassebner et al ‘6 – Ph.d @ Swiss Economic Institute “Relief for the environment? The importance of an increasingly unimportant industrial sector” April 2006

Among the more controversial views about economic growth and globalisation is that both will eventually beneﬁt the environment (Arrow et al., 1995). In part, this view is predicated on the nature of structural changes that are normally associated with trade liberalisation and economic development. More speciﬁcally, economic growth and the shift of production away from polluting sectors and “dirty” technologies help to arrest the deterioration in the environment. In addition, environmental quality is a normal good and wealthier economies will invest more heavily in environmental improvements and clean-up. According to this line of argument, another implication is that developing countries inevitably focus ﬁrst on manufacturing production and basic forms of production, while tolerating some degradation in the quality of the environment. Compounding this feature is the fact that the political pressures associated with industrialisation are also likely to be inﬂuential. The factor owners employed in manufacturing industries lobby for less regulation of polluting activities. This accelerates the decay of the environment. With the inevitable economic decline of basic manufacturing activities in more mature economies, the declining signiﬁcance of basic manufacturing in industrialised countries may very well create social pressures that reduce the demand for pollution abatement. For instance, it has been argued that greater inequality of wealth and income could be bad news for the environment (see Boyce, 1994 and Torras and Boyce, 1998). Other studies show that the pattern of sectoral resource owner- ship matters and that greater income inequality can yield either stricter or weaker environmental policies. For example, McAusland (2003) shows that the owners of clean factors of production may be less green voters because they may bear the burden of pollution taxes through adverse terms of trade eﬀects on the production of “clean goods”. However, in this paper we propose the argument that associated with falling industrial wages may be declining political inﬂuence exercised by the factor owners in the polluting manufacturing industries of the economy. These latter features are likely to be manifested in the political process, i.e., voting for change and a cleaner environment. In other words, structural change may not only involve less reliance being placed on the use of polluting inputs but also may have the signal virtue of altering the demand for environmental policies.

Growth in the economic is beneficial to the environment.

Anderson 04

(Terry L. Anderson, leading resource economist, professor of economics at Montana State University, Ph.D. in economics, visiting scholar at Oxford, university of Basel, and Cornell University law School, 04, “Why Economic Growth is Good for the Environment,” http://www.perc.org/articles/article446.php)

Hansen's essay concludes on an optimistic note, saying "the main elements [new technologies] required to halt climate change have come into being with remarkable rapidity."This statement would not have surprised economist Julian Simon. He saw the "ultimate resource" to be the human mind and believed it to be best motivated by market forces. Because of a combination of market forces and technological innovations, we are not running out of natural resources. As a resource becomes more scarce, prices increase, thus encouraging development of cheaper alternatives and technological innovations. Just as fossil fuel replaced scarce whale oil, its use will be reduced by new technology and alternative fuel sources. Market forces also cause economic growth, which in turn leads to environmental improvements. Put simply, poor people are willing to sacrifice clean water and air, healthy forests, and wildlife habitat for economic growth. But as their incomes rise above subsistence, "economic growth helps to undo the damage done in earlier years," says economist Bruce Yandle. "If economic growth is good for the environment, policies that stimulate growth ought to be good for the environment."

Economic growth is more important and valued by Democrats and Republicans over the environment.

Newport 09

(Frank Newport, Ph. D., Editor in Chief, The Gallup Poll, and author of Polling Matters, 03 19 09, “Americans: Economy takes precedence over environment,” http://www.gallup.com/poll/116962/americans-economy-takes-precedence-environment.aspx

**Only 50% of Democrats, who typically have been the most environmentally oriented in their policy positions, opt for the environmental protection position -- just six points higher than the percentage of Democrats choosing economic growth. (Republicans and independents are more likely to choose economic growth.) This finding suggests that the economic crisis may present a real philosophical dilemma to those who ordinarily are strongly supportive of environmental protection, but who may back off in the face of the perceived need to restore economic growth.**

The partisan spread is somewhat larger for the trade-off question dealing with energy and the environment. Republicans and Democrats are almost perfect mirror images of each other in response to this question, with **two-thirds of Republicans opting for energy over the protection of the environment,** while two-thirds of Democrats hold the opposite view. There is little question that the current economic crisis poses a significant challenge for the environmental movement in this country. **Previous Gallup research has shown that concern about global warming has diminished this year, and the research reviewed here shows clearly that Americans are more willing than ever to forgo protection of the environment if needed in order to ensure economic growth or the production of energy. With the economy as bad as it has been in recent memory, Americans' preferences have swung even more strongly in the direction of the economy over the environment**

Growth solves the environment

Panayotou 00

 (Theodore, John Sawhill Lecturer in Environmental Policy, Faculty Associate at the Center for International Development, member of Core Faculty of Sustainable Development, Faculty Fellow of the Environmental Economics Program at Harvard University, “Economic Growth and the Environment”, Center for international Development at Harvard University, July, http://www.cid.harvard.edu/cidwp/pdf/056.pdf)

At the other extreme, are those who argue that the fastest road to environmental improvement is along the path of economic growth: with higher incomes comes increased demand for goods and services that are less material intensive, as well as demand for improved environmental quality that leads to the adoption of environmental protection measures. As Beckerman puts it, “The strong correlation between incomes, and the extent to which environmental protection measures are adopted, demonstrates that in the longer run, the surest way to improve your environment is to become rich”.**58** Some went as far as claiming that environmental regulation, by reducing economic growth, may actually reduce environmental quality

A sustainable development is better achieved through economic growth, because it will lead to a better environmental quality.

Brown 09

(Mathew Brown, an economist at the Political Economy Research Center in Bozeman, Montana, 12 13 99, “Apple Daily, Hong Kong” http://www.perc.org/articles/article175.php)

 As increasing pressure from visiting business leaders and local citizens attests, Hong Kong, like all wealthy countries, is encountering fears over air quality, clean water, and waste disposal. To meet these challenges Hong Kong Chief Executive CH Tung has embraced the idea of "sustainable development." In his words this requires"a fundamental change of mindset," in the way Hong Kong businesses and government operate. Around the world policies of "sustainable development" rest on the assumption that current economic systems are bad for the environment and that only through more government control will environmental quality be improved.Enacting this policy could prove costly not only for Hong Kong's environment but also for its celebrated economic success. The good news for Mr. Tung and all of Hong Kong is that the twin goals of environmental protection and increased prosperity are not as contradictory as many environmentalists would have the public believe. A recent study by Princeton University economists Gene Grossman and Alan Krueger found that "economic growth brings an initial phase of deterioration followed by a subsequent phase of improvement." They found, for instance, that light particulates, a pervasive form of air pollution, tend to increase until a country reaches per capita income levels of around $9,000. After that air pollution declines as countries become wealthier. According to Grossman and Krueger "contrary to the alarmist cries of some environmental groups, we find no evidence that economic growth does unavoidable harm to the natural habitat." This relationship between economic growth and environmental quality, which resembles an inverted-U, has been found for many other environmental indices such as water quality and waste disposal-- both important concerns for a city such as Hong Kong.

Countries that practiced “Sustainable development” actually created a negative impact on economic growth and environmental quality.

Brown 9

(Mathew Brown, an economist at the Political Economy Research Center in Bozeman, Montana, 12 13 99, “Apple Daily, Hong Kong” http://www.perc.org/articles/article175.php)

Perhaps more relevant to Hong Kong's future is a recent finding that government efforts to regulate environmental quality, a cornerstone of many "sustainable development" proposals, can have a substantial negative impact on economic growth. Another team of economists found that American air and water regulations had a total cost of about $320 billion and decreased American gross domestic product (GDP) by 5.8%. Even well intentioned regulations can have a negative impact on economic growth and thus unintentionally on desired improvements in environmental quality. A policy of sustainable development can also be harmful in its prescription to forgo economic growth in the name of preserving resources for the future. Forcing the current generation to conserve resources for the future is like taxing the poor to give money to the rich. Imagine how different Hong Kong would look today if fifty years ago its imperial rulers had decreed that Hong Kong must not use natural resources so that they would be available for future generations. In that case Hong Kong, then with per capita incomes lower than many Third World countries today, would never have been able to achieve the remarkable economic growth that has made it one of the richest places on Earth, with individual incomes as high as those in the United States and higher than in most parts of Europe.

Hong Kong is a good example of how economic growth will lead to a higher quality of the environment.

Brown 9

(Mathew Brown, an economist at the Political Economy Research Center in Bozeman, Montana, 12 13 99, “Apple Daily, Hong Kong” http://www.perc.org/articles/article175.php)

**In addition to asking Hong Kong to give up growth for the sake of future generations, a policy of "sustainable development" involves reducing the environmental burden Hong Kong's economy places on its neighbors.** Here Hong Kong's great success is truly in evidence. Hong Kong is much wealthier than mainland China and indeed most of the rest of Asia. As such it is in a position to worry more about the impact its neighbors have on Hong Kong's environment than vice versa. **By continuing the liberal trade and economic policies that have made Hong Kong the envy and model for much of Asia, and indeed the rest of the world, it will help promote economic growth in the region and thus improved environmental quality for its neighbors and itself. As Hong Kong moves into the new millennium it has many advantages over most of its neighbors. Its economic freedom and consequent wealth will not only allow it to enjoy increased prosperity in the future but also increasing environmental quality.** Avoiding the temptation to impose new layers of government regulation on a system that has worked so well will be the main challenge standing in its way.

Growth solves CO2

Tamazian 08

[Artur Tamazian et al ‘8-- Department of Financial Economics & Accounting @ University of Santiago de Compostela,

“Does higher economic and financial development lead to environmental degradation: Evidence from BRIC countries” October 17]

 We show that the economic development decreases the environmental degradation with higher levels of economic growth. This ﬁnding conﬁrms empirically the EKC existence for the countries under consideration. In addition, while the majority of the existing research is focused on consequences of economic growth on environmental degradation, we show that ﬁnancial development might play a determinant role for environmental disclosure in developing economies. Our ﬁndings show that ﬁnancial development is associated with decline in CO2 per capita emissions. Particularly, we ﬁnd that capital market and banking sector development along with higher levels of FDI help to achieve lower CO2 per capita emissions. In this sense, it is noteworthy that the government can help the markets by establishing a strong policy framework that creates long-term value for greenhouse gas emissions reductions and consistently supports the development of new technologies that lead to a less carbon-intensive economy. Moreover, well-developed capital markets are very important; because ﬁrms can reduce the liquidity risk and can mobilize the funds required which is extremely useful in developing technol- ogy in the long run. Our overall results suggest some important policy recommen- dations. We believe that policies directed to ﬁnancial openness and liberalization to attract higher levels of R&D-related foreign direct investment can decrease the environmental degradation. Our results supports the ﬁndings of Copeland and Taylor (2004) who claims that it would be unwise for countries to use trade protection as a means to improve their environment. This is important because the higher degree of economic and ﬁnancial openness strengthen the institutional framework creating incen- tives for the ﬁrms to act upon. Therefore, addressing these issues might lead to higher energy efﬁciencies through technological advances as suggested by Blanford (2008) and possibly reduce the CO2 emissions in BRIC countries. Finally, we recognize that the technological change, R&D investment, environmental degradation and growth are not simply related. While our results pretend to be only an empirical evidence, it is worth noting that we were handicapped to capture the effects of R&D because we did not have the aggregate private sector; public sector and foreign ﬁrm level data on R&D spending and their investments in development of technologies. Yet, it is beyond the scope of this study to ﬁnd exact mechanism through which ﬁnancial system development leading to technological development through technological choice of the ﬁrms. Here, we would like to highlight that in the last two decades there has emerged a large macro-economic literature that builds on the above concepts to produce models of overall economic growth based on technological change (Romer, 1994; Grossman and Helpman, 1994; Solow, 2000). Our argument with respect to ﬁnancial development and environment degradation is that higher degree of ﬁnancial system development and openness prop up technological innovations by increasing spending on energy conservation R&D which results in energy efﬁciency and hence it may lower emissions.

 Tech Good

Growth Sustainable-tech solves enviro degradation

Kurzweil ‘8 (Ray, Scientist, Inventor and Entrepreneur inducted in the National Inventors Hall of Fame and winner of the 1999 National Medal of Technology, Washington Post, “Making the World A Billion Times Better”, 4-13, http://www.washingtonpost.com/wp-dyn/content/article/2008/04/11/AR2008041103326.html)

M IT was so advanced in 1965 (the year I entered as a freshman) that it actually had a computer. Housed in its own building, it cost $11 million (in today's dollars) and was shared by all students and faculty. Four decades later, the computer in your cellphone is a million times smaller, a million times less expensive and a thousand times more powerful. That's a billion-fold increase in the amount of computation you can buy per dollar. Yet as powerful as information technology is today, we will make another billion-fold increase in capability (for the same cost) over the next 25 years. That's because information technology builds on itself -- we are continually using the latest tools to create the next so they grow in capability at an exponential rate. This doesn't just mean snazzier cellphones. It means that change will rock every aspect of our world. The exponential growth in computing speed will unlock a solution to global warming, unmask the secret to longer life and solve myriad other worldly conundrums. This exponential progress in the power of information technology goes back more than a century to the data-processing equipment used in the 1890 census, the first U.S. census to be automated. It has been a smooth -- and highly predictable -- phenomenon despite all the vagaries of history through that period, including two world wars, the Cold War and the Great Depression. I say highly predictable because, thanks to its exponential power, only technology possesses the scale to address the major challenges -- such as energy and the environment, disease and poverty -- confronting society. That, at least, is the major conclusion of a panel, organized by the National Science Foundation and the National Academy of Engineering, on which I recently participated. Take energy. Today, 70 percent of it comes from fossil fuels, a 19th-century technology. But if we could capture just one ten-thousandth of the sunlight that falls on Earth, we could meet 100 percent of the world's energy needs using this renewable and environmentally friendly source. We can't do that now because solar panels rely on old technology, making them expensive, inefficient, heavy and hard to install. But a new generation of panels based on nanotechnology (which manipulates matter at the level of molecules) is starting to overcome these obstacles. The tipping point at which energy from solar panels will actually be less expensive than fossil fuels is only a few years away. The power we are generating from solar is doubling every two years; at that rate, it will be able to meet all our energy needs within 20 years. Nanotechnology itself is an information technology and therefore subject to what I call the "law of accelerating returns," a continual doubling of capability about every year. Venture capital groups and high-tech companies are investing billions of dollars in these new renewable energy technologies. I'm confident that the day is close at hand when we will be able to obtain energy from sunlight using nano-engineered solar panels and store it for use on cloudy days in nano-engineered fuel cells for less than it costs to use environmentally damaging fossil fuels. It's important to understand that exponentials seem slow at first. In the mid-1990s, halfway through the Human Genome Project to identify all the genes in human DNA, researchers had succeeded in collecting only 1 percent of the human genome. But the amount of genetic data was doubling every year, and that is actually right on schedule for an exponential progression. The project was slated to take 15 years, and if you double 1 percent seven more times you surpass 100 percent. In fact, the project was finished two years early. This helps explain why people underestimate what is technologically feasible over long periods of time -- they think linearly while the actual course of progress is exponential. We see the same progression with other biological technologies as well. Until just recently, medicine -- like energy -- was not an information technology. This is now changing as scientists begin to understand how biology works as a set of information processes. The approximately 23,000 genes in our cells are basically software programs, and we are making exponential gains in modeling and simulating the information processes that cracking the genome code has unlocked. We also have new tools, likewise just a few years old, that allow us to actually reprogram our biology in the same way that we reprogram our computers. For example, when the fat insulin receptor gene was turned off in mice, they were able to eat ravenously yet remain slim and obtain the health benefits of being slim. They didn't get heart disease or diabetes and lived 20 percent longer. There are now more than a thousand drugs in the pipeline to turn off the genes that promote obesity, heart disease, cancer and other diseases. We can also turn enzymes off and on, and add genes to the body. I'm an adviser to a company that removes lung cells, adds a new gene, reproduces the gene-enhanced cell a million-fold and then injects it back into the body where it returns to the lungs. This has cured a fatal disease, pulmonary hypertension, in animals and is now undergoing human trials. The important point is this: Now that we can model, simulate and reprogram biology just like we can a computer, it will be subject to the law of accelerating returns, a doubling of capability in less than a year. These technologies will be more than a thousand times more capable in a decade, more than a million times more capable in two decades. We are now adding three months every year to human life expectancy, but given the exponential growth of our ability to reprogram biology, this will soon go into high gear. According to my models, 15 years from now we'll be adding more than a year each year to our remaining life expectancy. This is not a guarantee of living forever, but it does mean that the sands of time will start pouring in rather than only pouring out. What's more, this exponential progression of information technology will affect our prosperity as well. The World Bank has reported, for example, that poverty in Asia has been cut in half over the past decade due to information technologies and that at current rates it will be cut by another 90 percent over the next decade. That phenomenon will spread around the globe. Clearly, the transformation of our 21st-century world is under way, and information technology, in all its forms, is helping the future look brighter . . . exponentially.

 AT: Growth Hurts Enviro

Growth doesn’t hurt the environment- several factors check and allows for sustainable growth over time

Monni et al 07

[ Valeria Costantini and Salvatore Monni- Professors of economics at the Roma Tre University, Rome, Italy , 5/31/07, Science Direct, Caplan]

Different causal linkages have been analyzed in economic growth, human development, and environment and have provided some general results with regard to the sustainability of a development process. The first result is that – in line with the results of the EKC studies – achieving an adequate sustainability level with a positive capital accumulation process is a very difficult task during the first stage of development. The satisfaction of basic human needs is a necessary condition for such an objective and environmental protection is considered a secondary (or luxury) good. Nevertheless, applying an MEKC it seems that it is possible to reduce (and invert) an unsustainable growth path at a medium level of development, while the reversing of environmental degradation using a traditional EKC seems to occur in correspondence with high income levels. The second result is that human capital accumulation represents an valuable means to reaching and maintaining higher consumption path in the future. The positive role of health and education achievements is much bigger than the negative effects linked to natural resources endowments. The resource curse would not occur if appropriate investments in human capital accumulation have been placed, producing consistent positive effects in terms of the quality of institutions. Better institutions represent one of the most effective conditional variables for higher economic growth, together with private capital investments. This last element is perfectly in line with conditional convergence of Barro and Sala-i-Martin (1995), where higher savings rates are one of the variables which increase the economic growth rate and the steady-state income level. A third result concerns the specific role of globalization process. From our analysis there is no specific sign that the globalization process could bring negative effects to developing countries. On the contrary, according to Stiglitz (2000) trade openness and FDI inflows positively affect the quality of institutions, and globalization ceteris paribus could be a source of governance improvements for the economies exposed to increasing trade and capital inflows. At the same time, countries need to know how to invest the advantages they derive from such a process for the improvement of human development, without wasting available (albeit scarce) resources. Developing countries positively affected by the globalization process are those that succeed in modernizing their institutions in a democratic manner, investing in infrastructures, ensuring macroeconomic stability, and above all investing the relative benefits to enlarge people's choices. At the same time, the sustainability of such a process depends on how benefits from exploiting existing resources are invested and how depleted resources are replaced. Comparing results from RCH and MEKC, we may affirm that in order to convert the resource curse into a blessing, it is necessary to increase investments in human capital accumulation and consequently in the quality of institutions. At the very first stages of the development path, the economic resources necessary to increase significantly human capital accumulation could be not available. If this does occur, the negative impacts are twofold. An economy based on resources exploitation without appropriate institutions would run into Dutch disease or rent-seeking effects, with reduced EG and therefore low HD levels (following chain A). The excessive resource exploitation at the beginning of the development path, associated with low investments in human capital, would bring the country towards an unsustainable path, with negative GS values and low HD levels. In conclusion, developing countries should promote environmental protection as soon as possible but industrialized countries could help this process through coordinated know-how and technological transfer thus avoiding the great degradation and depletion of natural resources of the past decades. Achieving a higher standard of living and maintaining natural capital could be complementary goals rather than competing ones by mutually reinforcing an upward spiral of development and economic growth.

 Turns Agriculture

Environmental degradation destroys cropland

**Homer-Dixon, 91** (Thomas- Professor of Political Science and Director of the Peace and Conflict Studies Program at the University of Toronto, International Security“ On The Threshold: Environmental Changes as Causes of Acute Conflict” 199, http://www.library.utoronto.ca/pcs/thresh/thresh2.htm)

Decreased agricultural production is often mentioned as potentially the most worrisome consequence of environmental change,47 and Figure 2 presents some of the causal scenarios frequently proposed by researchers. This illustration is not intended to be exhaustive: the systemic interaction of environmental and agricultural variables is far more complex than the figure suggests.48 Moreover, no one region or country will exhibit all the indicated processes: while some are already clearly evident in certain areas, others are not yet visible anywhere. The Philippines provides a good illustration of deforestation's impact, which can be traced out in the figure. Since the Second World War, logging and the encroachment of farms have reduced the virgin and second-growth forest from about sixteen million hectares to 6.8-7.6 million hectares.49 Across the archipelago, logging and land-clearing have accelerated erosion, changed regional hydrological cycles and precipitation patterns, and decreased the land's ability to retain water during rainy periods. The resulting flash floods have damaged irrigation works while plugging reservoirs and irrigation channels with silt. These factors may seriously affect crop production. For example, when the government of the Philippines and the European Economic Community commissioned an Integrated Environmental Plan for the still relatively unspoiled island of Palawan, the authors of the study found that only about half of the 36,000 hectares of irrigated farmland projected within the Plan for 2007 will actually be irrigable because of the hydrological effects of decreases in forest cover.50 Figure 2 also highlights the importance of the degradation and decreasing availability of good agricultural land, problems that deserve much closer attention than they usually receive. Currently, total global cropland amounts to about 1.5 billion hectares. Optimistic estimates of total arable land on the planet, which includes both current and potential cropland, range from 3.2 to 3.4 billion hectares, but nearly all the best land has already been exploited. What is left is either less fertile, not sufficiently rainfed or easily irrigable, infested with pests, or harder to clear and work.51 For developing countries during the 1980s, cropland grew at just 0.26 percent a year, less than half the rate of the 1970s. More importantly, in these countries arable land per capita dropped by 1.9 percent a year.52 In the absence of a major increase in arable land in developing countries, experts expect that the world average of 0.28 hectares of cropland per capita will decline to 0.17 hectares by the year 2025, given the current rate of world population growth.53 Large tracts are being lost each year to urban encroachment, erosion, nutrient depletion, salinization, waterlogging, acidification, and compacting. The geographer Vaclav Smil, who is generally very conservative in his assessments of environmental damage, estimates that two to three million hectares of cropland are lost annually to erosion; perhaps twice as much land goes to urbanization, and at least one million hectares are abandoned because of excessive salinity. In addition, about one-fifth of the world's cropland is suffering from some degree of desertification.54 Taken together, he concludes, the planet will lose about 100 million hectares of arable land between 1985 and 2000.55

\*Poverty Module

Economic growth and poverty alleviation are directly connected; economic growth helps reduce poverty.

Agrawal 08

(Pradeep Agrawal, professor of economics and head, RBI chair unit at the institute of economic growth, university enclave, Delhi, 08, “Economic growth and poverty reduction: evidence from Kazakhstan,” http://www.adb.org/documents/periodicals/ADR/pdf/ADR-Vol24-2-Agrawal.pdf)

**This paper empirically examines the relation between economic growth and poverty alleviation** in the case of Kazakhstan using province-level data. **It shows that provinces with higher growth rates achieved faster decline in poverty. This happened largely through growth, which led to increased employment and higher real wages and contributed significantly to poverty reduction. Rapidly increasing oil revenues since 1998 have helped significantly raise both gross domestic product growth and government revenue in Kazakhstan. Part of the oil fund was used to fund a pension and social protection program that has helped reduce poverty.** However, expenditure on other social sectors like education and health has not increased much and needs more support. It is also shown empirically that increased government expenditure on social sectors did contribute significantly to poverty alleviation. **This suggests that both rapid economic growth and enhanced government support for the social sectors are helpful in reducing poverty.**

Poverty is the worst form of violence – it kills more people than an ongoing nuclear war

Abu-Jamal, prominent social activist and author, ’98 [A Quiet and Deadly Violence, Sept 19, http://www.flashpoints.net/mQuietDeadlyViolence.html]

The deadliest form of violence is poverty. --Ghandi It has often been observed that America is a truly violent nation, as shown by the thousands of cases of social and communal violence that occurs daily in the nation. Every year, some 20,000 people are killed by others, and additional 20,000 folks kill themselves. Add to this the nonlethal violence that Americans daily inflict on each other, and we begin to see the tracings of a nation immersed in a fever of violence. But, as remarkable, and harrowing as this level and degree of violence is, it is, by far, not the most violent features of living in the midst of the American empire. We live, equally immersed, and to a deeper degree, in a nation that condones and ignores wide-ranging "structural' violence, of a kind that destroys human life with a breathtaking ruthlessness. Former Massachusetts prison official and writer, Dr. James Gilligan observes; By "structural violence" I mean the increased rates of death and disability suffered by those who occupy the bottom rungs of society, as contrasted by those who are above them. Those excess deaths (or at least a demonstrably large proportion of them) are a function of the class structure; and that structure is itself a product of society's collective human choices, concerning how to distribute the collective wealth of the society. These are not acts of God. I am contrasting "structural" with "behavioral violence" by which I mean the non-natural deaths and injuries that are caused by specific behavioral actions of individuals against individuals, such as the deaths we attribute to homicide, suicide, soldiers in warfare, capital punishment, and so on. --(Gilligan, J., MD, Violence: Reflections On a National Epidemic (New York: Vintage, 1996), 192.) This form of violence, not covered by any of the majoritarian, corporate, ruling-class protected media, is invisible to us and because of its invisibility, all the more insidious. How dangerous is it--really? Gilligan notes: [E]very fifteen years, on the average, as many people die because of relative poverty as would be killed in a nuclear war that caused 232 million deaths; and every single year, two to three times as many people die from poverty throughout the world as were killed by the Nazi genocide of the Jews over a six-year period. This is, in effect, the equivalent of an ongoing, unending, in fact accelerating, thermonuclear war, or genocide on the weak and poor every year of every decade, throughout the world. [Gilligan, p. 196] Worse still, in a thoroughly capitalist society, much of that violence became internalized, turned back on the Self, because, in a society based on the priority of wealth, those who own nothing are taught to loathe themselves, as if something is inherently wrong with themselves, instead of the social order that promotes this self-loathing. This intense self-hatred was often manifested in familial violence as when the husband beats the wife, the wife smacks the son, and the kids fight each other.

 Poverty Exts

Countries with higher economic growth rates will face poverty alleviation.

Agrawal 08

(Pradeep Agrawal, professor of economics and head, RBI chair unit at the institute of economic growth, university enclave, Delhi, 08, “Economic growth and poverty reduction: evidence from Kazakhstan,” http://www.adb.org/documents/periodicals/ADR/pdf/ADR-Vol24-2-Agrawal.pdf)

**Countries with higher growth rates are likely to experience more rapid reduction in poverty.** Using province-level panel data, this was demonstrated to hold for Kazakhstan. Growth is considered pro-poor if the income share of the poor rises with growth or at least their incomes grow in absolute terms. Inequality has declined slightly over the recent high-growth period (1998–2003), accompanied by reduction in poverty gap and severity. This evidence supports the view that the 1998–2003 high-growth period in Kazakhstan has been pro-poor. **Growth reduced poverty by leading to increased employment and higher real wages. Both government revenue and expenditure increased with growth and increased oil and gas exports, both in real terms and as percent of GDP.** Government revenue, which sharply increased in 2003, was used partly to reform and expand the pension system. T**his provided assistance to many unemployed workers** who could not adjust to the major and rapid changes from the Soviet era industrial structure. However, it did not translate into a corresponding improvement in expenditure on the education and health as a share of government revenue or GDP. **Nevertheless, because of the high growth of government revenue and GDP, real expenditure per person on social sectors still rose slightly in some periods over 1998–2003.** The paper shows that provinces (regions) of Kazakhstan that received higher expenditure on social sectors experienced a larger decline in poverty. This underlines the need for sustained, increasing expenditure for the social sectors in Kazakhstan, more so in the poorer provinces, possibly through additional support from the national government.

Economic growth is key to reduce poverty.

(Ebba **Dohlman and** Mikael **Soderback**, OECD development Cooperation, 03 **07,** "Economic growth versus poverty reduction: A "hollow debate"?," [http://www.oecdobserver.org/news/fullstory.php/aid/2173/Economic\_growth\_versus\_poverty\_](http://www.oecdobserver.org/news/fullstory.php/aid/2173/Economic_growth_versus_poverty_reduction%3A_A__93hollow_debate_94_.html)

[reduction:\_A\_\_93hollow\_debate\_94\_.html](http://www.oecdobserver.org/news/fullstory.php/aid/2173/Economic_growth_versus_poverty_reduction%3A_A__93hollow_debate_94_.html))

**A close look at what can be patchy data suggests that growth, poverty and inequality are linked. One study shows that a 1% increase in per capita incomes may reduce income poverty by as much as 4% or by less than 1%, depending on the initial conditions in the country, such as the distribution of assets, ownership, and so on. Overall, most of the evidence confirms that poverty reduction depends on the pace and pattern of economic growth**. But how to achieve the optimal pattern?

The answer is a hybrid: pro-poor and pro-growth approaches are mutually reinforcing and should go hand in hand. What this means for policy is spelt out in a new book by the Development Assistance Committee (DAC) of the OECD, whose member countries handle some 90% of world bilateral ODA (see references). Its forum, the Network on Poverty Reduction (POVNET), has helped to steer previously divided opinion into a new consensus that rapid and sustained poverty reduction requires pro-poor growth. **This means “a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth”.**

Economic growth solves worldwide poverty.

Adams 03 Richard H. Adams, Jr. World Bank Policy Researcher. “February 2003. Economic Growth, Inequality, and Poverty”

Why is economic growth so important in reducing poverty? The answer to this question has been broached at several points in this analysis. Economic growth reduces poverty because first and foremost growth has little impact on. income inequality. Income distributions do not generally change much over time. Analysis of the 50 countries and the 101 intervals included in the data set shows that income inequality rises on average less than 1.0 percent per year. Moreover, econometric analysis shows that economic growth has no statistical effect on income distribution: inequality may rise, fall or remain steady with growth. Since income distributions are relatively stable over time, economic growth - in the sense of rising incomes - has the general effect of raising incomes for all members of society, including the poor. As noted above, in many developing countries poverty, as measured by the $1 per person per day standard, tends to be "shallow" in the sense that many people are clustered right below (and above) the poverty line. Thus, even a modest rate of economic growth has the effect of "lifting" people out of poverty. Poor people are capable of using economic growth - especially labor-intensive economic growth which provides more jobs -- to "work" themselves out of poverty. Table 8 underscores these relationships by summarizing the results of recent empirical studies regarding the growth elasticity of poverty. When growth is measured by survey mean income (consumption), the point estimates of the elasticity of poverty with respect to growth are remarkably uniform: from a low of -2.12 in Bruno, Ravallion 21 and Squire (1998), to a mid-range of -2.59 in this study (excluding Eastern Europe and Central Asia), to a high of -3.12 in Ravallion and Chen (1997). In other words, on average, a 10 -percentage point increase in economic growth (measured by the survey mean) can be expected to produce between a 21.2 and 31.2 percent decrease in the proportion of people living in poverty ($1 per person per day). Economic growth reduces poverty in the developing countries of the world because average incomes of the poor tend to rise proportionately with those of the rest of the population. The fact that economic growth is so critical in reducing poverty highlights the need to accelerate economic growth throughout the developing world. Present rates of economic growth in the developing world are simply too low to make a meaningful dent in poverty. As measured by per capita GDP, the average rate of growth for the 50 low income and lower middle income countries in this paper was 2.66 percent per year. As measured by mean survey income (consumption), the average rate of growth in these 50 countries was even lower: a slightly negative -0.90 percent per year (Table 3). In the future, these rates of economic growth need to be significantly increased. In particular, more work needs to be done on identifying the elements used for achieving successful high rates of economic growth and poverty reduction in certain regions of the developing world (e.g., East Asia and South Asia), and applying the lessons of this work to the continuing growth and poverty needs in other areas, such as Eastern Europe and Central Asia, and Sub-Saharan Africa.

 Poverty ! Exts

Poverty is a form of structural violence equivalent to an ongoing nuclear war that is the root cause of all other violence

Gilligan 96

[James, Professor of Psychiatry at the Harvard Medical School, Director of the Center for the Study of Violence, and a member of the Academic Advisory Council of the National Campaign Against Youth Violence, “Violence: Our Deadly Epidemic and its Causes”, p. 191-196]

The deadliest form of violence is poverty. You cannot work for one day with the violent people who fill our prisons and mental hospitals for the criminally insane without being forcible and constantly reminded of the extreme poverty and discrimination that characterizes their lives. Hearing about their lives, and about their families and friends, you are forced to recognize the truth in Gandhi’s observation that the deadliest form of violence is poverty. Not a day goes by without realizing that trying to understand them and their violent behavior in purely individual terms is impossible and wrong-headed. Any theory of violence, especially a psychological theory, that evolves from the experience of men in maximum security prisons and hospitals for the criminally insane must begin with the recognition that these institutions are only microcosms. They are not where the major violence in our society takes place, and the perpetrators who fill them are far from being the main causes of most violent deaths. Any approach to a theory of violence needs to begin with a look at the structural violence in this country. Focusing merely on those relatively few men who commit what we define as murder could distract us from examining and learning from those structural causes of violent death that are for more significant from a numerical or public health, or human, standpoint. By “structural violence” I mean the increased rates of death, and disability suffered by those who occupy the bottom rungs of society, as contrasted with the relatively low death rates experienced by those who are above them. Those excess deaths (or at least a demonstrably large proportion of them) are a function of class structure; and that structure itself is a product of society’s collective human choices, concerning how to distribute the collective wealth of the society. These are not acts of God. I am contrasting “structural” with “behavioral violence,” by which I mean the non-natural deaths and injuries that are caused by specific behavioral actions of individuals against individuals, such as the deaths we attribute to homicide, suicide, soldiers in warfare, capital punishment, and so on. Structural violence differs from behavior violence in at least three major respects. \*The lethal effects of structural violence operate continuously, rather than sporadically, whereas murders, suicides, executions, wars, and other forms of behavior violence occur one at a time. \*Structural violence operates more or less independently of individual acts; independent of individuals and groups (politicians, political parties, voters) whose decisions may nevertheless have lethal consequences for others. \*Structural violence is normally invisible, because it may appear to have had other (natural or violent) causes. [CONTINUED] The finding that structural violence causes far more deaths than behavioral violence does is not limited to this country. Kohler and Alcock attempted to arrive at the number of excess deaths caused by socioeconomic inequities on a worldwide basis. Sweden was their model of the nation that had come closest to eliminating structural violence. It had the least inequity in income and living standards, and the lowest discrepancies in death rates and life expectancy; and the highest overall life expectancy of the world. When they compared the life expectancies of those living in the other socioeconomic systems against Sweden, they found that 18 million deaths a year could be attributed to the “structural violence” to which the citizens of all the other nations were being subjected. During the past decade, the discrepancies between the rich and poor nations have increased dramatically and alarmingly. The 14 to 19 million deaths a year caused by structural violence compare with about 100,000 deaths per year from armed conflict. Comparing this frequency of deaths from structural violence to the frequency of those caused by major military and political violence, such as World War II (an estimated 49 million military and civilian deaths, including those by genocide – or about eight million per year, 1939-1945), the Indonesian massacre of 1965-66 (perhaps 575,000 deaths), the Vietnam war (possibly two million, 1954-1973), and even a hypothetical nuclear exchange between the U.S. and the U.S.S.R. (232 million), it was clear that even war cannot being to compare with structural violence, which continues year after year. In other words, every fifteen years, on the average, as many people die because of relative poverty as would be killed by the Nazi genocide of the Jews over a six-year period. This is, in effect, the equivalent of an ongoing, unending, in fact accelerating, thermonuclear war, or genocide, perpetrated on the weak and poor every year of every decade, throughout the world. Structural violence is also the main cause of behavioral violence on a socially and epidemiologically significant scale (from homicide and suicide to war and genocide). The question as to which of the two forms of violence – structural or behavioral – is more important, dangerous, or lethal is moot, for they are inextricably related to eachother, as cause to effect.

\*Terror Module

Growth solves terrorism-theoretically and empirically

Gries et al ’09

(Thomas Gries, University of Paderborn, Department of Economics, February 17 2009, “Causal Linkages Between Domestic Terrorism and Economic Growth”, http://groups.uni-paderborn.de/fiwi/RePEc/Working%20Paper%20neutral/WP20%20-%202009-02.pdf)

Economic theory argues that terrorists are rational individuals which choose their levels of violent activity according to the costs and benefits arising from their actions (cf., e.g., Sandler and Enders, 2004). Because of terrorists presumed rationality, the opportunity costs of terror also matter. Intuitively, low opportunity costs of violence that is, few prospects of economic activity lead to elevated terrorist activity, whereas high opportunity costs result in the opposite (cf., e.g., Freytag et al., 2008). Times of economic success mean, inter alia, more individual economic opportunities and economic participation. Higher levels of overall growth should coincide with higher opportunity costs of terror and thus less violence. Conversely, in periods of economic downturn should be accompanied by fewer economic opportunities and participation and thus by more economic dissatisfaction. In times of economic crisis, dissidents are more likely to resort to violence as the opportunity costs of terror are low, while the potential long-run payoffs from violence ñ a redistribution of scarce economic resources which is to be enforced by means of terrorism are comparatively high (cf. Blomberg, Hess and Weerapana, 2004). To some extent, empirical evidence suggests that economic performance and terrorism are linked along the lines discussed before. The Endings of Collier and Hoeer (1998) indicate that higher levels of economic development coincide with lower likelihoods of civil war, providing initial evidence that economic success and conáict are diametrically opposed. Considering economic development and terrorism, several studies Önd that higher levels of development are obstacles to the production of transnational terrorism (cf., e.g., Santos Bravo and Mendes Dias, 2006; Lai, 2007; Freytag et al., 2008). Blomberg and Hess (2008) also Önd that higher incomes are a strong deterrence to the genesis of domestic terrorism. Furthermore, there is evidence connecting solid short-run economic conditions with less political violence (cf. Muller and Weede, 1990; Freytag et al., 2008). In general, the evidence indicates that terrorism and economic conditions are linked. Here, economic success seems to impede the genesis of terrorism, presumably due to higher opportunity costs of conáict. In other words, in times of stronger economic performance individuals simply have more to lose.

Terrorism risks extinction

Alexander 03. (Yonah, Prof and Director of Inter-University for Terrorism Studies, *Washington Times*, August 28, lexis)

Unlike their historical counterparts, contemporary terrorists have introduced a new scale of violence in terms of conventional and unconventional threats and impact. The internationalization and brutalization of current and future terrorism make it clear we have entered an Age of Super Terrorism [e.g. biological, chemical, radiological, nuclear and cyber] with its serious implications concerning national, regional and global security concerns. Two myths in particular must be debunked immediately if an effective counterterrorism "best practices" strategy can be developed [e.g., strengthening international cooperation]. The first illusion is that terrorism can be greatly reduced, if not eliminated completely, provided the root causes of conflicts - political, social and economic - are addressed. The conventional illusion is that terrorism must be justified by oppressed people seeking to achieve their goals and consequently the argument advanced by "freedom fighters" anywhere, "give me liberty and I will give you death," should be tolerated if not glorified. This traditional rationalization of "sacred" violence often conceals that the real purpose of terrorist groups is to gain political power through the barrel of the gun, in violation of fundamental human rights of the noncombatant segment of societies. For instance, Palestinians religious movements [e.g., Hamas, Islamic Jihad] and secular entities [such as Fatah's Tanzim and Aqsa Martyr Brigades]] wish not only to resolve national grievances [such as Jewish settlements, right of return, Jerusalem] but primarily to destroy the Jewish state. Similarly, Osama bin Laden's international network not only opposes the presence of American military in the Arabian Peninsula and Iraq, but its stated objective is to "unite all Muslims and establish a government that follows the rule of the Caliphs." The second myth is that strong action against terrorist infrastructure [leaders, recruitment, funding, propaganda, training, weapons, operational command and control] will only increase terrorism. The argument here is that law-enforcement efforts and military retaliation inevitably will fuel more brutal acts of violent revenge. Clearly, if this perception continues to prevail, particularly in democratic societies, there is the danger it will paralyze governments and thereby encourage further terrorist attacks. In sum, past experience provides useful lessons for a realistic future strategy. The prudent application of force has been demonstrated to be an effective tool for short- and long-term deterrence of terrorism. For example, Israel's targeted killing of Mohammed Sider, the Hebron commander of the Islamic Jihad, defused a "ticking bomb." The assassination of Ismail Abu Shanab - a top Hamas leader in the Gaza Strip who was directly responsible for several suicide bombings including the latest bus attack in Jerusalem - disrupted potential terrorist operations. Similarly, the U.S. military operation in Iraq eliminated Saddam Hussein's regime as a state sponsor of terror. Thus, it behooves those countries victimized by terrorism to understand a cardinal message communicated by Winston Churchill to the House of Commons on May 13, 1940: "Victory at all costs, victory in spite of terror, victory however long and hard the road may be: For without victory, there is no survival."

 Terror Exts

Poverty creates the structural conditions necessary for terrorism to occur.

Rice, senior fellow at the Brookings Institute, 06
(Susan E. Rice, The National Interest, “The Threat of Global Poverty,” l/n)

However, the primary flaw in the conventional argument that poverty is unrelated to terrorism is its failure to capture the range of ways in which poverty can exacerbate the threat of transnational terrorism -- not at the individual level -- but at the state and regional level. Poverty bears indirectly on terrorism by sparking conflict and eroding state capacity, both of which create conditions that can facilitate terrorist activity.

Oxford University economist Paul Collier finds that “if a country’s per capita income doubles, its risk of conflict drops by roughly half.”5 A country at $250 GDP per capita has an average 15% risk of internal conflict over five years, while a country at $5,000 per capita has a risk of less than 1%.6 Conflict zones not only cost lives, they can incubate virtually every type of transnational security threat by creating the optimal anarchic environment for external predators. Al Qaeda established training camps in conflict-ridden Sudan and Afghanistan, purchased diamonds from Sierra Leone and Liberia, and now target American soldiers in Iraq. While low per capita income increases the likelihood of civil conflict, conflict zones, in turn, have been exploited by terrorists to lure foot soldiers and train new cadres, as in Bosnia, the Philippines and Central Asia.

In extreme cases, conflict results in state failure as in Somalia and Afghanistan. When states collapse, the climate for predatory transnational actors is improved exponentially. Economic privation is an important indicator of state failure. The CIA’s State Failure Task Force found that states in which human suffering is rampant (as measured by high infant mortality) are 2.3 times more likely to fail than others.7 While poor economic conditions are not the only major risk factor for state weakness and failure, they are widely understood to be an important contributor along with partial democratization, corrupt governance, regional instability and ethnic tension.

Even absent conflict, poverty at the country level, particularly in states with significant Muslim populations, may enhance the ability of Jihadist terrorists to operate. Poor countries with limited institutional capacity to control their territory, borders and coastlines can provide safe havens, training grounds, and recruiting fields for terrorist networks.8 By some estimates, 25% of the foreign terrorists recruited by Al Qaeda to Iraq have come from North and Sub-Saharan Africa.9 To support their activities, networks like Al Qaeda have exploited the terrain, cash crops, natural resources and financial institutions of low-income states from Mali to Yemen. Militants have taken advantage of lax immigration, security and financial controls to plan, finance and execute operations in Kenya, Tanzania and Indonesia. Al Qaeda is now believed to have extended its reach to approximately 60 countries worldwide.

Country-level poverty may also weaken state capacity to provide essential human services and thereby render states more vulnerable to exploitation by terrorist networks. In low-income countries, social and welfare services are often inadequate, creating voids in education and health that may be filled by radical NGOs or madrassas. In Indonesia, the Sahel and Bangladesh, for example, international Islamic charities are closing the welfare gap. In Pakistan and Egypt, radical groups offer social welfare services that governments fail to provide. In the Palestinian territories, Hamas’ stunning electoral victory was due in part to its superior provision of social services. Terrorist networks often use legitimate and illegitimate charities as fronts to garner popular support.

 Terror turns Econ

Academic studies prove terrorism hurts the economy

**Abadie and Gardeazabal, 7** (Alberto Abadie- professor of public policy @ Harvard, and Javier Gareazabal- professor of economics @ the University of Baque Country, “Terrorism and the World Economy”, August 2007, http://ksghome.harvard.edu/~aabadie/twe.pdf)

It has been argued that terrorism should not have a large effect on economic activity, because terrorist attacks destroy only a small fraction of the stock of capital of a country (see, e.g., Becker and Murphy, 2001). In contrast, empirical estimates of the consequences of terrorism typically suggest large effects on economic outcomes (see, e.g., Abadie and Gardeazabal, 2003). The main theme of this article is that mobility of productive capital in an open economy may account for much of the difference between the direct and the equilibrium impact of terrorism. We use a simple economic model to show that terrorism may have a large impact on the allocation of productive capital across countries, even if it represents a small fraction of the overall economic risk. The model emphasizes that, in addition to increasing uncertainty, terrorism reduces the expected return to investment. As a result, changes in the intensity of terrorism may cause large movements of capital across countries if the world economy is sufficiently open, so international investors are able to diversify other types of country risks. Using a unique dataset on terrorism and other country risks, we find that, in accordance with the predictions of the model, higher levels of terrorist risks are associated with lower levels of net foreign direct investment positions, even after controlling for other types of country risks. On average, a standard deviation increase in the terrorist risk is associated with a fall in the net foreign direct investment position of about 5 percent of GDP. The magnitude of the estimated effect is large, which suggests that the “open-economy channel" impact of terrorism may be substantial.

This paper analyzes the effects of terrorism in an integrated world economy. From an economic standpoint, terrorism has been described to have four main effects (see, e.g., US Congress, Joint Economic Committee, 2002). First, the capital stock (human and physical) of a country is reduced as a result of terrorist attacks. Second, the terrorist threat induces higher levels of uncertainty. Third, terrorism promotes increases in counter-terrorism expenditures, drawing resources from productive sectors for use in security. Fourth, terrorism is known to affect negatively specific industries such as tourism.1 However, this classification does not include the potential effects of increased terrorist threats in an open economy. In this article, we use a stylized macroeconomic model of the world economy and inter- national data on terrorism and the stock of foreign direct investment (FDI) assets and liabilities to study the economic effects of terrorism in an integrated world economy

Terrorism deters foreign investment

**Abadie and Gardeazabal, 7** (Alberto Abadie- professor of public policy @ Harvard, and Javier Gareazabal- professor of economics @ the University of Baque Country, “Terrorism and the World Economy”, August 2007, http://ksghome.harvard.edu/~aabadie/twe.pdf)

The amounts of foreign direct investment in the U.S. before and after the September 11th attacks provide some suggestive evidence of the open-economy channel of terrorism. In the year 2000, the year before the terrorist attacks, foreign direct investment inflows represented about 15.8 percent of the Gross Fixed Capital Formation in the U.S. This figure decreased to only 1.5 percent in 2003, two years after the attacks. Conversely, foreign direct investment outflows from the U.S. increased from about 7.2 percent of the Gross Fixed Capital Formation for the U.S. in 2000 to 7.5 percent in 2003 (see UNCTAD, 2004). Of course, not all this variation in FDI can be attributed to the effect of the September 11th attacks. As of September 2001 foreign direct investment inflows had fallen from its 2000 peak not only in the U.S. but also in other developed economies (see UNCTAD, 3In related research, Frey, Luechinger, and Stutzer (2004) study the effect of terrorism on life satisfaction. Frey, Luechinger, and Stutzer (2007) surveys the existing research on the economic impact of terrorism. 2 2002). These figures, however, motivate the question of to which extent an increase in the perceived level of terrorism was responsible for the drop in FDI in the U.S. that followed the events of September 11th. Surveys of international corporate investors provide direct evidence of the importance of terrorism on foreign investment. Corporate investors rate terrorism as one of the **most important** factors influencing their foreign direct investment decisions (see Global Business Policy Council, 2004).

\*WAR Module

Economic collapse would cause famine and wars all over the globe, including in Korea, Taiwan, the Middle East and between India and Pakistan

Lopez 98 Bernardo Lopez, staff writer for BusinessWorld, 10/10/1998

What would it be like if global recession becomes full bloom? The results will be catastrophic. Certainly, global recession will spawn wars of all kinds. Ethnic wars can easily escalate in the grapple for dwindling food stocks as in India-Pakistan-Afghanistan, Yugoslavia, Ethiopia-Eritrea, Indonesia. Regional conflicts in key flashpoints can easily erupt such as in the Middle East, Korea, and Taiwan. In the Philippines, as in some Latin American countries, splintered insurgency forces may take advantage of the economic drought to regroup and reemerge in the countryside. Unemployment worldwide will be in the billions. Famine can be triggered in key Third World nations with India, North Korea, Ethiopia and other African countries as first candidates. Food riots and the breakdown of law and order are possibilities. Unemployment in the US will be the hardest to cope with since it may have very little capability for subsistence economy and its agrarian base is automated and controlled by a few. The riots and looting of stores in New York City in the late '70s because of a state-wide brownout hint of the type of anarchy in the cities. Such looting in this most affluent nation is not impossible. The weapons industry may also grow rapidly because of the ensuing wars. Arms escalation will have primacy over food production if wars escalate. The US will depend increasingly on weapons exports to nurse its economy back to health. This will further induce wars and conflicts which will aggravate US recession rather than solve it. The US may depend more and more on the use of force and its superiority to get its ways internationally. The public will rebel against local monopolies. Anarchy and boycotts will be their primary weapons against cartels especially on agricultural products such as rice and vegetables, which are presently in the hands of a few in most Third World nations. Global recession will test the limits of human cooperation and sharing in the name of survival. Grants and aids will decrease. Rescues and international funding for advocacy NGOs will disappear rapidly. Coupled with disasters such as earthquakes, volcanic eruptions, climatic aberrations like the El Nino, global recession will degrade a step further.

 War Exts

Growth solves global conflict

Marquardt, 5

(Michael J. Marquardt, Professor of Human Resource Development and International Affairs at George Washington University, “Globalization: The Pathway to Prosperity, Freedom and Peace,” Human Resource Development International, March 2005, Volume 8, Number 1, pg. 127-129, http://org8220renner.alliant.wikispaces.net/file/view/Marquardt.pdf)

Perhaps the greatest value of globalization is its potential for creating a world of peace. Economic growth has been identiﬁed as one of the strongest forces that turn people away from conﬂict and wars among groups, tribes, and nations. Global companies strongly discourage governments from warring against countries in which they have investments. Focusing on economic growth encourages cooperation and living in relative peace (Marquardt, 2001, 2002)

Wealth prevents wars from occurring- liberal economics prove

Gat, professor of national security in the Department of Political Scence at Tel Aviv University, 2005 (“The Democratic Peace Theory Reframed”, *World Politics*, Project Muse)

Throughout history, rising prosperity has been associated with decreasing willingness to endure the hardships of war. Freedom from manual labor and luxurious living conditions achieved by the rich in prosperous premodern societies conflicted with the physical hardship of campaigning and life in the field, which thereby became more alien and unappealing. As the industrial-technological age unfolded and wealth per capita rose exponentially, the wealth, comfort, and other amenities formerly enjoyed by only the privileged elite spread throughout society. Thus, increasing wealth has worked to decrease war not only through the modern logic of expanding manufacturing and trading interdependence but also through the traditional logic that affluence and comfort affect society's willingness to endure hardship. Because new heights of affluence and comfort have been achieved in the developed world in the post–World War II era, when practically all the world's affluent countries have been democracies, it is difficult to distinguish the effects of comfort from those of democracy in diminishing belligerency. Obviously, as already noted, the two factors have to some degree been interrelated.¶ It is difficult for people in today's liberal, affluent, and secure societies to visualize how life was for their forefathers only a few generations earlier and largely still is in poor countries. Angst may have replaced fear and physical pain in modern societies; yet, without diminishing the merits of traditional society or ignoring the stresses and problems of modernity, this change has been nothing short of revolutionary. People in premodern societies struggled to survive in the most elemental sense. The overwhelming majority of them endured a lifetime of hard physical labor to escape hunger, from which they were never secure. The tragedy of orphanage, of child mortality, of premature death of a spouse, and of early death in general was an inescapable fact of life. People of all ages were afflicted with illness, disability, and physical pain, for which no effective remedies existed. Even where state rule prevailed, violent conflict between neighbors was a regular occurrence and, [End Page 89] therefore, an ever-present possibility, putting a premium on physical strength, toughness, honor, and a reputation for all of these. Hardship and tragedy tended to harden people and make them fatalistic. In this context, the suffering and death associated with war were endured as just another nature-like affliction, together with Malthus's other grim reapers: famine and disease.¶ By comparison, by contrast even, life changed dramatically in affluent liberal societies. The decline of physical labor has already been mentioned. Hunger and want were replaced by societies of plenty, where food, the most basic of needs, became available practically without limit, with overweight rather than starvation becoming a major problem, even and, indeed, sometimes especially, among the poor. Infant mortality fell to roughly one-twentieth of its rate during preindustrial times. Annual general mortality declined from around thirty per thousand people to between seven and ten per thousand.34 Infectious diseases, the number one killer of the past, were mostly rendered nonlethal by improved hygiene, vaccinations, and antibiotics. Countless bodily irritations and disabilities—deteriorating eyesight, bad teeth, skin disease, hernia—that used to be an integral part of life, were alleviated by medication, medical instruments, and surgery. Anesthetics and other drugs, from painkillers to Viagra, dramatically improved the quality of life. People in the developed world live in well-heated and air-conditioned homes, equipped with all manner of electrical appliances. They have indoor bathrooms and lavatories. They wash daily and change clothes as often. They drive rather than walk. They are flooded with popular media entertainment with which to occupy their spare time. They take vacations in faraway places. They embrace "postmodern," "postmaterialistic" values that emphasize individual self-fulfillment. In an orderly and comfortable society, rough conduct in social dealings decreases, while civility, peaceful argument, and humor become the norm. Men are more able to "connect to their feminine side." Whereas children and youth used to be physically disciplined by their parents and fought among themselves at school, on the playground, and in the street, they now encounter a general social abhorrence of violence. Social expectations and psychological sensitivity have risen as dramatically as these changes. People in affluent liberal societies expect to live, to control their lives, and to enjoy life rather than merely endure it, with war scarcely fitting into their life plan.

 War Bad – Laundry List

War causes destroys health, human rights, the environment, and causes domestic violence

Levy and Sidel, 7 (Barry Levy- Adjunct Professor of Community Health at Tufts University School of Medicine, Victor Sidel- Professor of Social Medicine at the Albert Einstein Medical College, War and Public Health, Edition 2, 2007)

War accounts for more death and disability than many major diseases com­bined. It destroys families, communities, and sometimes whole cultures. It di­rects scarce resources away from protection and promotion of health, medical care, and other human services. It destroys the infrastructure that supports health. It limits human rights and contributes to social injustice. It leads many people to think that violence is the only way to resolve conflicts—a mindset that contributes to domestic violence, street crime, and other kinds of vio­lence. And it contributes to the destruction of the environment and overuse of nonrenewable resources. In sum. war threatens much of the fabric of our civilization.

 War Bad – Dehumanization

Dehumanization is used as propaganda during wars

Vinulan-Arellano 03. [Katharine, March 22 yonip.com “Stop Dehumanization of People to Stop Wars” http://www.yonip.com/main/articles/nomorewars.html]

In war time, dehumanization is a key element in propaganda and brainwashing. By portraying the enemy as less than human, it is much easier to motivate your troops to rape, torture or kill. Ethnic cleansing or genocide would always be perceived as a crime against humanity if human beings belonging to another race or religion are not dehumanized.

Throughout history, groups or races of human beings have been dehumanized. Slaves, Negroes, Jews, and now, Muslims. Up to now, women are dehumanized in many societies -- they are made sexual objects, treated as second-class human beings. The proliferation of the sex trade are indications of the prevailing, successful dehumanization of women, worldwide. During wars, mass rape of women is common.

 War Bad – Disease

War increases the spread of fatal disease.

Boston Globe 07. [**05**-07**, “**Spread of disease tied to U.S. combat deployments” http://www.boston.com/news/nation/articles/2007/05/07/spread\_of\_disease\_tied\_to\_us\_combat\_deployments/]

A parasitic disease rarely seen in United States but common in the Middle East has infected an estimated 2,500 US troops in the last four years because of massive deployments to remote combat zones in Iraq and Afghanistan, military officials said. Leishmaniasis , which is transmitted through the bite of the tiny sand fly, usually shows up in the form of reddish skin ulcers on the face, hands, arms, or legs. But a more virulent form of the disease also attacks organs and can be fatal if left untreated. In some US hospitals in Iraq, the disease has become so commonplace that troops call it the "Baghdad boil." But in the United States, the appearance of it among civilian contractors who went to Iraq or among tourists who were infected in other parts of the world has caused great fear because family doctors have had difficulty figuring out the cause. The spread of leishmaniasis (pronounced LEASH-ma-NYE-a-sis) is part of a trend of emerging infectious diseases in the United States in recent years as a result of military deployments, as well as the pursuit of adventure travel and far-flung business opportunities in the developing world, health officials say. Among those diseases appearing more frequently in the United States are three transmitted by mosquitoes: malaria, which was contracted by 122 troops last year in Afghanistan; dengue fever; and chikungunya fever.

 War Bad – Domestic Violence

War creates a cycle of violence that spills over to domestic violence

**Levy and Sidel, 7** (Barry Levy- Adjunct Professor of Community Health at Tufts University School of Medicine, Victor Sidel- Professor of Social Medicine at the Albert Einstein Medical College, War and Public Health, Edition 2, 2007)

War often creates a cycle of violence, increasing domestic and community violence in the countries engaged in war. War teaches people that violence is an acceptable method for settling conflicts. Children growing up in environments in which violence is an established way of settling conflicts may choose violence to settle conflicts in their own lives. Teenage gangs may mirror the activity of military forces Men, sometimes former military servicemen who have been trained to use violence, commit acts of violence against women; there have been instances of men murdering their wives on return from battlefield.

 War Bad – Enviro

War destroys the environment- both during and preparing for war

**Levy and Sidel, 7** (Barry Levy- Adjunct Professor of Community Health at Tufts University School of Medicine, Victor Sidel- Professor of Social Medicine at the Albert Einstein Medical College, War and Public Health, Edition 2, 2007)

Finally, war and the preparation for war have profound impacts on the physical environment (see Chapter 5). The disastrous consequences of war for the environment are often clear. Examples include bomb craters in Vietnam that have filled with water and provide breeding sites for mosquitoes that spread malaria and other diseases; destruction of urban environments by aerial carpet bombing of major cities in Europe and Japan during World War II; and the more than 600 oil-well fires in Kuwait that were ignited by retreating Iraqi troops in 1991, which had a devastating effect on the ecology of the affected areas and caused acute respiratory symptoms among those exposed. Less obvious are the environmental impacts of the preparation for war, such as the huge amounts of nonrenewable fossil fuels used by the military before (and during and after) wars and the environmental hazards of toxic and radioactive wastes, which can contaminate air, soil, and both surface water and groundwater. For example, much of the area in and around Chelyabinsk, Russia, site of a major nuclear weapons production facility, has been determined to be highly radioactive, leading to evacuation of local residents (see chapter 10).

 War Bad – Gender violence

War causes sexual violence and reifies the subjugation of women.

**Eaton 04**. [Shana JD Georgetown University Law Center 35 Geo. J. Int'l L. 873 Summer lexis]

While sexual violence against women has always been considered a negative side effect of war, it is only in recent years that it has been taken seriously as a violation of humanitarian law. In the "evolution" of war, women themselves have become a battlefield on which conflicts are fought. Realizing that rape is often more effective at achieving their aims than plain killing, aggressors have used shocking sexual violence against women as a tool of conflict, allowing battling forces to flaunt their power, dominance, and masculinity over the other side. The stigma of rape is used to effectuate genocide, destroy communities, and demoralize opponents-decimating a woman's will to survive is often only a secondary side effect.

Sexual violence against women during wartime had to reach horrifying levels before the international community was shocked enough to finally take these atrocities seriously. It took the extremely brutal victimization of vast numbers of women, played out against a backdrop of genocide, to prove that rape is not simply a natural side effect of war to be lightly brushed aside.

The conflicts in both Rwanda and the former Yugoslavia put women's rights directly in the spotlight, and the international community could no longer avoid the glare. In both Yugoslavia and Rwanda, ethnic cleansing was central to the conflict. Raping women helped to achieve this aim in a number of ways, from forced impregnation, where offspring would have different ethnicities than their mothers, to the use of sexual violence to prevent women from wanting to have sex again (thus limiting their likelihood of bearing children in the future). Additionally, rape was used as a means of destroying families and communities. Raping a woman stigmatized her, making it unlikely that she would ever want to return home, and in many cases, ensuring that if she did return home that she would be rejected. Civilians, particularly women, came to be used as tools to achieve military ends, putting the human rights of these women at the heart of the conflict.

War conditions cause sexual violence

**Levy and Sidel, 7** (Barry Levy- Adjunct Professor of Community Health at Tufts University School of Medicine, Victor Sidel- Professor of Social Medicine at the Albert Einstein Medical College, War and Public Health, Edition 2, 2007)

Women are especially vulnerable during war (see Chapter 12). Rape has been used as a weapon in many wars- in Korea, Bangladesh, Algeria, India, Indonesia, Liberia, Rwanda, Uganda, the former Yugslavia, and elsewhere. As acts of humiliation and revenge, soldiers have raped the female family members of their enemies. For example, at least 10,000 women were raped by military personnel during the war in Bosnia and Herzegovina. The social chaos brought about by war also creates situations and conditions conductive to sexual violence.

 War Bad – Human Rights

Wars undermine human rights

**Ganesan and Vines 04.** [Arvind, Business and Human Rights Program Director @ HRW Alex, Senior Researcher @ HRW, Head of Africa Programme Chatham House, Royal Institue of Int’l Affairs, **“**Engine of War: Resources, Greed, and the Predatory State,” Human Rights Watch World Report 2004 http://hrw.org/wr2k4/download/14.pdf]

Internal armed conflict in resource-rich countries is a major cause of human rights violations around the world. An influential World Bank thesis states that the availability of portable, high-value resources is an important reason that rebel groups form and civil wars break out, and that to end the abuses one needs to target rebel group financing. The focus is on rebel groups, and the thesis is that greed, rather than grievance alone, impels peoples toward internal armed conflict.

Although examination of the nexus between resources, revenues, and civil war is critically important, the picture as presented in the just-described “greed vs. grievance” theory is distorted by an overemphasis on the impact of resources on rebel group behavior and insufficient attention to how government mismanagement of resources and revenues fuels conflict and human rights abuses. As argued here, if the international community is serious about curbing conflict and related rights abuses in resource-rich countries, it should insist on greater transparency in government revenues and expenditures and more rigorous enforcement of punitive measures against governments that seek to profit from conflict.

Civil wars and conflict have taken a horrific toll on civilians throughout the world. Killings, maiming, forced conscription, the use of child soldiers, sexual abuse, and other atrocities characterize numerous past and ongoing conflicts. The level of violence has prompted increased scrutiny of the causes of such wars. In this context, the financing of conflict through natural resource exploitation has received increased scrutiny over the last few years.

When unaccountable, resource-rich governments go to war with rebels who often seek control over the same resources, pervasive rights abuse is all but inevitable. Such abuse, in turn, can further destabilize conditions, fueling continued conflict. Factoring the greed of governments and systemic rights abuse into the “greed vs. grievance” equation does not minimize the need to hold rebel groups accountable, but it does highlight the need to ensure that governments too are transparent and accountable. Fundamentally, proper management of revenues is an economic problem, and that is why the role of IFIs is so important. But it is an economic problem that also has political dimensions and requires political solutions. Political will and pressure, including targeted U.N. sanctions where appropriate, can motivate opaque, corrupt governments to be more open and transparent. Where such pressure is lacking, as in Liberia prior to enforcement of sanctions, continued conflict, rights abuse, and extreme deprivation of civilians all too commonly are the result.

Modern warfare involves crippling civilian infrastructure and violating human rights

**Levy and Sidel, 7** (Barry Levy- Adjunct Professor of Community Health at Tufts University School of Medicine, Victor Sidel- Professor of Social Medicine at the Albert Einstein Medical College, War and Public Health, Edition 2, 2007)

\*We do not endorse the ableist language used in this card.

Modern military technology, especially the use of high-precision bombs, rockets, and missile warheads, has now made it possible to attack civilian pop­ulations in industrialized societies indirectly—but with devastating results—by targeting the facilities on which life depends, while avoiding the stigma of direct attack on the bodies and habitats of noncombatants. The technique has been termed "bomb now”, die later."

U.S. military action against Iraq in the 1991 Persian Gulf War and in the Iraq War has included the specific and selective destruction of key aspects of the infrastructure necessary to maintain civilian life and health (see Chapter 15). During the bombing phase of the Persian Gulf War this deliberate effort almost totally destroyed Iraq's electrical-power generation and transmission capacity and its civilian communications networks. In combination with the prolonged application of economic sanctions and the disruption of highways, bridges, and facilities for refining and distributing fuel by conventional bombing, these actions had severely damaging effects on the health and sur­vival of the civilian population, especially infants and children. Without elec­trical power, water purification and pumping ceased immediately in all ma­jor urban areas, as did sewage pumping and treatment. The appearance and epidemic spread of infectious diarrheal disease in infants and of waterborne diseases, such as typhoid fever and cholera, were rapid. At the same lime, med­ical care and public health measures were totally disrupted. Modern multi­story hospitals were left without clean water, sewage disposal, or any elec­tricity beyond what could he supplied by emergency generators designed to operate only a few hours per day. Operating rooms, x-ray equipment, and other vital facilities were crippled. Supplies of anesthetics, antibiotics, and other essential medications were rapidly depleted. Vaccines and medications requiring refrigeration were destroyed, and all immunization programs increased. Because almost no civilian telephones, computers, or transmission lines were operable, the Ministry of Health was effectively immobilized. Fuel shortages and the disruption of transportation limited civilian access to medical care.

Many reports provide clear and quantitative evidence of violations of the requirements of immunity for civilian populations, proportionality, and the prevention of unnecessary suffering. They mock the concept of “life integrity rights.” In contrast to the chaos and social disruption that routinely accompany armed conflicts, these deaths have been the consequence of and explicit military policy, with clearly foreseeable consequences to human rights of civilians. The U.S. military has never conceded that its policies violated human rights under the Geneva Conventions or the guidelines under which U.S. military personnel operate. Yet the ongoing development of military technology suggests that—absent the use of weapons of mass destruction—**violations of civilians’ human rights will be the preferred method of warfare in the future.**

 War Bad – Racism

War props up systems of racism and domination.

**Martin 90.** [Brian, Associate Professor of Science, Technology, and Society at the University of Wollongong, , *Uprooting War*, Freedom Press, [http://www.uow.edu.au/arts/sts/bmartin/pubs/90uw/index.html]

Antagonism between ethnic groups can be used and reinforced by the state to sustain its own power. When one ethnic group controls all the key positions in the state, this is readily used to keep other groups in subordinate positions, and as a basis for economic exploitation. This was clearly a key process in apartheid in South Africa, but is also at work in many other countries in which minority groups are oppressed. From this perspective, the dominant ethnic group uses state power to maintain its ascendancy. But at the same time, the use of political and economic power for racial oppression helps to sustain and legitimate state power itself. This is because the maintenance of racial domination and exploitation comes to depend partly on the use of state power, which is therefore supported and expanded by the dominant group. From this perspective it can be said that the state mobilises racism to help maintain itself.

There are several other avenues used by the state to mobilise support. Several of these will be treated in the following chapters, including bureaucracy and patriarchy. In each case, structured patterns of dominance and submission are mobilised to support the state, and state in turn helps to sustain the social structure in question, such as bureaucracy or patriarchy. To counter the state, it is necessary both to promote grassroots mobilisation and to undermine the key structures from which the state draws its power and from which it mobilises support.